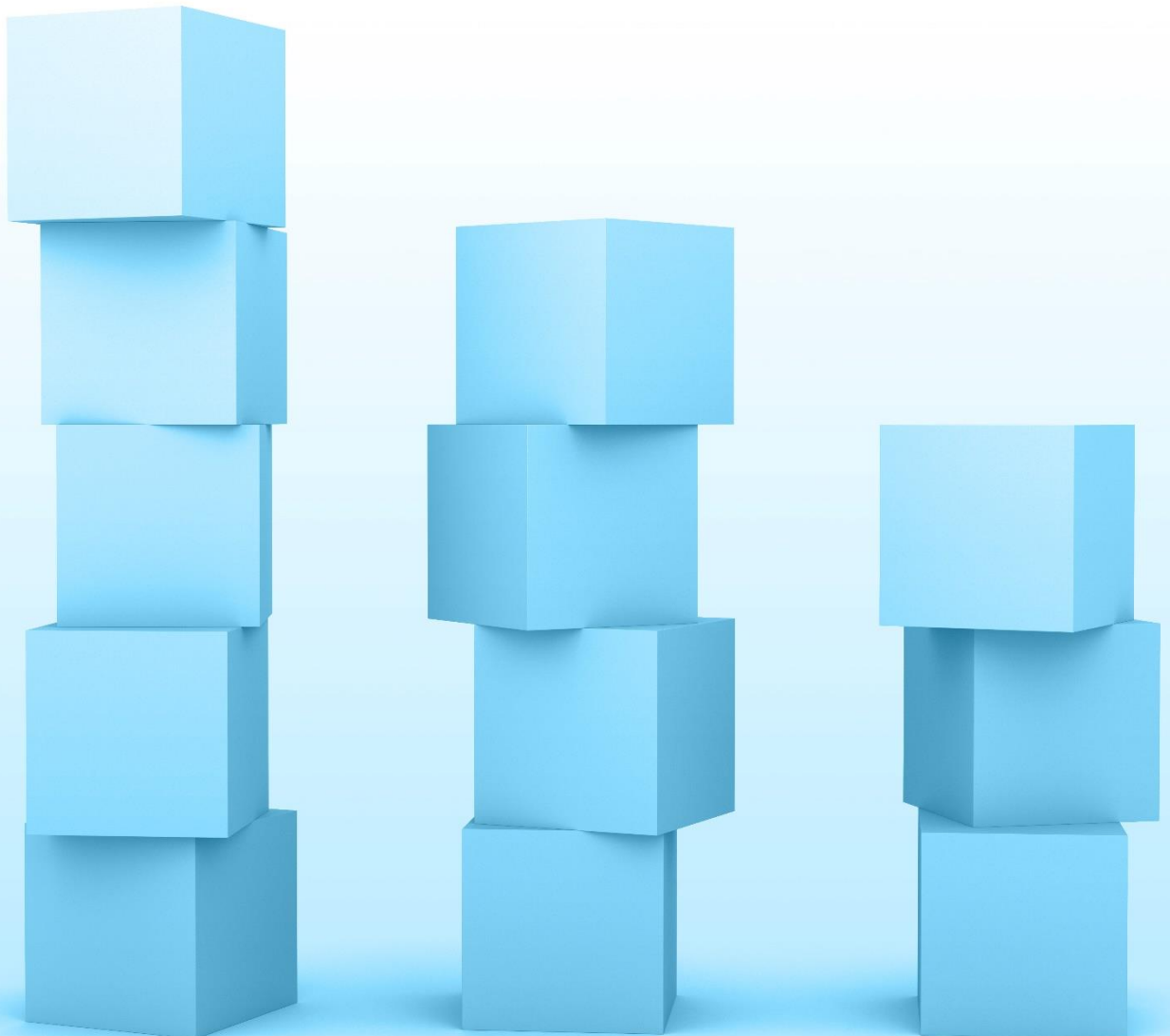




# **A path to universal early childhood education and care**

Inquiry report – *volume 2*

Supporting papers



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The Commission’s final report is in two parts. The inquiry report – volume 1 – includes an executive summary and the recommendations of the inquiry. It is available on the Commission’s website: [pc.gov.au/childhood](http://pc.gov.au/childhood). The supporting papers and appendices – volumes 2 and 3 – provide further detail on each of the main topics covered in the inquiry report.

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# 1. Children's outcomes

## Key points

- ✳ **Early childhood education and care (ECEC) can play a key role in supporting children to thrive.**
  - The first five years are a critical time in a child's life. Emotional, social, cognitive, and language development occurs at a faster rate in this period than in any other.
  - ECEC can support children to flourish, complementing the critical role of families and of other early childhood development policies and services. ECEC can help prepare children for school and improve their outcomes across many areas, including in adolescence and adulthood. Some international programs have been found to increase the likelihood that children complete secondary schooling and tertiary education, achieve higher earnings and employment and experience better physical and mental health outcomes.
  - ECEC programs have had varying degrees of success in improving children's outcomes. The effects of ECEC will hinge on the quality of the service and the characteristics of the home environment.
- ✳ **Children experiencing disadvantage or vulnerability have the most to gain from ECEC.**
  - Evidence of benefits is consistently stronger for children experiencing disadvantage; ECEC can reduce social disparities and disrupt intergenerational cycles of disadvantage, generating wider community benefits.
  - While most children may be best supported by universal programs, in some cases intensive, targeted programs can be of particular benefit to children experiencing concentrated disadvantage.
  - There is stronger evidence for children over the age of three as well as preschool programs. Evidence is less extensive for benefits to long-term outcomes, particularly in the Australian environment.
- ✳ **The quality of ECEC is critical, but also difficult to define and measure.**
  - Available quality measures are inadequate, and it is often unclear why some programs have performed better than others.
  - Children experience quality in ECEC through meaningful interactions with their educators, peers and environment, and describe experiences of imagination, friendship, play and learning.
- ✳ **A more robust evidence base is needed to support ECEC policy and practice.**
  - As access expands, the need to understand how families and policymakers can best make decisions about ECEC to support children's development becomes even more critical.
  - Better answers are needed to key questions on the service models and attendance patterns that best support children in different circumstances.
  - The Australian and state and territory governments should support the development and delivery of a research agenda for ECEC. An independent body should work collaboratively with researchers, policymakers and the ECEC sector to identify research priorities, support access to data, and fund and disseminate research outputs.

This paper focuses on the effects of early childhood education and care (ECEC) experiences between the ages of zero and five on children's outcomes.<sup>1</sup> The role of ECEC in contributing to children's education and development has been strongly supported by almost all inquiry participants, including providers, governments and researchers (for example, Goodstart Early Learning, sub. 125, pp. 90–95; NSW Government, sub. 158, p. 12; Queensland University of Technology School of Early Childhood and Inclusive Education, sub. 52, pp. 2–4). Children also express the value they place on their time in ECEC (box 1.1).

### **Box 1.1 – Children's voices express the value they place on their time in ECEC**

While the effects of ECEC matter, so too do the experiences of children while they attend ECEC settings. Children's voices are essential in understanding the role ECEC plays in their lives, and provide unique insights that can inform policy.

As part of this inquiry, the Commission engaged The Front Project and Creche and Kindergarten Association, who consulted with 213 children attending 17 preschool and centre-based day care (CBDC) services across Australia (The Front Project and Creche and Kindergarten Association 2024).

Children viewed as critical their relationships with teachers, educators, peers and families, describing how this supported their connection to friends, community and environment. Play-based learning experiences allowed engagement with new situations and ideas, inspiring creativity, imagination and learning.

The Commission also engaged a team at Griffith University to consult with children in outside school hours care (OSHC). Consultations were held with 270 children across 15 services (Cartmel et al. 2024).

Children expressed appreciation for the opportunities presented by OSHC for social connection, relaxation and learning. Given the older age of children attending OSHC services, children noted the agency they had to choose how they spent their time, as well as their relationships with their educators.

Elsewhere in this report, findings from these consultations are discussed in relation to children's experiences of inclusion (paper 2), relationships with their educators and teachers (paper 3) and quality in ECEC services (paper 8).

This paper discusses:

- the importance of the first five years of a child's life (section 1.1)
- the evidence on how past ECEC programs have affected children's outcomes (section 1.2)
- the 'active ingredients' in successful ECEC programs (section 1.3), and how their effects may vary by:
  - the quality of the program, to the extent this can be measured
  - the children who attend the program, particularly in terms of socio-economic status and age
  - how the program operates, including the length of time children attend, the service model, whether the program is targeted and the structure of the market for that service.
- how a research agenda supported by the Australian, state and territory governments could inform the evolution of ECEC policy and improve its ability to support childhood development (section 1.4).

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<sup>1</sup> Children over the age of five may attend outside school hours care (OSHC), but there is very little evidence on OSHC and children's outcomes (section 1.3).



## 1.1 The science of early childhood development

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

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

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

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

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

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

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

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

## 1.2 Many ECEC programs have improved children's outcomes

### Evidence on ECEC must be considered carefully

An extensive body of research has attempted to identify how ECEC programs have affected children's outcomes. This is challenging to achieve given the complex set of factors influencing families' ECEC choices, including their resources, preferences and perceptions of their child's developmental needs. Most studies have compared children who did and did not attend ECEC while attempting to adjust for relevant

differences between these two groups. But this approach will not isolate the effects of the ECEC services if any of these differences was not measured but affects children's outcomes.

There have been a small number of randomised controlled trials (RCTs) that randomly determined which children attended ECEC programs. Such programs can give researchers a better understanding of the specific effects of ECEC, but they are mostly limited to specific contexts. The most prominent evidence put forward in discussions of the effects of ECEC is often characterised by an inability to isolate the role of ECEC or reflects a context of limited relevance to mainstream services in Australia, if not both (box 1.2).

### **Box 1.2 – Methodological challenges in using research on ECEC to guide policy**

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

#### **Internal validity**

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

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

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

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

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

### **Box 1.2 – Methodological challenges in using research on ECEC to guide policy**

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

#### **External validity**

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

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

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

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

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

because they happen to live in that jurisdiction. Many studies using techniques that take advantage of similar scenarios can credibly estimate the effects of particular ECEC programs.<sup>2</sup>

The majority of this research studied interventions that took place in other countries.<sup>3</sup> The relevance of international evidence hinges on its ability to collectively establish effects that would also be felt in Australia, which is by no means guaranteed. That an ECEC program in one country had a particular effect does not prove that the same effect would be produced by a different program in Australia. Programs may differ considerably in terms of their service models, pedagogy, staffing arrangements, hours of operation, the ages and backgrounds of the children who attend, and the form of care they would have experienced outside of ECEC.

But if similar effects are demonstrated by programs with different features in a number of comparable countries, then it is more likely that such effects would also be generated here.

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

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

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<sup>2</sup> Many others do not, as the assumptions required for these approaches to work are strong (appendix H). For example, if primary school test scores improve at a faster rate in a jurisdiction that expands access to ECEC, this could not be solely attributed to ECEC if that jurisdiction also improved the quality of its primary school teaching, or changed its assessment processes. The nature of these analyses also means that the effects they identify are sometimes of narrower relevance. For example, if an age cutoff applies, being born one day earlier may make a child eligible for an ECEC program. But a study may only be able to estimate the effect of eligibility for that program, rather than participation in it. And the children who are enrolled as soon as they are eligible may differ from those who are not. The relevance of the effect that a particular study would identify if all its assumptions held, and the likelihood that its assumptions do, in fact, hold, must be carefully considered.

<sup>3</sup> The Commission has generally limited its focus to evidence from advanced economies. One meta-analysis has suggested that ECEC interventions in low- and middle-income countries have produced similar effects to those in high-income countries (Holla et al. 2021). While similarity in estimated effect sizes between these groups of countries could provide an indication of external validity between ECEC interventions, the meta-analysis combines programs expanding access to ECEC with those aiming to improve its quality, and includes estimates of effects from *eligibility* for some programs as well as estimated effects of *participation* in others. Similarities in estimated effects between countries of different income levels could be due to differences in the characteristics of interventions and how they were evaluated, rather than similarities in the effects that the same intervention would have between contexts.

## The range of potential benefits is wide

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

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

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

The evidence for each of these outcomes is discussed below. Appendix H provides detailed information on the studies on which this table is based. While there is a vast literature on ECEC, the studies cited in this paper were chosen as they provide insights into the questions that are relevant to this inquiry and use experimental or quasi-experimental techniques. Nonetheless, they all have different methodological limitations and each considers a unique context.

### Skills measured in early childhood

The vast majority of studies on the effects of ECEC examine measures of cognitive skills or development during young ages, such as school readiness, school test scores, or more direct measures. Most of the time, these outcomes are improved by ECEC attendance – although there are exceptions (box 1.3). However, effects on similar measures in later years are often smaller or not found. Any decline in benefits may be overstated by the nature of these comparisons,<sup>4</sup> but this cannot explain all the difference (Andersen et al. 2022; Cascio and Staiger 2012).

<sup>4</sup> Effects on outcomes at different ages are often compared after they are converted into the equivalent number of standard deviations (a measure of variation). If, for example, the effects of preschool on school test scores are 0.5 of a standard deviation in kindergarten but only 0.33 of a standard deviation in year 3, this may be viewed as 'fade out'. However, gaps in achievement tend to increase as children age. The effect in both years could be an increase of 5 points

### **Box 1.3 – Where may some ECEC programs have failed, and why?**

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

#### **Quebec**

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

Studies have taken different approaches in evaluating this reform and have produced different results. A series of papers compared the trend in outcomes for children in Quebec to the trend in outcomes for children in other provinces, which did not implement similar reforms. This found adverse effects of Quebec’s reform on the outcomes of children across Quebec, on average (most recently, Baker et al. 2019). More recent work did not find evidence that these adverse effects persisted to affect educational attainment (Montpetit et al. 2024). Such comparisons of outcomes between children in different provinces capture multiple factors. As well as the effect of ECEC for children who only attended due to the reform (at the quality levels experienced in Quebec during this period), they also capture the effect of any reduction in service quality that the reform may have caused, for children who would have attended regardless.

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

The reform relaxed some components of quality regulation, and even then, many providers failed to comply with standards. In 2001, 42% of for-profit centres did not respect the ratio of two of every three educators being qualified. For 25% of these centres, not even one in three educators was qualified (Lefebvre et al. 2008). The expansion of ECEC took place very rapidly, with little time for providers and the workforce to prepare. And the expansion was overwhelmingly driven by for-profit providers, which in Quebec had a significantly lower rated quality than not-for-profit providers (Fortin 2017).

Quebec’s experience may be an example of the failure of a specific ECEC policy – a very rapid move to near-zero cost, without adequate quality safeguards.

#### **Tennessee Voluntary Prekindergarten Program (TVPK)**

In 2005, the US state of Tennessee launched a preschool program targeted at 3- and 4-year-old children experiencing disadvantage. In 2009, an evaluation began to examine children applying to 79 schools, which, when oversubscribed, randomly selected the children who were offered a place (Vanderbilt University nd). Comparing children who were offered a place to those who were not suggests that

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on each test if the standard deviation of children’s scores on the tests increases from 10 in kindergarten to 15 in year 3. (The practical significance of increasing test scores by 5 points may differ between tests and ages.)

### **Box 1.3 – Where may some ECEC programs have failed, and why?**

eligibility for TVPK reduced school test scores in third and sixth grade, and worsened disciplinary outcomes (Durkin et al. 2022).

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

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

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

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

This 'fade out' does not preclude benefits on other outcomes later in life. Some interventions had initial cognitive benefits narrow and eventually disappear over time as children attended school, but still improved children's educational attainment, health and earnings, and reduced their contact with the criminal justice system in adulthood (Chetty et al. 2011; Deming 2009; Heckman et al. 2013). Other ECEC programs did not appear to reliably improve cognitive ability or test scores, but nonetheless improved educational attainment and earnings (Gray-Lobe et al. 2023; Havnes and Mogstad 2015). A growing literature examines the mechanisms through which these long-term benefits are realised, and suggests they relate to non-cognitive skills more than the cognitive skill measures that are most commonly examined in ECEC research (Heckman and Kautz 2012).

Effects on non-cognitive skills can persist even when effects on cognitive skills do not (Chetty et al. 2011; Cornelissen and Dustmann 2019). And the benefits of one ECEC program for non-cognitive skills were found to be more powerful predictors of longer-term benefits to educational and labour market outcomes than benefits

to cognitive skills (Silliman and Mäkinen 2022). The mechanism through which ECEC improves long-term outcomes is still an open question, and 'non-cognitive skills' include many possible channels. But at the very least, identifiable effects on school readiness, cognitive skills, and test scores are not necessary for ECEC to improve the outcomes of children who participate – even if these benefits can only be observed later in life.

Most studies consider effects on test scores or other early developmental measures, and these effects are usually found to be positive. But these short-term improvements are only valuable to the community if they lead to other benefits later in life, and it cannot be assumed that they will. Evidence of benefits for outcomes that are clearly valuable in a way that test scores are not, such as completion of high school or the ability to gain employment, are necessary.

### **Educational attainment**

Educational attainment can be valuable in itself, and lead to other benefits. Many ECEC programs have been found to increase years of schooling and raise the likelihood of high school graduation or completion of tertiary education. Some studies have examined highly specific cohorts such as those in the Perry Preschool Program or Abecedarian Project (García et al. 2021, 2022), or interventions that took place many decades ago (Haimovich Paz 2015; Herbst 2017; Rossin-Slater and Wüst 2020). However, others considered less targeted (Bailey et al. 2021; Gray-Lobe et al. 2023) or universal programs (Andreoli et al. 2023; Berne 2022; Bingley et al. 2021; DeMalach and Schlosser 2024; Gruber et al. 2023; Havnes and Mogstad 2015; Kawarazaki 2023; Silliman and Mäkinen 2022) that were implemented more recently, and still found substantial benefits. Most of these interventions were preschool programs, attended by children over the age of three.

Improved behaviour at school likely contributed to these increases in educational attainment, with some evidence of lasting reductions in disciplinary outcomes such as suspensions and detentions (Gray-Lobe et al. 2023; Williams 2019). Some studies have also found ECEC to lower the likelihood of school year repetition (Barnett and Jung 2021; Ladd et al. 2014; Zepa 2018). One analysis quantified the cost savings to government of the reduction in school year repetition resulting from the Spanish expansion of preschool to 3-year-olds, finding that these alone offset about 10% of program costs (van Huizen et al. 2019).

### **Labour market outcomes**

Many studies have identified beneficial effects on labour market outcomes such as employment and earnings. Some only considered a highly specific cohort, but found very large benefits (Akee and Clark 2024; García et al. 2020, 2021). Others have found more modest (although still meaningful) increases, but consider programs that were delivered long ago (Haimovich Paz 2015; Herbst 2017; Rossin-Slater and Wüst 2020). Still, more recent ECEC programs, some targeted (Bailey et al. 2021), and some universal (Andreoli et al. 2023; Bingley et al. 2021; Gruber et al. 2023; Havnes and Mogstad 2015; Kawarazaki 2023; Silliman and Mäkinen 2022) have been found to increase earnings. These benefits are typically the greatest for children experiencing disadvantage, although benefits often extend to those of moderate or higher socio-economic status.

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

These papers often use these estimates to calculate benefit-to-cost ratios, which, despite not considering potential benefits to non-earnings outcomes, are still generally quite high (Bartik et al. 2012; Bartik and Hershbein 2018; Cascio 2023; Kline and Walters 2015). In one of these studies, the estimated benefit-to-cost ratio of universal preschool for 4-year-olds was higher than the benefit-to-cost ratio of kindergarten for 5-year-olds, with almost identical test score benefits but lower costs (Cascio 2023). One



paper was able to consider labour force participation benefits to parents alongside benefits to children, and found an even higher benefit-to-cost ratio (van Huizen et al. 2019). Still, there are challenges in attempting to predict effects on long-term outcomes based on effects on short-term outcomes.<sup>5</sup>

## Physical and mental health

Some targeted ECEC programs have improved various health outcomes. The strongest results, from the Perry Preschool Program and the Abecedarian Project (Conti et al. 2016; García et al. 2021), come from a very different context. But the Head Start program (a targeted US preschool program that covered a somewhat broader cohort) has also been found to have improved physical and mental health, although the program includes non-educational services in areas such as health and nutrition (Lacey 2023). And the introduction of a Danish targeted preschool program for 3-year-olds in the mid-20<sup>th</sup> century improved long-term mortality, making the children who were able to access it more likely to survive beyond age 65 (Rossin-Slater and Wüst 2020).

Universal programs have also produced benefits to health outcomes. In Sweden, an expansion of access to centre-based day care (CBDC) reduced mental ill-health diagnoses both while and after children attended, and may have reduced healthcare costs during early childhood – despite a potential increase in use of preventive healthcare, which would be expected to increase healthcare costs in the short term, while reducing them in the long term (van den Berg and Siflinger 2020). An expansion of CBDC for children under the age of three in Germany reduced doctor visits, healthcare costs and diagnoses of behavioural and emotional disorders, as well as, for children experiencing disadvantage, obesity (Barschkett 2022). An English early childhood intervention reduced hospitalisations between the ages of 11 and 15, including for mental health issues (Cattan et al. 2021). But while ECEC services were the largest component of that program, health effects were almost certainly driven at least in part by other services, including ante- and post-natal support.

Other universal programs have produced benefits lasting into adulthood. The children who attended CBDC due to an expansion of access in Norway, after reaching adulthood, were less likely to receive healthcare services for psychiatric issues, injuries or social problems. They also used more preventive healthcare services if they became pregnant (with their likelihood of pregnancy being unchanged), potentially explaining improvements in health indicators for their own newborn children (Breivik et al. 2020).<sup>6</sup> And the Spanish expansion of three-year-old preschool reduced rates of asthma, with weaker evidence of reductions in diagnoses of mental health disorders and use of prescription medication (Bosque-Mercader 2022).<sup>7</sup>

<sup>5</sup> Most of these papers estimate the relationship between effects on early test scores and effects on later earnings based on Chetty et al. (2011). This estimate is at the conservative end of the range of relationships found in high-quality research (Kline and Walters 2015). But the relationship identified in one study may not extend to any other context – particularly because in the paper on which most of these analyses rely, effects seemed to be driven by non-cognitive skills, while extrapolation relies on estimated relationships with cognitive skills (specifically, test scores). If the ratio of benefits to cognitive and non-cognitive skills differs when the intervention is an ECEC program, rather than a higher-quality kindergarten classroom, these predicted effects could be misleading. Still, the direction in which the results would be inaccurate is unclear, and using estimates of the same relationship from other studies would produce similar or more optimistic results. And if there are non-earnings benefits to children, benefit-to-cost ratios would be higher.

<sup>6</sup> A reduction in the use of health services could indicate either a decreased willingness or ability to seek medical help, or an improvement in underlying health. Some aspects of these results suggest that they were driven by the latter. This includes the increase in use of preventive healthcare while pregnant, and that the reduction in visits for specialist psychiatric care seemed to be driven by fewer visits among those who used these services, rather than a reduced likelihood of ever using them.

<sup>7</sup> An increase in hospital visits – mostly by pregnant women – was also found. While worse health during pregnancy could have contributed to this increase, this explanation could not be distinguished from increases in fertility or, as found by Breivik et al. (2020), increases in health-seeking behaviour.

While children may be exposed to infections such as influenza at ECEC, this seems to be offset by a reduction of a similar size in infections when they start school, without adverse long-term effects (Barschkett 2022; van den Berg and Siflinger 2020; Cattani et al. 2021).

### **Contact with the justice system**

Effects on contact with the justice system are usually found to be strong when they are measured, but these outcomes are only measured infrequently. The Perry Preschool Program and the Abecedarian Project have both been found to reduce offending by very significant margins (García et al. 2020, 2021), but significant caveats around their relevance to Australia apply. Less targeted or universal preschool programs, mostly in the US, have also been found to reduce criminal convictions (Anders et al. 2023; DeMalach and Schlosser 2024; Gray-Lobe et al. 2023; Smith 2015).

An analysis of two Finnish reforms that affected CBDC use suggested that accessing these services reduced youth criminal convictions (Gruber et al. 2023), as did an analysis of three Norwegian reforms that affected the use of preschool or CBDC (Wentzel 2023). An expansion of preschool to three-year-olds in Spain reduced reported criminal offences, with the benefits of this estimated to exceed the costs of the program (Brutti and Montolio 2021). And an expansion of universal preschool in Japan reduced juvenile arrests, particularly for violent crime, and teenage pregnancy – despite the very low baseline rates of these outcomes (Ando et al. 2023). In these analyses, effects generally seem to have been driven by or limited to groups with higher baseline rates of offending.

### **Social connection**

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

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

### **Equity**

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

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

### **Benefits extend beyond the individual child**

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

When children are better prepared for school and less likely to engage in disruptive behaviour, their classmates can benefit. By fostering a school environment that is more conducive to learning and development, there can be substantial benefits to other children, regardless of whether they accessed ECEC themselves (Ladd et al. 2014; List et al. 2023; Neidell and Waldfogel 2010; Williams 2019).

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

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

And of course, ECEC can be of great benefit to parents (paper 4), including in ways that could improve parenting.

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

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

## The Australian evidence

Thus far, discussion has considered the effects of programs across a wide range of contexts and includes, but is not limited to, evidence from Australia. Some Australian studies have been able to use techniques that credibly identify the effects of ECEC programs or their characteristics (for example, Chor et al. 2016; Rankin et al. 2022; Tseng et al. 2022). But most use observational designs and must assume that all relevant factors influencing families' choices about ECEC or ability to participate in it are fully captured in their data – an assumption that is difficult to justify (box 1.2).

Further, detailed data sources typically pre-date the implementation of the National Quality Framework (NQF, paper 8). The NQF strengthened regulatory requirements in most states, including for educator qualifications and educator-to-child ratios, and implemented assessments against the National Quality Standard, which were met by about 90% of services in 2024, but fewer than 60% of services in 2013 (paper 8). Most Australian studies on ECEC and children's outcomes use the Longitudinal Study of Australian Children, which began in 2003, and may consider services at substantially different quality levels to those today.

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

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

Results for CBDC attendance are mixed. Some studies have found positive associations for outcomes such as test scores or behavioural outcomes, that mostly became null or negative when using methods that can better

account for child and family characteristics (Biddle and Seth-Purdie 2013; Bowes et al. 2009; Claessens and Garrett 2014; Goldfeld et al. 2016; Kalb et al. 2014; Little et al. 2020; Yamauchi and Leigh 2011).<sup>8</sup>

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

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

The methods most commonly used in the Australian literature may not have been able to isolate the effects of ECEC. The period of time considered by most papers also saw substantial changes to the quality of services. These factors suggest a degree of caution as to what we can learn from the literature. Gaining greater confidence requires more recent data sources that researchers can use, and, critically, ways of analysing this data that can ensure that associations between ECEC use and children's outcomes are not being affected by other factors (section 1.4).

## **What this evidence can (and cannot) tell us**

ECEC policy should be guided by an assessment of the likely net benefits that will be produced; effects on children's outcomes will be a key component of this. But given the difficulties in ensuring that research findings have isolated the effects of the ECEC programs that they considered, and that these programs took place in a sufficiently similar context, the effects on children's outcomes that would be brought about by an expansion of access to early childhood education and care in Australia cannot be predicted with a high degree of confidence.

In particular, many of the programs that were found to have beneficial effects on long-term outcomes were targeted, some were delivered decades ago, and they were disproportionately likely to be preschool programs for older children. These programs are more likely to be able to be evaluated in ways that credibly estimate long-term effects, and there is less evidence for similar long-term outcomes for programs with universal CBDC that include younger children – the form of ECEC attended by most Australian children.

Noting the issues in applying this evidence to the Australian context, many of these programs have been found by experimental and quasi-experimental techniques to have produced substantial benefits for children's outcomes.

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<sup>8</sup> Bowes et al. (2009) considers children who either attended centre-based day care or family day care.



### 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.

Differences between ECEC provision in Australia today and in the contexts that have produced the greatest quantity of credible evidence make it crucial to consider what has led to the success of many ECEC programs.

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

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

### Quality matters, but what is quality?

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

### Process quality

The effects that ECEC has on a child's development depend on the quality of their interactions with educators, with other children and with their physical environment – referred to as 'process quality'. Some metrics have been developed in attempts to measure process quality, including the Classroom Assessment Scoring System (CLASS) and the Early Childhood Environment Rating Scale (ECERS).<sup>9</sup>

While children who participate in ECEC settings with better results on these metrics generally achieve better outcomes (Perlman et al. 2016; Suchodoletz et al. 2023; Ulferts et al. 2019), this does not necessarily mean that their superior outcomes were caused by higher measured process quality. Any correlations could be due

<sup>9</sup> ECERS is sometimes considered a measure of global quality, as it measures some features of structural quality alongside its process quality components. It has revised (ECERS-R) and extended (ECERS-E) versions.

to children who were independently more likely to do well being more likely to be enrolled in higher-quality settings, for example because parents of a higher SES were in a better position to access these settings.

For these measures to be useful for policy and practice, they must align at least reasonably strongly to the characteristics of interactions that improve children's outcomes, not just correlate with them. Some evidence suggests this may not be the case.

In two Australian studies, children's learning was found not to differ meaningfully as they moved between settings with different process quality ratings as measured by CLASS (Levickis et al. 2024; Rankin et al. 2022).<sup>10</sup> Some professional development and coaching interventions have led to significantly higher CLASS ratings, without making a difference for children's learning outcomes (Pianta et al. 2017; Yoshikawa et al. 2015). The reverse can also be true, with one intervention improving learning outcomes without significantly affecting CLASS ratings (Francis and Barnett 2019).<sup>11</sup> And the implementation of one particular curriculum led to significant improvements in ECERS ratings but not any improvements in learning outcomes (Jenkins et al. 2018).

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

## Structural quality

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

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

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

## Qualification requirements

There are positive correlations between settings with better-qualified educators and some of the measures of process quality discussed above (Manning et al. 2017). However, this could be affected by other differences between these settings and is subject to the limitations of process quality measures. Fewer studies examine correlations with children's outcomes, but positive associations are found by some of those that do (for example, Sylva et al. 2004), although not by others (e.g., Early et al. 2007; Phillips et al. 2009). In Australia, children who were taught by educators with a qualification that was above certificate-level achieved better outcomes, although this association was similar whether this qualification was at the degree or diploma level

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<sup>10</sup> In Rankin et al. 2022, an effect of the emotional support subscale of CLASS on a measure of language outcomes was found. However, this was of a very small magnitude and barely statistically significant, with no adjustment made for the testing of multiple hypotheses.

<sup>11</sup> In fact, CLASS scores were lower in settings affected by the intervention, although this difference was not statistically significant.

(Warren and Haisken-DeNew 2013).<sup>12</sup> Still, these approaches cannot rule out that differences in outcomes are caused by unobserved differences between children in settings of different quality. These differences could include unmeasured aspects of socio-economic advantage or parental behaviour that would independently lead children to perform better.

Indeed, there is some direct evidence that these apparent positive associations can be driven by the differences between the families that access settings of lower and higher quality. When comparing children in the same family who attended different settings, associations between educator qualifications and children's outcomes can disappear (Blau 1999). The effect of access to an additional term of ECEC did not differ between day care centres with different proportions of educators holding a bachelor's degree (Blanden et al. 2022). And when children randomly gained access to services, their outcomes were no better if these services happened to have better qualified educators – which has been found for both Head Start and Danish CBDC (Currie and Neidell 2007; Drange and Rønning 2017; Walters 2015). Still, a program that provided a free vocational qualification to family day care educators in Colombia improved children's cognitive and psychosocial development and some health outcomes (Bernal 2015).

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

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

### **Educator-to-child ratios**

Evidence of benefits from higher educator-to-child ratios is similarly scarce, at least within the range of ratios permitted in developed countries. Individual studies on correlations between educator-to-child ratios and children's outcomes are mixed, with some finding positive correlations and others finding none, despite the potential for higher-SES families to be able to choose higher-quality settings (Melhuish et al. 2015). A meta-analysis and systematic review of correlational studies that directly examined ratios did not find evidence that they were associated with children's outcomes (Perlman et al. 2017). And a meta-analysis

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<sup>12</sup> Those taught by diploma-qualified educators performed slightly better than those taught by a degree-qualified educator, although this difference is very small relative to the level of noise in the results. This study is also often cited as evidence that outcomes are superior in those taught by educators whose qualification is specific to early childhood. But learning outcomes were more positively associated with being taught by an educator whose qualification was not in early childhood education and care. Claims to the contrary are based on a lack of statistical significance of the association between non-ECEC qualifications and learning outcomes, but a lack of statistical significance cannot be taken as evidence of smaller effects – particularly if the apparent association is, in fact, larger.

comparing different ECEC programs that happened to have different ratios did not find that programs with higher ratios consistently achieved more positive effects (Bowne et al. 2017).<sup>13</sup>

Studies that can account for the potential selection of children with different characteristics into settings of different quality typically fail to find benefits to lower ratios. One study did find a reduction in preschool classroom size (which meant the two educators in each room taught a maximum of 15 children, rather than 20) improved learning outcomes, although effects were small, particularly given this could increase per-child costs by about a third (Francis and Barnett 2019).<sup>14</sup>

But an increase of ratios from averages of about 1:9 to about 1:6 in a randomised controlled trial did not significantly improve children's learning outcomes (Ruopp et al. 1979). A program that introduced teacher aides to CBDC classrooms for 1.5- to 5-year-old children did not improve their cognitive or socio-emotional skills, despite increasing costs by about 30% (Andrew et al. 2023). Multiple quasi-experimental studies have also found a lack of an effect of attending an ECEC setting with higher ratios (Blau 1999; Currie and Neidell 2007; Walters 2015) and a systematic review and meta-analysis of causal studies did not find evidence of effects from increasing ratios (Dalgaard et al. 2022).

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

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

### Implications for policy

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

But although there is not strong evidence that there would be benefits from strengthening these staffing requirements, the literature is not capable of ruling out risks from reducing them. For example, a marginal change to staffing requirements may impose only modest additional costs, so benefits that are quite small and difficult to detect statistically could still be sufficient to outweigh the direct financial costs of these staffing requirements. And

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<sup>13</sup> The paper argues that their results suggest benefits to increases in ratios when above the threshold of 1:7.5, and no effect below this threshold. However, this is a product of a choice to divide their sample into programs with ratios below 1:7.5, and above or equal to 1:7.5, as there is a cluster of programs with ratios of exactly 7.5 that have unusually poor effects. Better accounting for nonlinearities in this data but assuming that other relevant features of the programs were successfully controlled for would lead to the conclusion that the effect of ratios is u-shaped, for example with ratios of 1:5 leading to extremely large benefits, ratios of 1:7.5 not leading to any benefits, but ratios of 1:10 and below leading to quite large benefits. A more natural interpretation may be that there were other, more important differences between the programs with different ratios in this sample that were causing the differences in effect sizes.

<sup>14</sup> This was achieved through a reduction in class size from 20 to 15 children. Relationships between ratios and group size (as well as structural quality features more broadly) make isolating the effects of any individual feature difficult. Some studies have found evidence suggesting that reductions to group size could have been beneficial, while increases in ratios were not (for example, Ruopp et al. 1979).



where providers choose to go beyond the minimum requirements, it can be harder to determine their effects.<sup>15</sup> Given the significance of staffing requirements for children's outcomes, service availability and cost of delivery, better understanding their effects should be a priority for future research (section 1.4).

### Other factors

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

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

The Commission has not undertaken detailed analysis of research on other components of structural quality. These include the curriculum used by a service, with these set out by the Early Years Learning Framework, and the physical environment of services, which is regulated under the National Quality Framework, given the broad support for these expressed by inquiry participants and the lack of clear evidence of a better alternative curriculum (Duncan et al. 2022).

### Each child will be affected by ECEC in a unique way

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

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

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

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

<sup>15</sup> For example, despite the more stringent ratio and qualification requirements in NSW, in 2022 CBDC fees were 2.7% higher than the national average (SCRGSP 2023), and at least for CBDC delivered by large providers, staffing costs were still lower than in most states (ACCC 2023b). Some analysis has suggested that the costs of these additional requirements are higher than the benefits that they are likely to confer (NSW PC 2022). However, the findings of this modelling are dependent on its assumptions. These include that no ECEC provider will go beyond the minimum standards, which leads to a much higher estimated additional cost of 9.1%. As well as the costs of reduced labour force participation, the approach also counts higher fees for parents as a cost, while not counting the higher earnings of educators as a benefit. Other approaches to the challenges inherent to this type of analysis could produce very different results.

for SES; and it takes a far higher sample size to reliably detect differences in effects between groups than it does to estimate an overall effect.<sup>16</sup>

That said, most studies find that meaningful benefits can extend across most, if not the entire spectrum of advantage. Some studies have found effects that seem similar (Andreoli et al. 2023; Blanden et al. 2022; Breivik et al. 2020; Gørtz et al. 2024; Gruber et al. 2023; Kuehnle and Oberfichtner 2017), or even potentially greater for more advantaged children (Ando et al. 2023; Bingley et al. 2021; Gray-Lobe et al. 2023; Hustedt et al. 2021; Montrosse-Moorhead et al. 2019). But the most common finding is that effects are larger for more disadvantaged children, while still seeming significant for children of moderate or high SES.<sup>17</sup> Still, other studies have found benefits to children experiencing disadvantage but no strong evidence of effects for other children (Cascio and Schanzenbach 2013; Felfe and Lalive 2018; Felfe and Zierow 2018; Kottelenberg and Lehrer 2017; Smith 2015), or benefits to children experiencing disadvantage and some indication of adverse effects for more advantaged children (Corazzini et al. 2021; Cornelissen et al. 2018; Fort et al. 2020; Leuven et al. 2010; Silliman and Mäkinen 2022), although these potential adverse effects are often not statistically significant.

Experiences of childhood disadvantage vary by context, and the cohort of a particular study may not reflect the level of disadvantage some children experience in Australia today. Education levels (and, in particular, maternal education levels) are higher in Australia than in most developed countries (OECD 2019). Income levels are also higher, including when adjusting for inequality (UNDP 2023). And both these factors have generally improved within Australia over time. To the extent that a greater proportion of Australian families are better resourced to provide a high-quality home environment than in the contexts examined by much of the literature, the average benefits identified by these studies may be higher than might be expected in Australia. Still, many of the studies mentioned above do find meaningful benefits for children in moderate- and high-SES families.

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

The effects of ECEC might differ according to the age of the child attending. Different pedagogies will be appropriate at different ages, and regulatory settings change across ages. Still, there are not clear differences in the effects that ECEC programs have been found to produce by age, at least between the ages of three and five (appendix H). And while the high-quality evidence on the effects of ECEC disproportionately considers children in this age range, some programs have produced significant and lasting benefits for younger children.

A meta-analysis of many natural experiments found that programs with similar characteristics enrolling children above and below the age of three had similar effects on children's outcomes (van Huizen and Plantenga 2018). A systematic review of ECEC programs in low- and middle-income countries found evaluations of CBDC programs for younger children and preschool programs for older children were almost equally as likely to be estimated to produce benefits (Evans et al. 2024). Another meta-analysis, considering 67 US programs, found a lack of a consistent effect of starting age (Li et al. 2020), although it considered

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

<sup>17</sup> Akee and Clark 2024; Anders et al. 2023; Bartik et al. 2012; Bartik and Hershbein 2018; van den Berg and Siflinger 2022; Berlinski et al. 2009; Blanden et al. 2016; Bosque-Mercader 2022; Brutti and Montolio 2021; Cattan et al. 2021; DeMalach and Schlosser 2024; Drange and Rønning 2017; Felfe et al. 2015; Gibbs 2014; Havnes and Mogstad 2015; Herbst 2017; Ladd et al. 2014; Watts et al. 2023; Wentzel 2023; Yamaguchi et al. 2018; Zachrisson et al. 2023. In some of these studies, differences in effects for different groups follow different patterns across various outcome measures.

studies of a lower methodological quality. It did suggest that programs that targeted children under the age of three had more beneficial effects, although any apparent effect of starting age in this study could be driven by other differences between the programs that were aimed at younger and older children.

Some credible studies examined the provision of ECEC to children below the age of three and found benefits to cognitive skills. Attending CBDC between the ages of one and two has been found across a variety of contexts to significantly improve language development, and in separate studies showed benefits to test scores at ages seven and ten (Berger et al. 2021; Drange and Havnes 2019; Yamaguchi et al. 2018; Zachrisson et al. 2023). Other research has failed to find benefits to academic test scores (Carta and Rizzica 2018; Kuehnle and Oberfichtner 2017). And an adverse effect on cognitive ability has been found for one intervention and cohort (Fort et al. 2020).<sup>18</sup>

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

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

Still, there remain significant uncertainties over how the scope of potential benefits of ECEC varies by age, including, as discussed below, by the number of hours children attend.

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

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

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

Children can spend quite different amounts of time in ECEC, depending on availability, parental choice and the nature of the programs in which they are enrolled. A greater number of weekly hours could be beneficial, increasing exposure to an environment conducive to childhood development. However, this would also result

<sup>18</sup> Differences in findings could be due to the cohort for whom effects are estimated in each study. The null findings both come from studies which estimate effects for children whose parents enrol them in ECEC as soon as they are eligible. The one study to find adverse effects used a methodology that was only able to identify effects for children of affluent and highly educated parents, and even then, the adverse effects seemed limited to the most advantaged children in the generally quite advantaged sample.

in children spending longer outside the home environment. This has led to concerns that a high number of weekly hours in ECEC could be detrimental.

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

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

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

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

### **Differences between service types may affect children's outcomes**

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

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

Each may affect children's development differently, but evidence on this is scarce. For some service types, such as OSHC, there is an almost complete lack of research on effects on children's outcomes.<sup>19</sup> Even where studies can compare differences in effects by service type, variation in models for each service type between jurisdictions and over time make it unclear if findings would be relevant for Australia today.

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

The international evidence has not identified clear differences between the effects of CBDC and preschool. One study was able to credibly compare the effects of different models of ECEC in Japan, finding that, at least for children experiencing disadvantage, a preschool model improved cognitive and non-cognitive skills to a greater extent (Akabayashi et al. 2023). But generally in the studies examined by the Commission, there do not appear to be clear differences in the effects that tend to be produced by these two models (appendix H). One meta-analysis of programs in low- and middle-income countries found an almost identical proportion of CBDC and preschool programs were estimated to benefit children (Evans et al. 2024) – although isolating the effect of service model is challenging given CBDC programs are often open to children who are too young to attend preschool.

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

Differences in service models between jurisdictions make these findings hard to extrapolate to Australia. In France and Denmark, where the studies mentioned above took place, ratios for young children in FDC were 1:3 and 1:5 respectively, similar to the 1:4 ratio requirement in Australia. However, neither country requires FDC educators to hold ECEC qualifications, as Australia now does,<sup>20</sup> and there are also differences in the features of CBDC between these countries.

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

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<sup>19</sup> At least for typical services, although some research has examined additional programs delivered through OSHC (for example, Milton, sub. 168).

<sup>20</sup> A requirement for new FDC educators to hold an approved Certificate III level (or higher) qualification took effect in July 2023, although existing educators at an FDC service will have until July 2024 to complete their qualification, or longer if there is reasonable justification (ACECQA 2023b).

## **(When) should programs be targeted or universal?**

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

There can be advantages to targeting. Resources are allocated only to those who will benefit the most, limiting provision can make it more feasible to find a sufficient workforce, and services can be tailored to the specific needs of a particular cohort. However, universal programs can bring their own advantages (Fox and Geddes 2016).

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

Whether these factors lead, in practice, to better outcomes for children is difficult to test empirically. But universal preschool programs in the United States seem to be much more beneficial than targeted programs, a finding that cannot be clearly explained by any other observed features of these programs (Cascio 2023). For most children, inclusion in universal services, with appropriate supports where necessary, could be advantageous in promoting their early learning and development.

That said, many of the most successful ECEC programs have been highly targeted, such as one Australian intervention which provided trauma-informed care to a cohort of children who were at a higher risk of abuse or neglect (Tseng et al. 2022). Some of the advantages of universal programs may not apply in comparison to intensive and highly targeted programs, for example if outreach efforts can improve participation beyond what a universal program could achieve. Models of tailored support will be preferable in some situations (paper 2).

## **ECEC market structures can affect service quality**

Whether, or in what proportion ECEC is provided by governments, not-for-profit organisations or for-profit organisations varies between jurisdictions. This could have implications for the quality of services and, ultimately, children’s outcomes. Some evidence has suggested that otherwise similar-seeming ECEC programs were more likely to improve children’s outcomes if they were delivered publicly, rather than through a market of for-profit and not-for-profit services (Corazzini et al. 2021; van Huizen and Plantenga 2018).

In Australia at 1 April 2024, only about 7% of the ECEC services regulated under the NQF were managed by state, territory, and local governments, with about 8% run by schools, 32% by not-for-profit providers, and 53%

by for-profit providers (ACECQA 2024). For CBDC services, 69% are managed by for-profit providers (paper 5).<sup>21</sup> A market system can lead to greater levels of competition than when government is the sole provider of services, and in markets for many products, competition creates an incentive to offer a high-quality product to increase an organisation's customer base, and the prices that they are willing to pay (PC 2017, p. 98).

For this to ensure high quality in ECEC services, providers would have to compete on perceived quality, and these perceptions would have to be accurate. But there are limits to the information that can be provided by available measures of quality.

- ECEC services receive a rating against the National Quality Standard, and these ratings are publicly available. However, of all the indicators of quality included by ACECQA in surveys of families, these are rated as the least important. Fewer than a third of families were aware of the rating of the service they used or intended to use, and many of those who were aware did not consider these ratings to be helpful. A lack of understanding and concerns about the accuracy or recency of National Quality Standard ratings may be limiting their use (paper 8).
- Families often visit services, or rely on recommendations from other families who currently access those services. But quality is difficult to directly observe, particularly when limited to pick-up and drop-off times, or a scheduled visit when the service is aware a potential customer is watching. Parents' ratings of the quality of educators have been found to be no higher for educators who are better at improving their children's outcomes (Araujo et al. 2019). And one reform that improved the quality of interactions between educators and children led to lower ratings on online platform Yelp, as parents responded to the higher fees this reform also caused, while not obviously noticing the quality improvement (Herbst and Brown 2023).

Even if parents do discover a service is low quality, they may lack an alternative, with waiting lists that are often years long and a lack of alternative providers within their local area (ACCC 2023a, p. 55) – and switching providers would require families to send their child to an unfamiliar setting. While parents do place a high weight on quality, potentially due to a limited ability to determine and base decisions on quality, they also report giving as much or more weight to factors such as location, availability and cost when choosing a service (ACCC 2023a, p. 55; ACECQA 2023a, p. 50).

Where competition cannot guarantee quality in a market, the incentives of different provider types become more significant. When a lower quality service can be offered without a risk to demand and profit for that service, providers will only invest in quality if they are forced to or have a non-commercial desire to do so. While this certainly does not prevent some for-profit providers from making substantial investments in quality, organisations often respond to incentives, and for-profit ECEC providers may underinvest in quality. Not-for-profit services face different incentives, which may partly explain why measures of process quality, structural quality and quality as assessed by regulators are generally higher in not-for-profit services, both internationally (e.g., Baker et al. 2019; Blanden et al. 2016) and in Australia (ACECQA 2024; Char et al. 2023; Cloney et al. 2016; Harrison et al. 2023).<sup>22</sup>

But while this may lead to an advantage for not-for-profit providers in terms of service quality, there are other considerations in designing an ECEC system. Quality regulation can increase the likelihood that a baseline level of quality is met by all providers. And recent expansions in the number of ECEC services have largely been driven by for-profit providers, rather than not-for-profit providers (paper 5). Any potential quality implications of ownership status may need to be balanced against service availability.

<sup>21</sup> For consistency with the rest of this paper, the term CBDC is used in this sentence to refer to the Long Day Care service type; under the NQF most preschool and outside school hours care services are also considered centre-based.

<sup>22</sup> Not-for-profit providers in Australia can be exempt from some taxes and are more likely to access land on a concessional basis (paper 5), which is likely to also contribute to differences in measured quality.

## Other policy settings matter for the outcomes ECEC will produce

Broader social systems and policy settings can affect children's experiences and development upon entry to ECEC, and whether the capabilities children develop through ECEC are built on and strengthened. This includes policies around parental leave, pre-natal and early childhood health interventions, government support payments, child protection and many other areas.

Of particular importance is the quality of later educational experiences. The benefits of high-quality ECEC are amplified when combined with other reforms that improve the quality of the schools system. For example, children did not significantly benefit from the US Head Start preschool program if they went on to attend schools that had their funding cut, while the benefits of Head Start for children who attended better-funded schools included much higher high school graduation rates and wages, and much lower adult poverty and contact with the justice system (Johnson and Jackson 2019).<sup>23</sup> And the potential for ECEC to increase the proportion of school leavers prepared for tertiary education will not be fully realised if policy settings limit access to tertiary education, or do not sufficiently improve its quality.

As well as being beneficial in their own right, high-quality and accessible school and tertiary education systems will be necessary to harness the full potential of early childhood education and care.

## There is much we do not know about when and for whom ECEC is most beneficial

The discussion above has covered: methods of attempting to measure quality in ECEC and their limits; potential differences in the effects of ECEC for children of different ages and from different socio-economic backgrounds; and how the effects of ECEC may differ for systems or services that operate in different ways.

The ability to answer these questions meaningfully is limited by the complex nature of decisions around ECEC as determined by families' resources, preferences and perceptions of the developmental needs of their children, and significant differences in children and services between jurisdictions. Many important questions cannot be answered without further research and, critically, data, coordination and policy that is designed to facilitate evaluation. Nonetheless, the literature does present some lessons for ECEC, as well as areas for further exploration as part of a research agenda.



### 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.

<sup>23</sup> Many studies with similar findings compare similar-seeming children who attended schools of different quality, but this is not the most credible evidence, as there could be some unobserved factor that led some students to attend better schools that may have independently caused them to achieve better outcomes. However, Johnson and Jackson (2019) use variation in both Head Start attendance and school funding levels that comes from natural experiments and seems to be as good as random.





### Finding 1.2

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

- 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.

## 1.4 A research agenda for ECEC

There is much that we know about how early childhood education and care affects children's outcomes. The Commission has found that most credibly evaluated ECEC programs have been found to benefit children, that the range of potential benefits is broad, and that children experiencing vulnerability or disadvantage as well as older children have the most to gain.

The degree of consistency with which programs have been found to be beneficial across different contexts provides more confidence that an expansion of access to ECEC in Australia would support children's development. But this evidence is not as extensive for younger children, and many of the rigorous techniques that have been used elsewhere have not been applied here, including due to data availability and differences in policy design.

There is a lot of data collected in ECEC – through the administration of the Child Care Subsidy, preschool and other government programs, surveys with broad coverage, such as the Australian Early Development Census, and information submitted by service providers to regulators. But there has been a lack of data that is recent, accessible, linked and able to be used to effectively address knowledge gaps.

It is particularly challenging to go beyond estimating the effects that ECEC programs have had, to understanding why they have had these effects, how ECEC systems should best be designed to support learning and development and how children in different circumstances can benefit most from ECEC. Fully realising the potential of ECEC to improve children's lives requires credible evaluation of policy changes, as well as other research to guide the future evolution of ECEC system design, policy and practice – and set up families to make better-informed decisions on if, when, how much, and what type of ECEC would be best for their children. This requires a coordinated response to ensure that research is directed towards the most significant questions, data is available and policy design allows for credible evaluation.

### Data available to researchers will improve, but more can be done

A lack of recent data that can link children's ECEC participation to their later outcomes has limited our ability to understand the effects of Australian ECEC programs.

The Australian Early Development Census, as a population level dataset collected in early childhood, is commonly used in research on ECEC. But it is a tool designed to detect developmental vulnerability, not to measure children's capabilities at all levels, and some of its components (such as whether the child appears at school hungry or inappropriately dressed) are not related to the contribution of ECEC.

The Australian, state and territory governments have agreed to implement new measures for preschool enrolment, attendance and outcomes (Australian Government 2021). The Preschool Outcomes Measure, to be trialled in 2025, will include learning progressions for children's executive function and oral language and literacy skills (DoE nd). Learning progressions, by measuring outcomes at different points in time, can allow for comparison between children in different settings in terms of *changes* in outcomes, rather than just *levels* of outcomes. This can reduce the extent to which these comparisons will be biased by the factors that led children to attend different settings, and would allow for a better understanding of how developmental trajectories vary in services with different characteristics, including different quality ratings.<sup>24</sup>

For the full potential of these new data sources to be realised, they will need to be able to be linked to other datasets and accessible to researchers. Consistent approaches to measurement across state and territory governments would also make this data more useful.

Administrative data can allow for analysis that links information on ECEC attendance to a wide array of short- and long-term outcomes for all children. Comprehensive, linked administrative data has historically not been available. As part of the Person-Level Integrated Data Asset (PLIDA, formerly known as MADIP), administrative datasets relevant to ECEC have been linked for particular years and made available to some researchers. As PLIDA develops, broader inclusion of information on ECEC attendance could make it a powerful tool for understanding the effects of ECEC.

While administrative data can be comprehensive, it lacks the richness of some other sources of data. The Longitudinal Study of Australian Children (LSAC), on which Australian research into ECEC has heavily relied, includes broader information that will not be captured by administrative data, such as the number of books a parent reads to their child. Information on children's developmental outcomes before they enter ECEC is particularly valuable in attempts to isolate its contribution. But even the youngest children who participated in LSAC are now over the age of 20 and attended ECEC environments very different to those operating today.

### **A new wave of the Longitudinal Study of Australian Children**

The Commission's 2016 inquiry into the national education evidence base recommended that the Australian Government fund the establishment of new LSAC cohorts at regular intervals. The original waves of LSAC came at a relatively modest cost: \$20.2 million was allocated to LSAC over the nine years from 2000, while in 2022 alone, \$358 million was spent on education research by the higher education sector (ABS 2024; PC 2016, p. 101). Lessons have also been learned that may improve the efficiency of data collection and processing, particularly with the now greater potential for linkages to administrative data (PC 2016, pp. 99–102).

The need for this data has only grown since that recommendation was made, particularly given the expansion of ECEC that has since occurred and would be accelerated by the Commission's recommendations. As the Commission recommended in its education evidence base inquiry report, new collections of LSAC should be linked to administrative data to build a more comprehensive understanding of the services children use. A new LSAC may also consider oversampling of groups such as Aboriginal and Torres Strait Islander children and children experiencing disadvantage, to give researchers the ability to better understand the experiences of these groups (PC 2016, pp. 99–102).

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<sup>24</sup> Observational analyses using such measures will still be statistically biased if children develop at different rates according to factors such as family background that can only be imperfectly captured in the data. Still, it is possible that this bias would be low enough to not have a large effect on the results.



### 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.

## Credible evaluation supported by policy design

While access to high-quality data is necessary for understanding how ECEC affects children's outcomes, it is far from sufficient. As has been a theme throughout this paper, the results produced by a piece of analysis depend critically on the methodology that it employs. Unfortunately, the methods that are the most common, the easiest to use and the most likely to be feasible are also the most likely to produce misleading findings.

A focus for a research agenda and policy planning should be supporting research that moves beyond comparing children in families that make different choices and adjusting for some observed characteristics. Such analyses can only capture a small part of the complex interactions between parental resources, parental preferences, and child characteristics which determine ECEC choices.

In many circumstances, RCTs will be the best tool for answering policy-relevant questions, and while they can face barriers to set up, these are not insurmountable. The Finnish government, in deciding whether to expand preschool to two years, has commissioned a large-scale trial, with families randomly selected and offered the ability to have their child start preschool a year earlier. This trial will be evaluated using information ranging from insights from the families and teachers involved, to direct measurements of the children's outcomes, to administrative data on these children when they reach adulthood.

RCTs are not always required to gain credible results. For example, expansions of preschool present a unique opportunity to gain insight into key questions that are otherwise difficult to answer. If this expansion takes place in similar regions at different rates, its effects can be credibly estimated (Ames and Wilson 2016; Roth and Sant'Anna 2023). State governments should consider this in decisions about how expansions are staged.

Preschool expansion is also an opportunity to test the effects of different staffing arrangements. As recommended by the South Australian Royal Commission into Early Childhood Education and Care (SA Government 2023, pp. 163, 170–171), trials could consider the effects of the delivery of preschool programs by diploma-qualified educators.

Quantitative research using rigorous techniques will need to be complemented by qualitative research, including that which explores children's perspectives of ECEC. For example, research undertaken for this inquiry found that children see ECEC settings as places for meaningful connections with their educators, peers and physical environment, and describe experiences of imagination, friendship, play and learning (box 1.1). Harnessing the experiences and views of families and educators as an input into policy and practice should also be part of the research agenda.

## Priorities for research to support childhood development

There are some areas that should be a priority for a future research agenda where, despite their significance, there is considerable uncertainty over their effects on children's development.

- Decisions about attendance patterns, in terms of when children start attending ECEC, the number of days they attend per week, and the number of hours they attend per day, despite their importance, have very

little evidence to guide them. Families and policymakers could benefit greatly from a better understanding of the effects of different attendance patterns, and how they vary between children.

- If educator-to-child ratios and qualification requirements are set at too low a level, ECEC will not optimally support childhood development. If they are set at too high a level, financial costs and workforce constraints will mean that some children will not be able to access ECEC at all. Better information on the effects of staffing requirements could inform these trade-offs.
- Children in Australia attend different models of ECEC, including CBDC, preschool, FDC, and OSHC. These types of services may support children's development in different ways, and children may vary in how well they are served by each of them, but there is limited evidence on this.

Other areas relating to the effects of ECEC on children's outcomes should also be included, such as training, professional development and support for educators, the implications of provider type and the relationship between National Quality Standard ratings and children's outcomes. Research on understanding the different delivery models of ECEC policy, funding and service delivery that best recognise the experiences of Aboriginal and Torres Strait Islander children and families should also be conducted.

The research agenda should also include areas of ECEC policy that are less directly related to children's outcomes, including on issues of service availability, accessibility and inclusivity, measures to attract, support and retain the ECEC workforce and how ECEC supports labour force participation. Evaluation of specific policies (including any reforms that may occur in response to the Commission's recommendations) will be critical, although in most cases government departments should retain primary responsibility for this (paper 10).

## **A steward should support the research agenda**

The capacity for research to answer these questions can be limited by data gaps or inaccessibility, difficulties accessing funding and policy design that does not build in evaluation mechanisms. There can also be a lack of coordination between researchers, policymakers and practitioners. Researchers may have limited visibility over which issues are being considered and what the most important questions to answer may be. Policymakers and practitioners may not understand what they need to do to allow researchers to provide answers to these questions.

Paper 10 recommends an ECEC Commission be established to hold governments to account for system-wide outcomes, provide advice to stewards and act as a custodian for research and data for the sector. It also discusses in more detail the inadequacy of current data sharing arrangements and how an ECEC Commission could improve access to data, as well as how a new national agreement between the Australian, state and territory governments could improve data collection, sharing and research. The role of this Commission should include supporting the development of a knowledge base to guide ECEC policy and practice, working with researchers, policymakers and the ECEC sector to identify priorities, address gaps in the availability and existence of data, promote consideration of evaluation in policy design and coordinate and fund research.

Many inquiry participants expressed strong support for the development of a research agenda (for example (Parkville Institute, sub. 279, pp. 13-14, Macquarie University Centre for Research in Early Childhood Education, sub. 244, p. 11, AERO, sub. 248, pp. 1-3, Bray and Gray, sub. 231, pp. 16-18).

This research agenda will not prevent research initiated by other researchers and organisations, which will continue to be critical. Rather, the steward of the research agenda would highlight questions relevant for policy and practice, streamline access to data and help disseminate findings from independent researchers.

While the ECEC Commission may be best placed to oversee the development of a research agenda, it will take time to be established, and the need for better evidence is urgent. The Australian Education Research Organisation (AERO) should commence development of a research agenda.

AERO (sub. 248) has argued that, as Australia's independent education evidence base body, they are best placed to develop and implement a research agenda, even if an ECEC Commission is established.

While AERO does have significant expertise in education research, the purpose of the steward for the research agenda is to enable research, not to be the body conducting it. And, as noted by Bray and Gray (sub. 279), many key questions relate to non-education issues such as labour force participation or funding arrangements. As the eventual home of the research agenda, the ECEC Commission would have advantages of a broad monitoring role across policy areas and extensive connections to stakeholders.

ECEC already plays a profound role in the lives of many children, families and communities. A move towards a universal system will only make more critical the research that is necessary to realise ECEC's full potential in supporting children to flourish.



### **Recommendation 1.2**

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

The Australian and 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.

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## 2. An inclusive ECEC system for all children

### Key points

\* **Early childhood education and care (ECEC) services play a major role in the lives of children and their families. A high quality ECEC sector ensures all children can equally access and participate in services.**

- 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.
- Children experiencing disadvantage and vulnerability – who are likely to benefit most from ECEC services – are less likely to attend than their more advantaged peers.

\* **The children attending ECEC have diverse experiences, backgrounds and needs.**

- While Aboriginal Community Controlled Organisations may often be the first preference of Aboriginal and Torres Strait Islander families (paper 7), mainstream ECEC services should be culturally safe.
- Cultural safety is also critical for many other culturally and linguistically diverse children. Resources, such as bilingual and bicultural educators may play a significant role in a child's cultural safety and their ongoing participation.

\* **Expectations of inclusion and cultural responsiveness are clearly set in the National Quality Framework (NQF) and other legislative instruments.**

- Despite these expectations, ECEC services are excluded in the Disability Standards for Education 2005 and some children still experience exclusionary practices.
- Updated approved learning frameworks provide a stronger focus on cultural safety and responsiveness. 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 restrict implementation of the NQF.

\* **The Inclusion Support Program (ISP) is not meeting its program intent.**

- Funding overwhelmingly goes to the Inclusion Development Fund Subsidy for an Additional Educator (IDF-AE Subsidy) and varies little by the socio-economic status of communities, in contrast with developmental vulnerability.
- Uptake of funding that could support services in tailoring support to the needs of their communities is limited.
- Only half of educators report that they have the skills and knowledge to support children with additional needs.
- Eligibility requirements for funding create barriers to access.
- Subsidy design and rules for additional educators are unduly restrictive.

**\* Immediate changes are required to the ISP.**

- Subsidy rates for an additional educator's wage should be increased, limits on hours for which subsidies can be received should be removed and services should be permitted to employ other human-services qualified staff and inclusion professionals.
- Service should be able to receive Immediate/Time-Limited (I/TL) while seeking documentary evidence and applying for the IDF AE Subsidy.
- Service staff should be able to exercise their professional judgement and apply for ISP funding if families are unwilling or unable to provide documentary evidence.
- Consideration should be given to relaxing requirements for reapproval when there are changes to the care environment.
- Requirements for documentary evidence, including the eligibility of children without a formal diagnosis, should be communicated more clearly to services.
- The role of the Inclusion Development Fund Manager and Inclusion Agencies in application processing delays during periods of high demand should be investigated and funding increased if necessary.

**\* An enhanced needs based funding approach should be adopted. The Australian Government should develop and implement a new ECEC Inclusion Fund (Inclusion Fund) in three streams.**

- Children with high support needs should be supported through a stream similar to an enhanced version of the Inclusion Development Fund (Disability and Complex Needs Inclusion Stream).
- Broader inclusion needs supported by services should be supported by funding based on a range of child, family and service characteristics (Mainstream Inclusion Stream).
- A program should be established to enable services to apply for support with upgrades to physical facilities to ensure all children can be included, irrespective of their abilities (Inclusion Fund Grant Stream).

All children, regardless of their characteristics or circumstances, should be welcomed and included in early childhood education and care (ECEC). 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 (paper 7).

Governments' could better support services in assisting both children who may be excluded from ECEC, and those who currently participate but whose needs are not being met. 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.

Inclusion is a core element of the Australian, state and territory governments' draft National Vision for ECEC, and clearly reflected in the governments' desired outcomes for the sector:

- Children and families experiencing vulnerability and disadvantage receive the support they need.
- Services respond to community, cultural and family contexts and can provide continuity of learning and care to children.
- First Nations families feel supported to consistently access quality, culturally inclusive ECEC.
- ECEC services respect and nourish First Nations culture and kinship. We grow our First Nations and Aboriginal community-controlled workforce, recognising the importance of children seeing themselves, their identities, and cultures reflected in their environment. (DoE 2023a, p. 2)

Achievement of the governments' vision will require services to be truly inclusive of all children.

This paper begins by with a definition of inclusion, data on the characteristics of children using and not using ECEC, and a framework for considering how children's inclusion needs can be met (section 2.1). It then

discusses how inclusion is embedded in the requirements of services and evidence of exclusion among some cohorts (section 2.2). Key enablers of cultural safety are then described (section 2.3), the performance of the Inclusion Support Program (ISP) is assessed (section 2.4), and ways in which the ECEC sector can contribute to stronger inclusion in other sectors are outlined (section 2.5). The paper then discusses the potential for governments' responses to the review of the National Disability Insurance Scheme (NDIS) to profoundly affect the ECEC sector (section 2.6). The paper closes with a proposal for an enhanced and expanded needs-based approach to inclusion funding (section 2.7).

## 2.1 The needs of children in ECEC

### Defining inclusion in an ECEC context

Inclusion in an ECEC context can be defined in many ways. Early Childhood Australia outlines that it involves every child having access to, participating meaningfully in and experiencing positive outcomes from ECEC (Early Childhood Australia 2016, p. 2).

The *Early Years Learning Framework* (and companion framework for school age care) states that inclusion:

involves taking into account all children's social, cultural and linguistic diversity (including learning styles, abilities, disabilities, gender, sexual identity, family circumstances and geographic location) in curriculum decision-making processes. The intent is to ensure that all children's experiences are recognised and valued. The intent is also to ensure that all children have equitable access to resources and participation, and opportunities to demonstrate their learning and to value difference. (DoE 2022a, p. 66)

More broadly, inclusion and equal access are enshrined in a number of international conventions to which Australia is a signatory:

- the United Nations Declaration on the Rights of Indigenous Peoples<sup>1</sup>
- the United Nations Convention on the Rights of Persons with Disabilities<sup>2</sup>
- the United Nations Convention on the Rights of the Child.<sup>3</sup>

These conventions recognise the importance of equal access or opportunity for all children and participation of children with disability and/or from Indigenous backgrounds in particular. And they imply that children who need additional assistance to access ECEC receive it.

<sup>1</sup> Article 14(2): Indigenous individuals, particularly children, have the right to all levels and forms of education of the State without discrimination.

<sup>2</sup> Article 24(1): Parties recognize the right of persons with disabilities to education. With a view to realizing this right without discrimination and on the basis of equal opportunity ... Parties shall ensure an inclusive education system at all levels and lifelong learning directed to ... Enabling persons with disabilities to participate effectively in a free society.

<sup>3</sup> Article 23(3): Recognizing the special needs of a disabled child, assistance extended in accordance with paragraph 2 of the present article shall be provided free of charge, whenever possible, taking into account the financial resources of the parents or others caring for the child, and shall be designed to ensure that the disabled child has effective access to and receives education, training, health care services, rehabilitation services, preparation for employment and recreation opportunities in a manner conducive to the child's achieving the fullest possible social integration and individual development, including his or her cultural and spiritual development; 28(1): Parties recognize the right of the child to education, and with a view to achieving this right progressively and on the basis of equal opportunity 31(1): Parties recognize the right of the child to rest and leisure, to engage in play and recreational activities appropriate to the age of the child and to participate freely in cultural life and the arts.

While there is no national definition of children who may have additional needs in ECEC, the ISP Guidelines notes that additional needs may arise for children who:

- have a disability or developmental delay
- are presenting with challenging behaviours
- have a serious medical or health condition, including mental health
- are presenting with trauma-related behaviours (DoE 2023c, p. 6).

The guidelines also recognise that specific considerations, such as cultural support, may be required to ensure that some children are able to participate fully in ECEC and experience positive outcomes, including:

- Aboriginal and Torres Strait Islander children
- children from culturally and linguistically diverse (CALD) backgrounds
- children from refugee or humanitarian backgrounds (DoE 2023c, p. 6).

This paper adopts the term ‘children with additional needs’ to encompass children with one or more of these seven characteristics. These are the children for whom extra support to access or participate in ECEC might be required. The paper does not assume that all children in the identified groups are inherently vulnerable or disadvantaged, although some may be in vulnerable situations. For example, not all children with disability have high support needs and the support required will vary significantly based on a child’s circumstances. Children may have multiple additional needs, meaning an intersectional approach is required.

While it is not possible to articulate all of these experiences or cover all of these groups of children in this paper, the discussion below illustrates some of the factors that may need to be considered, drawing from the experiences of inquiry participants.

### A portrait of inclusive ECEC

Children’s perceptions on inclusive practice are highlighted in research commissioned by the inquiry (box 2.1).

#### **Box 2.1 – Examples of inclusive practice**

As part of the Productivity Commission’s inquiry, the Front Project, Creche and Kindergarten Association and Griffith University consulted with children in ECEC in centre-based day care (CBDC) and outside school hours care (OSHC) settings, respectively. Some of the children’s responses reflected perceptions of inclusive practices within services.

Children aged three to five years discussed they felt included in CBDC when they:

- felt services were safe, such as when they welcomed family members, conducted home visits, shared culture, language, and celebrations
- were supported in their relationships with peers, educators and teachers.

Children aged five to 12 years discussed they felt included in OSHC when:

- felt like did not have to ‘sit down and focus on one thing’ in OSHC, which supported their Attention-Deficit/Hyperactivity Disorder needs
- were provided options in their play, education, food, training and cultural activities.



**Box 2.1 – Examples of inclusive practice**

The Front Project and Creche and Kindergarten Association noted incidences of inclusion when CBDC services:

- supported various methods of accessible communication, such as non-verbal or through objects
- planned activities or programs with accessibility adjustments (such as mobility needs), and children wanted to participate due to these changes
- celebrated cultures, languages, and religious backgrounds of children in everyday discussions or activities
- facilitated a space where children could speak openly about their own culture and cultural days of significance.

Griffith University noted incidences of inclusion when OSHC services:

- organised cultural immersion and language programs, where children participated by sharing their traditions and language
- planned intergenerational programs for children and their extended families, where educators translated grandparents discussing their childhood experiences.

Source: The Front Project and Creche and Kindergarten Association (2024, pp. 14, 39–40); Griffith University (pp. 19, 21, 32).

## The children who attend ECEC are diverse, but some cohorts are under-represented

Paper 1 established the important role ECEC can play in supporting children's developmental and educational outcomes. Nearly half of one-year-olds attend some form of ECEC and participation rises at each age until children commence school (figure 2.1). About 90% of four-year-olds are enrolled in ECEC and, once in primary school, about 15% of children aged 5–12 spend time each week in outside school hours care (Productivity Commission estimates based on ABS 2024 and DoE administrative data unpublished).<sup>4</sup>

There is substantial diversity among children who attend ECEC in terms of their age, setting attended, backgrounds and other characteristics (figure 2.1). Effective responses to this diversity, and policy settings that promote these responses, are key to ensuring children experience positive outcomes from ECEC.

<sup>4</sup> The reference period used to calculate the number of children enrolled varied but was generally a period in August 2023. For Australian Government data, it was the week ended 6 August 2023. For state and territory data, it was generally a period in August 2023. For the NT, it included part of June and July 2023. For the ACT it included part of July 2023.

While the majority of children in Australia thrive in their early years, a significant proportion, from across the community, experience developmental vulnerability. The Australian Early Childhood Development Census (AEDC) assesses children's development in their first year of school. In the most recent Census (2021), 22% of children were found to be developmentally vulnerable on one or more domains (DESE 2022, p. 8),<sup>5</sup> and some cohorts were more likely to be developmentally vulnerable, including:

- Aboriginal and Torres Strait Islander children
- children with a language background other than English
- children from regional and remote areas
- children from low socio-economic areas (DESE 2022, pp. 29–40).<sup>6</sup>

The percentage of children found to be developmentally vulnerable on one or more domains is similar to the percentage of all school children found to need additional support in the classroom (22.4%, box 2.10). Of these children, 7.1% received support through differentiated teaching practice. A further 15.3% received a higher level of adjustment. Examples of the types of adjustment needed include support or close supervision to participate, assistance with personal hygiene and movement, and modifications to ensure full access to buildings and facilities.

Children with chronic medical, physical or intellectual disabilities who require special assistance are included in the census, but are not separately identified in the national and community AEDC results (DESE 2022, p. 46). If they were, it might be expected that they too would be assessed as experiencing developmental vulnerability.

Children from these cohorts, alongside those from regional, remote, low SES areas and low-income families, are often less likely to be enrolled in or attending ECEC (figures 2.2 and 2.3).<sup>7</sup> And they are typically under-represented both among children attending Child Care Subsidy (CCS) approved services and those enrolled in preschool in the year before-full time school (YBFS).<sup>8</sup>

Children from these cohorts are more likely to experience disadvantage or vulnerability (AIHW 2020, p. 8). And children experiencing disadvantage or vulnerability are the most likely to experience the greatest benefit from attending ECEC (paper 1).

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<sup>5</sup> The AEDC collects data on five developmental domain: physical health and wellbeing, social competence, emotional maturity, language and cognitive skills, and communication skills and general knowledge (DESE 2022, p. 9).

<sup>6</sup> Children residing in an area with a Socio-Economic Indexes for Areas – Index for Relative Socio-economic Disadvantage quintile of 1.

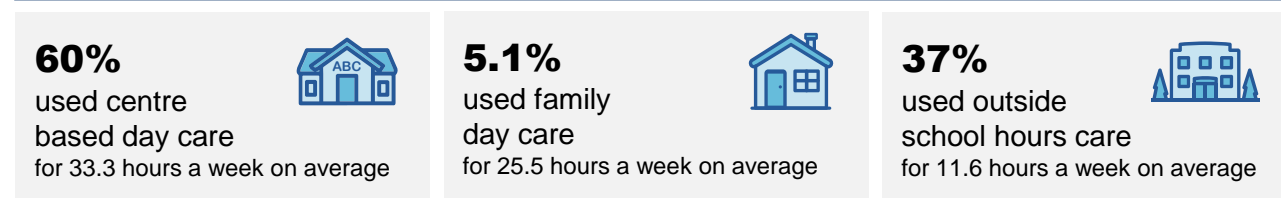
<sup>7</sup> For CCS services, reported data is based on the income of the family, rather than the socio-economic status of their area.

<sup>8</sup> Data issues likely affect measurement of some of these outcomes. For example, identification of children with disability is undertaken by ECEC services, which may not align with the definition used for data capturing the prevalence of disability in the community more broadly. And while some cohorts of children may be over-represented in preschool enrolments, they may not be attending for the full 600 hours per year provided under universal access arrangements.

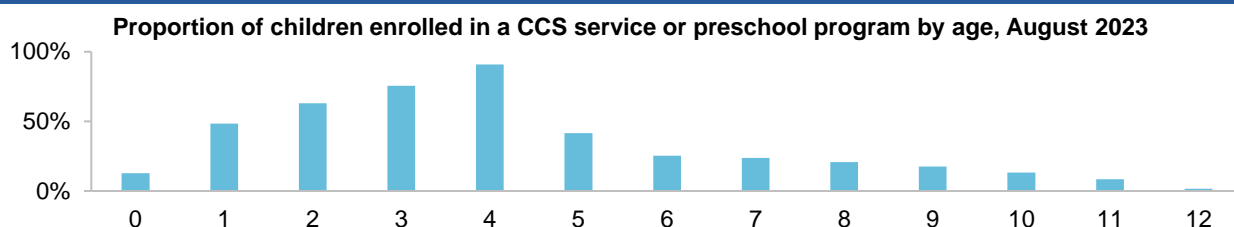
**Figure 2.1 – Children who use ECEC are diverse<sup>a,b,c,d,e,f,g,h,i</sup>**

**Characteristics of children using ECEC**

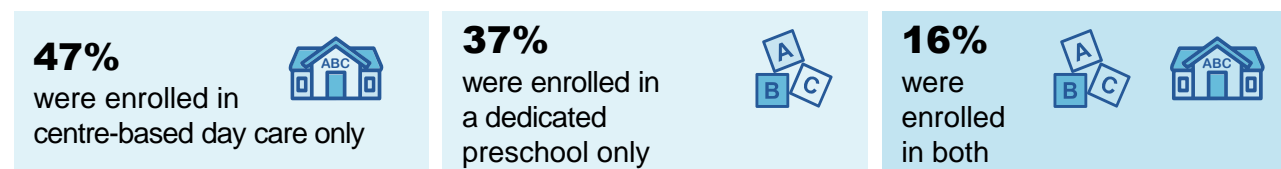
**1.4 million children were in Child Care Subsidy approved ECEC services in the December 2023 quarter<sup>a</sup>**



**Engagement in ECEC varies by age<sup>b,c,d,e,f</sup>**



**285,000 children in the year before full-time school were enrolled in preschool programs in August 2023<sup>b,f</sup>**



**Children in ECEC are diverse – out of every 100 children aged 0-12 years in Child Care Subsidy approved ECEC services<sup>g,h,i</sup>**

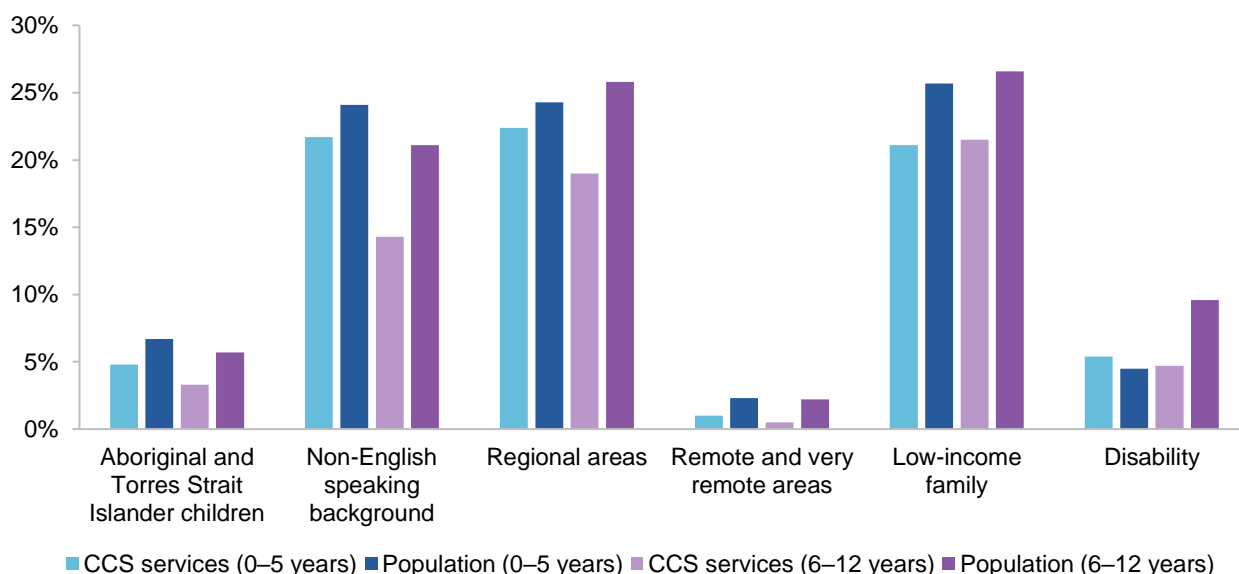


**a.** Includes children whose family lodged a claim for Child Care Subsidy (CCS) and have a Customer Reference Number. 1730 children attended In Home Care in the December 2023 quarter. The sum of percentages exceeds 100% as children can attend multiple CCS service types. Usage hours relate to hours charged. **b.** The reference period used to calculate the number of children enrolled varied but was generally a period in August 2023. For Australian Government data, it was the week ended 6 August 2023. For state and territory data, it was generally a period in August 2023. For the NT, it included part of June and July 2023 and in the ACT it included part of July 2023. **c.** Australian Government data was for the week ended 6 August 2023 to match the reference period of the state and territory data. The amounts differ from the Australian Government Department of Education's CCS reporting for the December 2023 quarter. **d.** Data on the overall population of children was at June 2023. **e.** For enrolment by age, there may be some double counting of children aged 3-6 years enrolled in both a preschool program (including CBDC) and FDC, OSHC or IHC. **f.** Children in CBDC of the appropriate age are assumed to be enrolled in a preschool program. **g.** Data on children from regional and remote areas, low-income families and Aboriginal and Torres Strait Islander children is at the March 2023 quarter. Data

on children with disability and from non-English speaking backgrounds is at 2021; these children may be counted more than once if attending more than one approved service in the reference period. **h.** Children can use ECEC in multiple regions, and may be counted in more than one region. **i.** Data on Aboriginal and Torres Strait Islander children and children with disability is based on identification by the service.

Source: DoE (2024b), Productivity Commission estimates, based on ABS (2024) *Preschool Education 2023*, *TableBuilder*, accessed 14 May 2024, ABS (2024) ‘Estimated Resident Population by Single Year of Age, Australia’, *National, state and territory population*, accessed 14 May 2024, DoE administrative data (unpublished), SCRGSP (2024).

**Figure 2.2 – Some cohorts are under-represented in CCS-approved services<sup>a,b,c,d</sup>**  
**Representation of select cohorts among children attending CCS-approved services, compared to their representation in the community**

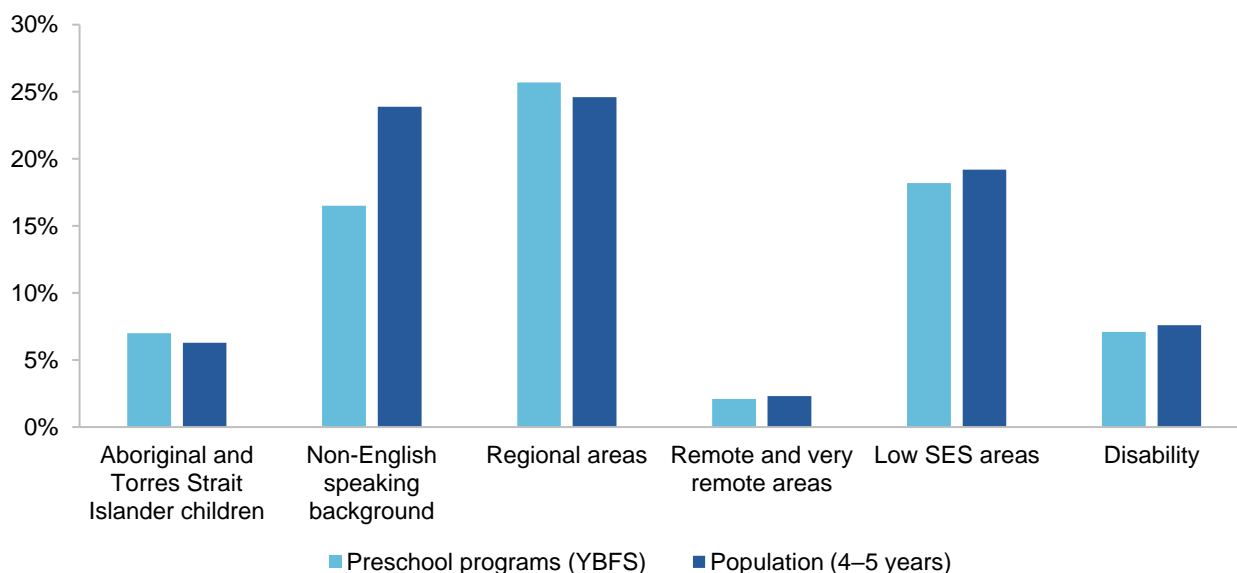


**a.** For representation in CCS services: data on Aboriginal and Torres Strait Islander children, children from regional, remote and very remote areas and low-income families is at the March quarter 2023; data on children from non-English speaking background and with disability is from 2021. For representation of children in community: data on Aboriginal and Torres Strait Islander children is at 30 June 2023; data on children from regional, remote and very remote areas is at 30 June 2022; data on children from non-English speaking backgrounds is at 2021; children from low-income families is at 2019-20; and children with disability is at 2018. **b.** Children with disability and those from non-English speaking backgrounds may be counted more than once if attending more than one approved service during the reference period. As a result, participation could be over-reported **c.** Children can use ECEC in multiple regions and may be counted in more than one region. **d.** Data on Aboriginal and Torres Strait Islander children and children with disability is based on identification from the service.

Source: SCRGSP (2024).

**Figure 2.3 – Some cohorts are also under-represented in preschool<sup>a,b,c,d</sup>**

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



**a.** Data is not available on children from non-English -speaking backgrounds in Western Australia and the Northern Territory. **b.** The ages of the year before full-time school cohort vary by state and territory and does not completely align with all children aged 4 to 5 years. **c.** Data for representation in preschool programs is from 2023. Data on Aboriginal and Torres Strait Islander children, children from regional, remote and very remote and low socio-economic areas represents children in the state-specific year before full-time school; data on children from a non-English speaking background and with disability represents children aged 4 years plus children aged 5 years who were not repeaters. **d.** For representation in the community: data on Aboriginal and Torres Strait Islander children is at 30 June 2023; data on children from regional, remote and very remote and low socio-economic areas is at 30 June 2022; data on children from non-English speaking backgrounds is at 2021; data on children with disability is at 2018.

Source: SCRGSP (2024).

### **Closing the Gap: ECEC for Aboriginal and Torres Strait Islander children**

Policymakers have set a target for participation of one of the cohorts mentioned above.

The National Agreement on Closing the Gap identified a target for participation of Aboriginal and Torres Strait Islander children in early childhood education – 95% of Aboriginal and Torres Strait Islander children are enrolled in YBFS early childhood education by 2025 (Australian Government 2020, p. 24).

In 2022, 99.2% of Aboriginal and Torres Strait Islander children of YBFS age were enrolled in a preschool program, a substantial increase from 76.7% in 2016. The Commission has observed that this progress indicates that the target is on track to be met (PC 2023b).



**Finding 2.1**

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

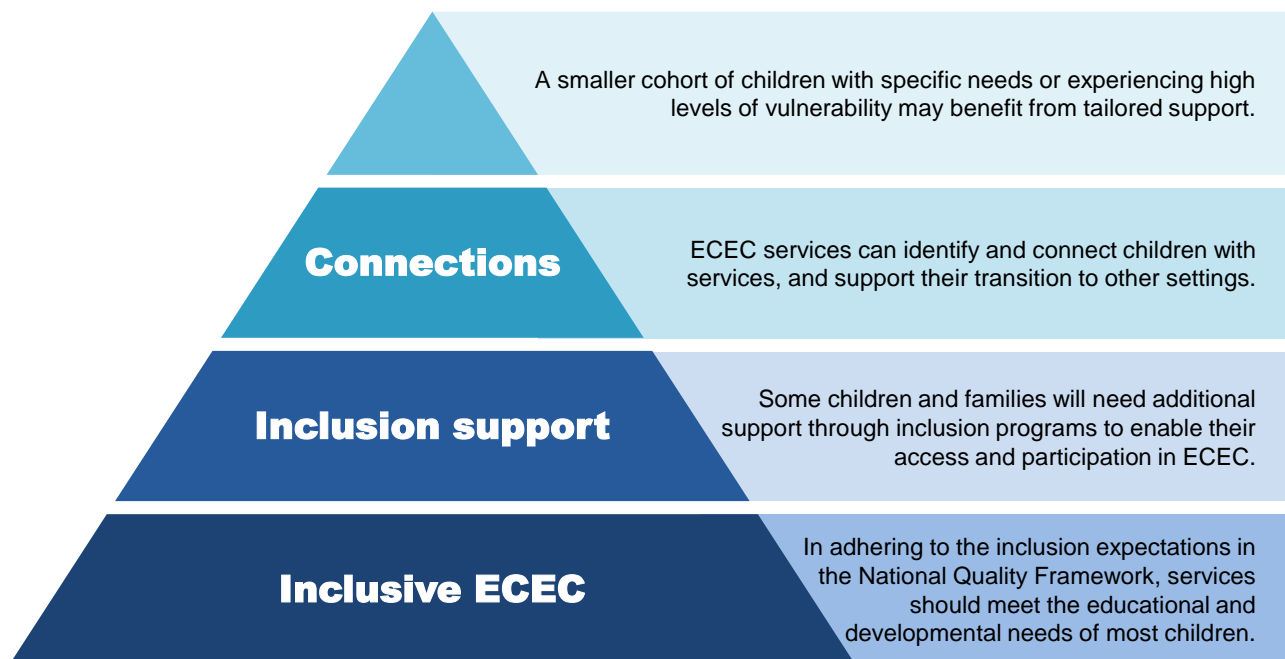
ECEC services play a major role in the lives of young children and their families. In August 2023, nearly half of one-year-olds used some form of ECEC and participation rates rose until children reached school ages. About 90% of four-year-olds were enrolled in ECEC and about 15% of children aged 5–12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

**A framework for responding to the needs of children**

In considering responses to the diversity of children’s needs, this paper conceptualises ECEC service delivery in four tiers (figure 2.4).

**Figure 2.4 – A conceptual model of ECEC service delivery**



While some children require specific support to participate in ECEC services, inclusion is a core underpinning of safe, quality, ECEC. The conceptual model depicted in figure 2.4 acknowledges that all ECEC services have a responsibility to be inclusive and responsive to the needs of children – a responsibility reflected in the National Quality Framework (NQF). However, it also recognises that in some circumstances children and their families may prefer or benefit from services tailored to their specific needs. Children may move between these tiers over the course of their time in ECEC.

Despite the fact that children can have different needs, both at a single point in time and over time, the framework is helpful in thinking about how services and policy can be inclusive of all children.

## 2.2 Despite requirements for inclusive practice, some children experience exclusion

Circumstances such as a child's cultural background, languages spoken, family health and income, and risk factors such as trauma and stress, can prevent them from achieving their educational and social potential later in life (KU Children's Services, sub. 303, p. 12). The NQF provides a foundation to ensure all children receive quality ECEC (paper 8). It also sets expectations around inclusion and cultural responsiveness to support the participation of all children.

### Inclusion is embedded in the requirements of ECEC services

#### The NQF and learning frameworks establish expectations of services around inclusion

For services regulated by the National Law and National Regulations, the NQF sets expectations around inclusion and cultural responsiveness. 'Equity, inclusion and diversity' and 'Aboriginal and Torres Strait Islander cultures are valued' are two of the five principles underpinning the NQF (ACECQA 2023a, p. 10) and are woven throughout the National Quality Standard (NQS) and the approved learning frameworks (box 2.2).

#### **Box 2.2 – Inclusion and cultural responsiveness in the National Quality Framework**

The importance of inclusion and respecting children's family, culture and other identities and languages is woven through the National Quality Framework (NQF). For example, the framework:

- uses the terms 'each child', 'every child' and 'all children' to promote inclusion
- recognises all children as confident and capable learners with the capacity and right to succeed regardless of diverse circumstances, including strengths, cultural background and abilities
- requires educators to hold high expectations for the learning and development of all children, recognising that every child has an individual learning path and will progress in different ways.

#### **National Quality Standard (NQS)**

- Quality Area 1 of the NQS requires services to provide programs that contribute to each child's learning and development based on their knowledge, strengths, ideas, culture, abilities and interests.
- Quality Area 3 promotes the creation of inclusive physical environments, including through ensuring spaces are adapted to support every child's participation.
- Quality Area 5 requires educators to maintain respectful and equitable relationships with children, including by supporting children to feel secure, confident and included and through maintaining their dignity and rights.
- Quality Area 6 requires services to respect the expertise, cultures, values and beliefs of families and ensures they are included in decision-making about their child's learning and wellbeing. It also requires services to form effective partnerships with families and communities to enhance children's access, inclusion, learning, wellbeing and participation.

## Box 2.2 – Inclusion and cultural responsiveness in the National Quality Framework

### Approved learning frameworks

NQF regulated services are required to deliver an educational program based on an approved learning framework. The two national frameworks comprise a vision, supported by eight principles, seven practices and five outcomes.<sup>a</sup>

Key principles include:

- **partnerships**, including with children, families, other professionals and communities
- **respect for diversity**, which recognises that children are born belonging to a culture
- **Aboriginal and Torres Strait Islander perspectives**, which recognises that providing opportunities for Aboriginal and Torres Strait Islander children to see themselves, their identities and cultures reflected in their environment is important for growing a strong identity
- **equity, inclusion and high expectations**, which recognises that all children have a right to participate in inclusive early childhood settings.

Key practices include:

- **responsiveness** to children (for children under school age), including responding in ways that best suit each child's strengths, capabilities and curiosity
- **collaboration with children** (for children over school age), including building on children strengths, skills and knowledge and responding to their expertise, cultural traditions and ways of knowing and the multiple languages spoken by some
- **cultural responsiveness**, including embedding Aboriginal and Torres Strait Islander perspectives in the curriculum and respecting and working collaboratively with culturally and linguistically diverse children and families.

a. A Victorian-specific framework, the Victorian Early Years Learning and Development Framework, is also approved under the NQF.

Source: ACECQA (2022a, p. 1, 2023a, pp. 94–95); DoE (2022a, pp. 14–17; 21; 23–24, 2022c, pp. 14–17; 21; 24–25).

## There are also legislative requirements against discrimination

ECEC educators and services are obligated to abide by legislation regarding discrimination and exclusion.

The **Disability Discrimination Act 1992 (Cth)** (DDA) makes it unlawful for people and organisations, including ECEC services, to discriminate against a person based on their disability. As noted above, it includes a requirement that organisations make reasonable adjustments to enable a person with disability to access and participate in a service on the same basis as others. The Act also gives the relevant Minister the power to create 'disability standards' (s 31).

The **Disability Standards for Education 2005 (Cth)** (DSE) are subordinate to the DDA and are supported by guidance notes. Their primary purpose is to clarify, and make more explicit, the obligations of education providers under the DDA, and the rights of people with disabilities in education (s 1). The standards cover a range of areas (box 2.3). While they do not create new obligations, compliance with a standard is taken to be compliant with the DDA (for the relevant area). It is unlawful to contravene a disability standard (ss 8, 9).

The **Racial Discrimination Act 1975 (Cth)** makes it unlawful to discriminate against a person on the basis of their race, colour, descent, national origin or ethnic origin.



**Box 2.3 – The *Disability Standards for Education 2005 (Cth)***

The *Disability Standards for Education 2005 (Cth)* (DSE) provide detail about an education provider's obligation to make reasonable adjustments to assist students with disability to participate in education on the same basis as their peers. There is no obligation to make an unreasonable adjustment. Education providers must consult with students and their family members or carers about reasonable adjustments.

The DSE outline education providers' obligations to ensure students with disability can participate in education on the same basis as students without disability, in relation to:

- **enrolment** – the provider must take reasonable steps to ensure the prospective student is able to seek admission or apply for enrolment
- **participation** – the provider must take reasonable steps to ensure the student is able to participate in the programs provided by the educational institution and use the facilities and services provided
- **curriculum** – the provider must take reasonable steps to ensure that the course or program is designed in a way that a student with disability is able to participate in the learning experiences of the course or program and any relevant supplementary course or program
- **student support services** – the provider must take reasonable steps to:
  - ensure that the student is able to use support services of the institution in general
  - ensure a specialised support services is available, where needed to enable the student to participate in activities they are enrolled in and the service is of the kind provided by the education provider
  - facilitate the provision of specialist support services, where it is necessary for the student to be able to participate in activities for which they are enrolled and the service is not of the kind provided by the education provider
- **the elimination of harassment and victimisation.**

Source: *Disability Standards for Education 2005 (Cth)*; DESE (2020), p. 11.

**But 'child-care' is excluded from the *Disability Standards for Education 2005***

In the context of ECEC, 'preschools' are covered by the DSE. However, 'child-care providers' are explicitly excluded from the standards.<sup>9</sup>

Successive reviews of the DSE (commencing in 2010, 2015 and 2020) recommended the standards apply to other ECEC providers, with the 2015 and 2020 reviews noting the exclusion of 'child-care providers' appeared anomalous (DEEWR 2012; DESE 2020; Urbis 2015). A similar recommendation was included in the Australian Institute for Family Studies (AIFS) evaluation of the ISP (Bray et al. 2021, p. 169).

The 2020 DSE review noted that the distinction made between preschool and other ECEC services is imprecise and does not reflect the diversity of service types and programs offered by ECEC providers. It noted that these arrangements:

create the mistaken impression that the rights of children with disability in relation to education in a child care setting are somehow different to those in a preschool/kindergarten setting. While extending the Standards to incorporate child care would not, in itself, alter or increase the existing rights of children with disability or obligations of ECEC providers, the current exclusion of child

<sup>9</sup> *Disability Standards for Education 2005 (Cth)*, s. 1.5(a).

care from the Standards contributes to a poor understanding of rights and obligations in an ECEC context. (DESE 2020, p. 61)

If all ECEC services adhered to their obligations under the DDA, and families effectively engaged these protections, there would arguably be no need to include ECEC in the DSE.

However, the 2020 DSE review found there was limited awareness of the DDA within the ECEC sector and that complaints processes were difficult for families to navigate (DESE 2020, p. 12). The review heard families had limited complaint options, and that a fear of retribution sometimes acted as a significant disincentive to making a complaint (DESE 2020, p. 17).

As a response to the 2020 DSE review, ACECQA published resources to help services adhere to their obligations under the DDA, including an information sheet, a tip sheet, posters and materials to help teams unpack disability discrimination and conduct inclusive recruitment (ACECQA 2023d, 2023c). The information sheet, for example, provides examples of reasonable adjustments in ECEC settings (ACECQA 2022b). The resources provide ECEC providers with advice on practical ways to implement the requirements placed on them by the DDA, as is the case for the school system (box 2.3).

The Commission's draft report recommended amendments to the DSE to include all services in the ECEC sector (PC 2023a, p. 153). Many inquiry participants agreed these amendments were needed.<sup>10</sup>

The implementation report for recommendations from the 2020 DSE review states that the Australian Government Department of Education has worked with state and territory governments, the non-government education sector and ACECQA on how to amend the standards to include ECEC (DoE 2024d, p. 4). It also mentions the resources developed by ACECQA and the inclusion of more information on supporting children in ECEC in the updated national learning frameworks. In terms of next steps, the implementation report includes:

- support from ACECQA to ECEC services in finding and using the new resources
- inclusion of more detail about how to support children with disability in ECEC in the Guide to the NQF
- consultation with the ECEC sector and disability community on draft amendments to the DSE.

The Commission supports extension of the DSE to the whole ECEC sector. As per the intent for the education sector more broadly, amendments to the DSE will further clarify services' obligations under the DDA. They would also make these obligations clearer for families and address the misconception held by some families that rights are different in childcare and preschool. Continuing to exclude 'childcare' from the DSE would ignore reality and do a disservice to young children. The historical division between preschools and childcare is an anachronism, particularly with the provision of preschool programs within CBDC settings, and the deepening understanding that children are learning from birth.

In response to the 2010 review, the Australian Government stated that government agencies including the departments responsible for education at that time and the Attorney-General's department would 'make the necessary amendments to the Standards to address this recommendation' (DoE 2012a, p. 5).

In response to the 2015 review, the Australian Government stated it would 'consider extending the application of the Standards to include childcare providers' and referred the recommendation to the Education Council (DoE 2012b, p. 9). There is nothing in the communiques from Council meetings over the following four years to indicate whether this happened, nor what the Council concluded if it did. And in 2020, the standards were once again reviewed.

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<sup>10</sup> Queensland University of Technology School of Early Childhood and Inclusive Education, sub. 205, p. 4; ACA, sub. 255, p. 9; Speech Pathology Australia, sub. 210, p. 2; Front Project, sub. 227, p. 7; Goodstart Early Learning, sub. 277, p. 74; Brotherhood of St Laurence, p. 274, p. 7; SNAICC, sub. 290, p. 19.

**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.

**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.

## The ECEC sector is not inclusive for all children and families

### Some children with disability or developmental delay are excluded

While many services are adept at supporting children with disability, developmental delay or challenging behaviour, several inquiry participants reported gatekeeping, suspensions, expulsions and other exclusionary practices for children with disability (Association for Children with a Disability, sub. 78, p. 5; Family Advocacy, sub. 118, p. 4; The Parenthood, sub. 122, p. 6).

Refusal of enrolment, denial of access and exclusion from programs based on a person's disability are forms of discrimination under the DDA and are unlawful where they stem from a service failing to make reasonable adjustments to allow a person with disability to access and participate on the same basis as others.

Providers are obligated to make reasonable adjustments unless they can show that doing so would impose an unjustifiable hardship on them (ACECQA 2022b, pp. 2–3).

Goodstart Early Learning noted that:

children living with disability, developmental delay and other inclusion support needs often face exclusion from mainstream ECEC services because the service cannot meet their needs. These needs can range from requiring an additional educator to ensure children can safely participate, requiring adjustments to the program or physical environment, or requiring specialist support such as peg-feeding or intensive medical management. (sub. 125, p. 56)

The National Disability Insurance Scheme Review (NDIS Review) also noted the 'significant challenge' of inclusive education in Australia, and how this challenge begins early in the child's life:

Children with disability and developmental concerns are less likely to access early childhood education and care, experience difficult transitions to school and often face barriers to accessing and maintaining school enrolments. (PM&C 2023, p. 117)

### **Children from refugee or humanitarian backgrounds face barriers**

Inquiry participants highlighted that families from refugee and humanitarian backgrounds were under-represented and excluded from ECEC due to challenges such as lack of system navigation support, language support and visa status.<sup>11,12</sup>

ECEC experiences were seen as particularly distressing for these families if they did not speak English, had cultural clashes with educators or when services were under-resourced to support complex trauma (AERO 2023, p. 25; Lamb 2020, pp. 136–138; VicTESOL and QATESOL, sub. 224, p. 2).

These issues are particularly problematic, given ECEC can contribute to positive settlement outcomes for families with refugee or humanitarian backgrounds (WA Government, sub. 162, p. 10). One inquiry participant noted that:

ECEC is one of the first points of contact for many refugee and migrant families with young children. Participation and engagement with ECEC, community and child health services can provide ‘soft entry’ points into the community, enabling families to build social connections with others and reducing feelings of isolation. (Commissioner for Children and Young People for WA, sub. 259, p. 4)

### **Children with experiences of trauma may face challenges in remaining connected to ECEC**

Psychological inclusion, or the experience of being included, is one of the three critical dimensions of inclusive education, alongside physical and social inclusion. Providing a psychologically inclusive space may be crucial for children attending ECEC who may face circumstances that result in lasting trauma.

Individual trauma results from an event, series of events or set of circumstances that is experienced by an individual as physically or emotionally harmful or life threatening and that has lasting adverse effects on the individual’s functioning and mental, physical, social, emotional or spiritual well-being. (SAMHSA 2014, p. 7)

The experience of trauma significantly impacts the development and wellbeing of children (Search Light Inc, sub. 304, p. 2; Michelle Carlyle, sub. 9, p. 1).

Trauma changes the way people understand their world, the people in it, and how and where they belong. They develop distorted rules about relationships that are built on mistrust, terror, and betrayal. (citing Australian Childhood Foundation 2018; Search Light Inc, sub. 304, p. 2)

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<sup>11</sup> Commissioner for Children and Young People WA, sub. 259, p. 4; EYIA, sub. 97, p. 1; KU Children’s Services, sub. 83, p. 9; UWU, sub. 222, p. 16.

<sup>12</sup> As paper 6 clarified: CCS eligibility for restricted and temporary residents varies depending on their visa type. Temporary residents with a temporary protection type visa such as Temporary Protection visas (subclass 785) or Safe Haven Enterprise visas (subclass 790) are eligible to receive CCS (Department of Social Services 2018; Services Australia 2023b). However other temporary residents such as those with a Skilled Work Regional (provisional) visa (subclass 491) and Skilled Employer Sponsored Regional (provisional) visa (subclass 494) are ineligible to receive CCS for their children. There are also other visa subclasses that provide temporary residence that do not allow CCS eligibility. Families covered by these visa types would have to pay full fees for their children to participate in ECEC.

While responses to trauma are primarily led by other services, ECEC providers play a crucial role in supporting affected children to access and participate in ECEC. Families who experience adverse life experience or trauma may also struggle to consistently engage and participate in ECEC.

Ensuring psychological inclusion may take many forms, from a child's safe transition to ECEC to providing trauma-informed practice, cooperating with non-ECEC agencies for a child's plan or facilitating targeted programs during class. Addressing these aspects, which build psychologically inclusive spaces, may encourage ongoing ECEC participation for the child (Life Without Barriers, sub. 24, p. 2; Parkville Institute, sub. 231, p. 1). But it is not clear that this is consistently happening.

Many inquiry participants raised concerns about the sector's ability to support children and families experiencing trauma. For example:

In our experience, some children are not fully supported to remain connected to early learning; being subjected to suspensions, time limitations, and exclusions. While we acknowledge complex developmental trauma can manifest in escalated behaviour for some children, it is essential that children in care are not subjected to these non-attendance measures to manage behaviour. (Learning without Barriers, sub. 24, p. 2)

Early childhood education and care services are essential for identifying trauma in young children. However, early childhood educators and care services don't have the expertise to be able to respond to children identified as having experienced, or experiencing, trauma. (Michelle Clayton, sub. 9, p. 1)

There is also a need for greater levels of professional development throughout the ECEC workforce, with emphasis on trauma-informed practice, working alongside statutory organisations, and working with children and families experiencing disadvantage or vulnerabilities. (The Salvation Army, sub. 56, p. 24)

Trauma is also prevalent in Aboriginal and Torres Strait Islander communities (Early Childhood Care and Development Policy Partnership, sub. 329, p. 55). Children's Ground noted that Aboriginal and Torres Strait Islander children:

are living with the racism, exclusion and trauma that results in high levels of child protection removals, imprisonment, education failure, early death, disease, and poor mental health. To allow this to happen is unforgivable – to allow this to continue is unthinkable. It is the case that for some children, the education experiences both contributes to and reinforces trauma due to systemic racism and exclusion. (sub. 221, p. 5)

### **A lack of culturally safe services can affect Aboriginal and Torres Strait Islander children and families**

Aboriginal and Torres Strait Islander people have experienced dispossession and exclusion from their cultural knowledge, education systems and practice, with potential consequences for children. While 'a majority of Aboriginal and Torres Strait Islander children are thriving', some may face 'challenges that stem from colonisation and its effects, including discrimination, poverty, systemic removal, intergenerational trauma, dislocation from land and culture, and community disempowerment' (SNAICC and Early Childhood Australia 2019, p. 3).

The national approved learning frameworks define cultural safety as the 'recognition, respect and protection of the inherent rights, cultures and traditions of a particular culture' (DoE 2022a, p. 65, 2022c, p. 65). The frameworks (citing Williams 1999) note that in a culturally safe environment, there is:

no assault, challenge or denial of identity of their people's identity, of who they are and what they need. It is about shared respect, shared meaning, shared knowledge and experience of learning, living and working together with dignity and truly listening. (DoE 2022a, p. 65, 2022c, p. 65)

For Aboriginal and Torres Strait Islander families, the National Agreement on Closing the Gap uses the following definition.

Cultural safety is about overcoming the power imbalances of places, people and policies that occur between the majority non-Indigenous position and the minority Aboriginal and Torres Strait Islander person so that there is no assault, challenge or denial of the Aboriginal and Torres Strait Islander person's identity, of who they are and what they need. Cultural safety is met through actions from the majority position which recognise, respect, and nurture the unique cultural identity of Aboriginal and Torres Strait Islander people. Only the Aboriginal and Torres Strait Islander person who is recipient of a service or interaction can determine whether it is culturally safe. (s 12)

The National Aboriginal Community Controlled Health Organisation noted:

it is important to recognise that mainstream care and education systems have often excluded and been culturally unsafe for Aboriginal and Torres Strait Islander people. It is evident that the Australian care and education system was at no time designed for Aboriginal and Torres Strait Islander students. (sub. 151, p. 6)

A number of submissions noted that for Aboriginal and Torres Strait Islander families and children, cultural safety is critical (for example, The Child Development Education and Care Research Group, sub. 19, p. 6; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 6).

The Australian Institute of Health and Welfare has underlined that early learning programs that do not reflect the culture and knowledge of the Indigenous community are not perceived as culturally safe and are therefore less likely to be utilised by families from that community (Harrison et al. 2012, p. 2). And the ACCC found that First Nations families with ongoing trauma from their interactions with government departments may be reluctant to provide information required for the CCS (ACCC 2023a, p. 29).

### **Culturally inclusive practice is also important for culturally and linguistically diverse children and families**

Inquiry participants noted that children and families from CALD backgrounds may encounter a range of barriers to accessing ECEC, including because of language or a lack of culturally responsive services (Meli, sub. 139, p. 8; SSI, sub. 16, p. 3).

Children and families from CALD backgrounds may also have diverse perspectives on ECEC. The Salvation Army noted:

Our services have also identified a significant gap in ECEC service providers' understanding of diverse cultures' approaches and beliefs related to caring for and educating children, parenting, health and wellbeing. We urge all governments to act on the need for greater cultural education across the ECEC system to ensure culturally inclusive service provision. (sub. 56, p. 14)

## 2.3 Key enablers of cultural safety

### Educators' role in enabling cultural safety is key, but the ECEC workforce faces challenges

Educators and other ECEC service staff can enable cultural safety through their interactions with families and children from diverse backgrounds, their programming and through educating other children about cultural diversity. As Goodstart Early Learning (sub. 277, p. 67) noted, development of educators and other service staff is among the factors that can effectively promote the provision of cultural safe ECEC.

Developing or strengthening a culturally safe environment could involve, for example, collaboration with CALD groups within a service's local community, professional development, provision of culturally relevant resources, celebration of diverse multicultural events and partnership building with families (ACA, sub. 255, pp. 62–63; NSW Aboriginal Education Consultative Group Inc, sub. 217, p. 23). It could also involve an expansion of the workforce with bicultural educators or language support staff (below). Children from culturally diverse backgrounds 'acquire knowledge and understanding about their culture and identity through engagement in language and communication with their communication partners, such as their family members, educators, peers and other important people in the child's life' (Webb 2022, p. 1).

Educators who teach respect for cultural diversity will assist children to:

- learn about their cultural background and develop a strong sense of self identity
- learn about and appreciate cultures and traditions other than their own
- learn to enjoy and respect differences and recognise universal characteristics we all share
- learn about racial prejudice and understand why it should be challenged. (Australian Human Rights Commission 2016, p. 6)

The Australian Childcare Alliance observed that:

ECEC services and families play a vital role in shaping diverse, culturally aware and accepting attitudes among children in their care. Children can develop race bias as early as three months old, but exposure to diversity in early learning environments can disrupt this bias. (sub. 255, p. 62)

But evidence suggests the ECEC workforce might not have the capability needed to effectively embed cultural safety in their practice.

Nearly three quarters (72%) of participants in a 2015 ECEC educator survey responded that they faced 'challenges in educating about cultural diversity' due to a lack of understanding about different cultures, low confidence in teaching about cultural diversity and their ability to teach without being inauthentic or tokenistic (Australian Human Rights Commission 2016, p. 7). Another study indicated that new teaching graduates (not specific to ECEC) felt less prepared to teach linguistic diversity, work in a culturally diverse classroom or support the full participation of students with disability, than other areas of their work, such as engagement with professional learning or ethics (Rowan, Kline and Mayer 2017, p. 79).

The ACCC recently concluded that large ECEC providers were trying to be open and welcoming places for First Nations children, households and staff. However, participants in First Nations roundtable discussions run by the ACCC extensively raised challenges seen in services' provision of culturally safe environments, including that '[m]any childcare providers do not know how to implement First Nations culture into their services, and fear judgment if they get it wrong' (2023a, p. 155).

Inquiry participants submitted that professional development and ongoing cultural capability building was necessary to improve cultural safety and inclusion. They noted that this promoted diversity, advanced

inclusive employment, and was critical to promote inclusion of culturally diverse children in ECEC services (ACA, sub. 255, p. 62; Independent Schools Australia, sub. 251, p. 3; KU Children's Services, sub. 303, p. 13; NSW Aboriginal Education Consultative Group Inc, sub. 217, p. 23). Further discussion on workforce capability can be found in section 2.4.

Paper 3 recommends that Australian, state and territory governments provide support for professional development to build workforce capability to deliver more inclusive ECEC (recommendation 3.11). A new inclusion funding approach, based at least in part on a services' child-level characteristics (such as cultural background), would allow services to fund activities that contributed to the development of cultural safety and responsiveness that suited their community (section 2.7).

### **Bicultural and bilingual workers can facilitate cultural safety**

Some children from diverse backgrounds may not speak English as their first or home language. While not all of these children require language support, some may face barriers to participation (VicTESOL and QATESOL sub. 224, p. 2). This may be a prominent issue in some communities, such as in Western Sydney, where only 48.1% of families speak English as their first language (Uniting NSW ACT, sub. 239, p. 5).

Bicultural and bilingual workers can support children's inclusion within ECEC settings.

Gide et al (2021, pp. 52–56) noted that CALD children may identify more with educators who look similar to themselves or their families, which positively impacted their sense of identity. And these educators can establish a culturally safe place for families to bring their children in, impacting their decisions in using formal care to support their return to work.

Similarly, another study noted that Aboriginal and Torres Strait Islander educators are effective in integrating local contexts and facilitating the development of Aboriginal and Torres Strait Islander children's cultural identity and communication (Webb 2022, p. 4).

One inquiry on early childhood engagement of CALD families identified a strong bilingual and bicultural workforce as important for families to engage in ECEC and maternal child health services (Parliament of Victoria: Legal and Social Issues Committee 2020, p. 96).

Submissions to that inquiry noted that bilingual workers made practical contributions in ECEC through creating a safe environment for children and facilitating communication between services and families and between children and their peers (Parliament of Victoria: Legal and Social Issues Committee 2020, pp. 98–99).

Inquiry participants and the ACCC have also underlined that bilingual staff and educators are effective in supporting children and families in their home language (ACCC 2023a, p. 171; Goodstart Early Learning, sub. 277, p. 69; Victorian Government Department of Education, sub. 311, p. 12). The Brotherhood of St. Laurence noted that:

A key factor that effectively promotes the provision of culturally safe ECEC is the presence of bicultural workers. Bicultural workers contribute to cultural safety because shared language, culture and similar experiences create a bridge to shared understanding and empathy. This supports the development of a trusting environment for relationships which supports families to feel safe, heard and respected. (Brotherhood of St Lawrence, sub. 289, p. 9)

and outlined the practical contributions that can be made by bicultural workers, including to:

- decrease social isolation within their communities by identifying and working with families who are disengaged from early years services
- build trust with families by forming connections, as well as working across cultural groups by focusing on shared migration experiences



- increase families' knowledge, access and use of the early years system
- ensure children receive support as early as possible, for example through undertaking speech assessments in language to identify developmental delays
- ensure services are responsive to emerging community needs
- reduce fears of families that their parenting will be 'judged' by mainstream services, for example on issues such as disability or family violence
- ensure services provide positive role models for communities
- increase cultural diversity within the workforce. (Parliament of Victoria: Legal and Social Issues Committee 2020, p. 98)

Common language with educators is also a key enabler for many Aboriginal and Torres Strait Islander children, particularly when they are expected to engage in multiple languages outside of their country and community (Children's Ground, sub. 221, p. 1).

More broadly, bicultural workers can, for example, contribute to the sourcing of culturally relevant resources, programming that resonates with children from their culture and education of other children about diversity.



### **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.

## **Families from refugee and migrant backgrounds may prefer family day care**

In 2021, the ECEC National Workforce Census identified about 9,250 children (or their parents) within ECEC services as being from refugee or humanitarian backgrounds (2022, p. 41). Half (4,590) attended FDC services, in contrast to about 3,350 children who attended centre-based day care (CBDC) – a sector ten times larger than FDC.<sup>13</sup>

Family Day Care Australia noted that:

<sup>13</sup>Of the remainder, 9 attended IHC, 620 attended OSHC and 686 attended vacation care services.

Family day care has a significant role to play in terms of facilitating greater inclusion of children from a variety of vulnerable cohorts (including children with additional needs, those from CALD backgrounds and refugee or special humanitarian program background), yet the strengths of the model in achieving this objective are undervalued, underfunded and hence underutilised. (sub. 240, p. 20)

The ACCC also recognised FDC as a valuable alternative to CBDC for culturally and linguistically diverse children. Where the educator has the same cultural background or speaks the same language as the child attending, it may 'reproduce cultural values', and better assist their family through the transition of the new environment. The ACCC found that FDC had the highest proportion (17%) of children with a primary language other than English spoken at home of the different ECEC service types. In CBDC and OSHC, 3–4% of children attending that had a primary language other than English spoken at home (2023b, pp. 29, 183).

A recent study by the Australian Education Research Organisation (AERO) found that a combination of FDC, followed by dedicated four-year-old preschool, had the strongest link to AEDC domain outcomes for multilingual children. Those who attended ECEC in this combination saw greater benefits in language, cognitive skills and social competence measures than multilingual children that did not attend in this combination. Various factors were hypothesised to have contributed to this positive association, including FDC's smaller group sizes, the multilingual background of many educators and the ability to attend with siblings (2023, pp. 11–12, 35).<sup>14</sup>

The Australian Government is undertaking a FDC Capability Trial to review and respond to the systemic challenges of the current FDC model, including in areas such as financial integrity and workforce in regional areas (paper 5). This trial may support greater availability of FDC in the future.

## **Cultural safety is non-negotiable for Aboriginal and Torres Strait Islander children**

While ACCOs are crucial and often preferred by Aboriginal and Torres Strait Islander people (paper 7), mainstream ECEC services should also be culturally safe (NSW IPART 2023a, p. 88). This requires 'consistently adapting practices, programs, and environments to cater to the unique cultural needs of each child, family and community' (NSW Aboriginal Education Consultative Group Inc, sub. 217, p. 23).

Cultural safety is critical to the school readiness, cultural identity and long-term outcomes of Aboriginal and Torres Strait Islander people (Children's Ground, sub. 221, p. 4; SNAICC, sub. 290, p. 30). SNAICC stated:

Children who are strong in their culture and know that people who are important to them support their culture, are more likely to engage with opportunities that enable them to achieve their life goals. The significance of culture to Aboriginal and Torres Strait Islander children's wellbeing and development is well documented and consistently reiterated by Aboriginal and Torres Strait Islander families, services and communities. (sub. 290, pp. 30–31)

Additionally, the ACCC found that:

Providing a culturally safe childcare environment is critical to ensure long-term retention of and engagement with First Nations children and households in childcare services. (2023a, p. 155)

Transformation of 'mainstream organisations' cannot occur without effective partnership, shared decision-making, and genuine collaboration with local Aboriginal and Torres Strait Islander educators, staff, and communities. And, as for other culturally diverse children, flexible inclusion support that meets each

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<sup>14</sup> AERO also noted potential limitations to this study, such as their limited sample size and design.

unique need (for example, bilingual support and service-wide training) is needed to facilitate these changes (section 2.7).

### **The National Quality Framework and cultural safety for Aboriginal and Torres Strait Islander children**

While the NQF sets expectations on inclusion (box 2.2), SNAICC submitted it does not adequately promote or reflect the significance of culture to Aboriginal and Torres Strait Islander children and families:

While NQS Quality Area 5 (promoting relationships with children that promote children’s sense of security and belonging) and Quality Area 6 (promoting collaborative partnerships with families and communities where the expertise, culture, values and beliefs of families are respected) highlight critical elements of quality ECEC, there are currently no specific provisions in the NQF and NQS regarding how these standards will be implemented or assessed, including on cultural competence and safety. Moreover, under the NQF, there is no explicit requirement for ECEC services to embed culture into their curriculum, raising critical questions regarding the suitability, cultural safety, and inclusivity of ‘mainstream’ ECEC services for Aboriginal and Torres Strait Islander children and families. (sub. 133, pp. 16–17)

To address these concerns, some inquiry participants recommended the development of a new ‘cultural competency framework’ either to sit alongside or replace the NQF.<sup>15</sup> Others recommended additional requirements for Quality Improvement Plans, including the development of cultural and social inclusion plans, accompanied by resourcing and staff support to improve the embedding of cultural safety within services (Front Project, sub. 227, p. 52; Goodstart Early Learning sub. 277, p. 56).

The Commission notes that revised versions of the approved learning frameworks (box 2.2) released in 2023 include a stronger focus on Aboriginal and Torres Strait Islander perspectives underpinned through the addition of a new principle. Many inquiry participants observed that these updated frameworks provided stronger recognition of the importance of cultural safety and responsiveness than the previous versions (ACA, sub. 255, p. 62; Goodstart Early Learning, sub. 277, p. 69; NSW Aboriginal Education Consultation Group Inc, sub. 217, p. 20).

Strengthening Aboriginal and Torres Strait Islander knowledges, cultures, and perspectives throughout the frameworks reflects the Alice Springs (Mparntwe) Education Declaration and aligns with the Australian Curriculum V9.0 (DoE 2022b, p. 3). The changes require educators to critically reflect, build local connections, affirm children’s identity and support all children to understand and acknowledge the diversity and culture of Aboriginal and Torres Strait Islander history (DoE 2022b, p. 2).

The NSW Aboriginal Education Consultative Group Inc stated that:

In 2023, the delivery of the revised Early Years Learning Framework (EYLF) saw the elevation of cultural value and the incorporation of a cultural lens within early learning services. It would only make complete sense to follow with a revised NQF which is equally reflective of incorporating Aboriginal perspectives within service, ultimately promoting cultural safety and capability of Aboriginal children in ECEC services. (sub. 217, p. 23)

As the approved learning frameworks have expanded on the importance of cultural safety, there could be scope to support similar development of the NQF. Inquiry participants noted that there are often barriers to culturally safe environments as prescribed by the NQF, due to structural barriers (such as educator capacity

<sup>15</sup> Goodstart Early Learning, sub. 277, p. 69; KU Children’s Services, sub. 303, p. 14; NSW Aboriginal Education Consultative Group Inc, sub. 217, p. 20; SSI, sub. 196, p. 4; SNAICC, sub. 133, p. 17.

or insufficient inclusion funding).<sup>16</sup> While an updated NQS might better recognise the nuances of cultural safety, reforms to inclusion funding that resulted in services being better able to use programs or hire workers to support the access and participation of Aboriginal and Torres Strait Islander children and families should be prioritised (section 2.7).



#### **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.

## **2.4 Inadequate support restricts inclusive ECEC**

While services are expected to adopt inclusive practices within the budget provided by mainstream funding instruments (including the CCS, government funding for preschool programs and contributions from families), governments fund targeted programs in recognition of the costs associated with inclusion support for some children with additional needs.

The ISP is the main Australian Government targeted program. Its objectives are to:

- support eligible mainstream ECEC services to improve their capacity and capability to provide quality inclusive practices for all children, to address access and participation barriers and to support the inclusion of children with additional needs, with their typically developing peers
- provide parents or carers of children with additional needs with access to appropriate and inclusive ECEC services that assist those parents or carers to increase their activity including work, study and training. (DoE 2023c, p. 8)

Desired outcomes from the program include that:

- services have embedded inclusive practices in their service delivery model and, over time, have increased their capacity and capability to include children with additional needs and have reduced reliance on support from the program
- children with additional needs have an increased representation in mainstream services, commensurate with their representation in the overall population
- parents or carers of children with additional needs have better access to and are aware of appropriate and inclusive services that support their workforce, study or training choices. (DoE 2023c, p. 9)

The ISP is not a disability program (DoE 2023c, p. 9). Rather, it is meant to support services to ‘address barriers to inclusion, build capacity and capability to include children with additional needs and implement quality, inclusive and equitable practices’ (DoE 2024e, p. 1). That said, where demand exceeds the annual

<sup>16</sup> ACA, sub. 255, p. 62–64; Front Project, sub. 227, p. 9; KU Children’s Services, sub. 303, p. 12; VicTESOL and QATESOL sub. 224, p. 4; ARACY, sub. 268, p. 3; Goodstart Early Learning, sub. 277, pp. 55–56.

capped allocation, funding is to be prioritised to children with, or awaiting, diagnosis of a disability (DoE 2023c, p. 16), meaning other children with additional needs could miss out.

The program has multiple components (box 2.4).

### **Box 2.4 – The Inclusion Support Program involves multiple components**

The Inclusion Support Program (ISP) was introduced in 2016 as part of the Child Care Package, building on previous iterations of similar programs. While previous iterations had a focus on children with disability, the ISP is meant to support services to include children with other additional needs.

The ISP is available to most Child Care Subsidy (CCS) approved services, including centre-based day care (CBDC), outside school hours care (OSHC) and family day care (FDC) services. In Home Care, specialists and other non-CCS approved services are ineligible. Children must be eligible for the CCS to receive support under the ISP.

The program consists of several components.

- Inclusion Agencies (IA) work with all service types on building their capacity and capability to include children with additional needs. This work may include assisting with:
  - site visits and advice to services
  - access to a Specialist Equipment Library, from which services can borrow equipment (such as portable ramps, hoists) to facilitate the inclusion of a child with additional needs
  - reviewing or endorsing applications for support under the Inclusion Development Fund (IDF) (discussed below)
  - Strategic Inclusion Plans (SIPs) – an assessment and planning tool that services must complete to access the Specialist Equipment Library or IDF. Plans are reviewed at least once every 12 months.
- The IDF provides funding to address barriers to inclusion that cannot be resolved through support from an IA or the Specialist Equipment library. It has four streams.
  - Immediate/Time-Limited Support provides a subsidy to CBDC and OSHC services to employ a short-term additional educator to address immediate inclusion barriers.
  - The IDF Subsidy for an Additional Educator provides funding to CBDC and OSHC services to employ a longer-term additional educator to support children with high ongoing support needs (although additional educators do not provide 1:1 support).
  - The FDC Top Up helps FDC services cover the loss of income where including a child with additional needs results in the service being unable to enrol the maximum number of children permitted under the NQF.
  - Innovative Solutions Support provides flexible funding to CBDC and OSHC services and other organisations for innovative solutions to improving inclusion.
- The Inclusion Development Fund Manager is a contracted organisation responsible for managing the IDF and approving most applications for funding.

Source: DoE (2023c).

The Commission has identified a range of issues with the ISP – set out below. Some might best be addressed through a completely new funding approach (section 2.7). Others demand immediate attention (with longer-term solutions implemented via the new funding approach). Recommendations covering this latter set of issues are presented in this section.

### **Steps involved in accessing support**

Access to ISP funding involves a number of steps for services.

A service must complete a Strategic Inclusion Plan (SIP) guided by its Inclusion Agency (IA). The plan is meant to set out barriers to inclusion and strategies to address them. Among other things, those strategies can include changes to educator practices, specialised training, identification of resources within the local community, projects to build educator skills, knowledge and confidence, and access to an additional educator. For most services, the plan is completed through the Inclusion Support Portal (IS Portal) (services that do not have the infrastructure to access the portal can complete paper-based plans). Plans need to be reviewed within 12 months of completion (DoE 2023c, pp. 18–19).

Where development of the plan reveals barriers that cannot be resolved with support from the IA, services can apply for support through the Specialist Equipment Fund and Inclusion Development Fund (IDF). While a SIP must be completed if a service uses equipment, the plan can be lodged after a service receives the equipment.

Receipt of the IDF Subsidy for an Additional Educator or IDF FDC Top Up requires provision of documentary evidence that a child has high ongoing support needs. This may include evidence of:

- diagnosed disability (including developmental delay)
- current and ongoing assessment for disability
- in certain circumstances, other additional needs – for example children aged under six years in centre-based day care (CBDC) (DoE, pers. comm, 3 November 2023).

Services obtain this evidence from families, and then provide it in the application for funding. Families can source this evidence from a range of professionals, in a variety of forms (box 2.5).

#### **Box 2.5 – Documentary evidence under the Inclusion Support Program**

A range of professionals can provide documentary evidence for an Inclusion Development Fund application, including (but not limited to):

- registered psychologists
- allied health professionals, social workers and family counsellors
- qualified medical practitioners
- registered nurses or nurse practitioners, including Maternal and Child Health nurses.

Documentary evidence may include, but is not limited to:

- the child's health care card stating the disability code, or evidence that the child is a NDIS participant
- diagnosis by a qualified medical/health practitioner or registered psychologist
- a report or supporting documentation signed by an allied health professional, registered nurse or nurse practitioner, Maternal and Child Health nurses, social worker/family counsellor of the current and ongoing assessment of a child

### **Box 2.5 – Documentary evidence under the Inclusion Support Program**

- an appointment letter or referral for an assessment by a qualified medical/health practitioner or registered psychologist
- supporting documentation, such as a diagnostic report, signed by a qualified medical/health practitioner, registered psychologist or social worker
- documentation stating a child's eligibility for Child Disability Allowance or parent or carer eligibility for Carers Allowance with respect to the child.

Source: DoE (2023c, p. 21)

Inclusion Agencies screen applications for funding from the IDF to ensure they comply with program guidelines and requirements. And the Inclusion Development Fund Manager (IDFM) assesses and approves applications 'to ensure a nationally consistent and equitable application' of the eligibility requirements for funding receipt (DoE 2023c, p. 18).

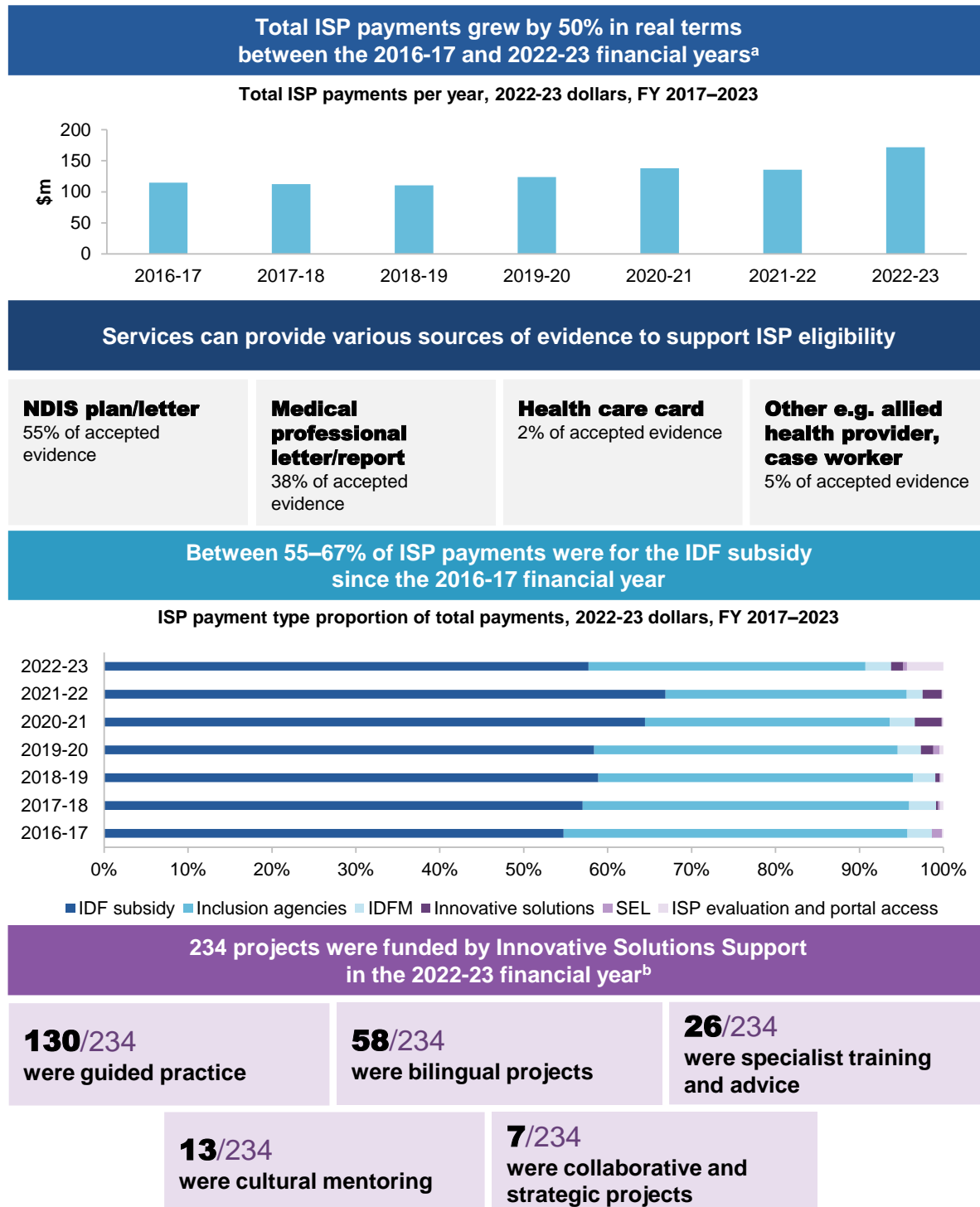
Funds are paid directly to services by the Australian Government Department of Education.

For IDF streams that fund an additional educator, a service has to submit a claim for the hours an educator worked to receive payment. Payments for the Innovative Support Solutions stream are made up front and services need to acquit by completing a declaration that funding was used for the purposes for which it was awarded. Services can propose that unused funds are directed to additional activities. Funds not acquitted must be returned to the department.

## **Inclusion funding overwhelmingly goes to the IDF Subsidy for an Additional Educator**

While the ISP is meant to cover a range of supports, the IDF Subsidy for an Additional Educator (IDF-AE Subsidy) dominated payments to services between 2016 and 2023 (figure 2.5).

**Figure 2.5 – Inclusion Support Program: a snapshot**  
**Payments and case characteristics, FY 2017–2023**



a. Amounts have been adjusted to 2022-23 dollars using the General Government Final Consumption Expenditure (GGFCE) chain price deflator. b. Collaborative and strategic projects may not relate to ECEC services but have been included for completeness.

Source: DoE, pers. comm., 11 June 2024.



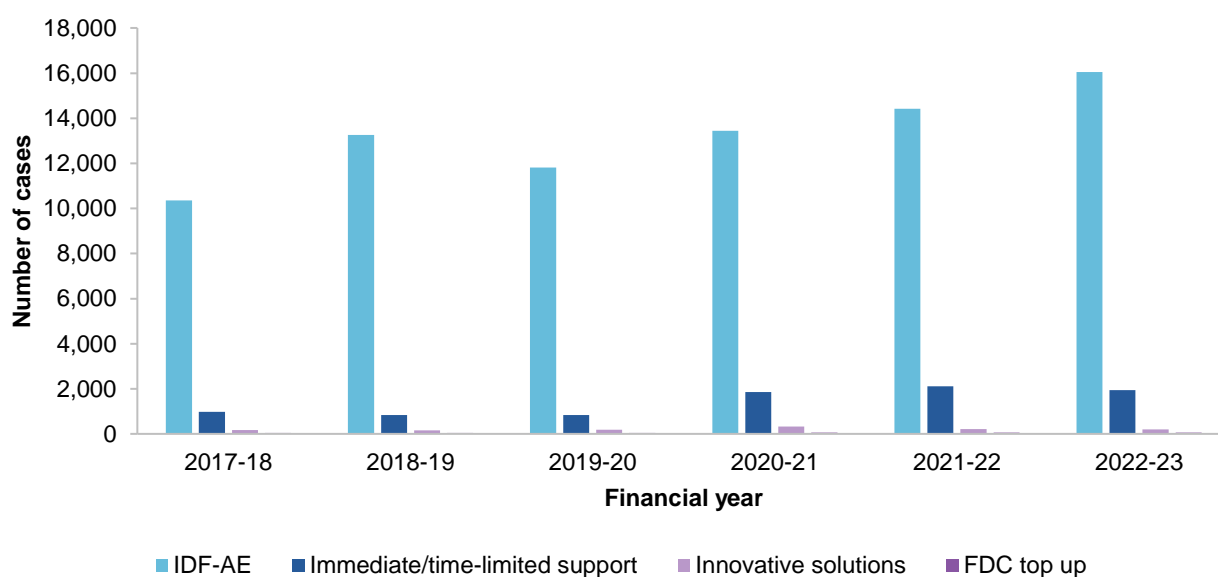
## IDF-AE Subsidy cases have been steadily increasing

The dominance of the IDF-AE Subsidy in payments to services reflects the dominance of this type of support in case numbers.<sup>17</sup> In 2022-23, nearly 18,300 cases received ISP payments across 5,600 services (DoE 2024a, p. 1). Of these cases, just over 16,000 (or 88%) were for the IDF-AE Subsidy (DoE, pers. comm., 11 June 2024). Applications for this purpose increased markedly between 2017-18 and 2022-23 (figure 2.6), outstripping growth in enrolments in CCS-approved services. In the five years to the end of FY2023, applications increased by 55%, in contrast to the 11% rise in enrolments (PC estimates based on (DoE 2024f)). But applications represented only a very small proportion of enrolments – 1.1% in FY2023. The next largest contributor to case numbers in 2022-23 was for short-term employment of additional educators – accounting for only 1,951 cases.

In 2022-23, the most common disability types of children linked to IDF-AE Subsidy applications included autism spectrum disorder (37% of all cases), speech needs (14%), ADD/ADHD (12%) and global developmental delay (11%) (DoE, pers. comm., 20 June 2024).

### Figure 2.6 – IDF-AE Subsidy cases are increasing

#### Cases receiving ISP payments, by funding type, FY 2018–2023



Source: DoE, pers. comm., 11 June 2024.

## Uptake of funding that could help services in tailoring support to the needs of their communities is limited

Innovative Solutions Support (ISS) funding ‘is available for eligible ECEC services to fund innovative, flexible and responsive solutions to inclusion where barriers have been identified and cannot be addressed by the support provided by the service’s Inclusion Agency’ (DoE 2023c, p. 31). That is, it can be used for solutions to inclusion barriers that do not involve employment of an additional educator. For example, services can

<sup>17</sup> Cases refers to the number of applications received for IDF-AE Subsidy, Immediate/Time-Limited, Innovative Solutions Support and FDC Top-Up components of the ISP. It does not equate to the number of services that applied for the IDF, as one service can apply for multiple programs throughout the year (DoE, pers.comm., 11 June 2024).

apply for ISS to: engage external support for guided practice,<sup>18</sup> access bilingual support,<sup>19</sup> cultural mentoring,<sup>20</sup> community engagement<sup>21</sup> and specialist advice for projects<sup>22</sup> (DoE 2023c, pp. 31–32).

As noted above, a service must complete a SIP in collaboration with its IA before applying for ISS, and proposals are assessed by the IDFM. Applications must cover a number of points (box 2.6).

### **Box 2.6 – Criteria to be addressed in an Innovative Solutions Support Application**

Applications for Innovative Solutions Support (ISS) must outline:

- the inclusion barrier, including a description of the child (or children) the barrier is associated with, and why funding is needed to address it noting this inclusion barrier must be identified in the Strategic Inclusion Plan
- evidence that a Strategic Inclusion Plan has been developed and reviewed by the Inclusion Agency (IA), and the service has considered its internal capacity to address the inclusion barrier including relevant requirements under the NQF and support available from its IA:
  - where the ISS application is not endorsed by the IA, the service is still entitled to submit its application to the Inclusion Development Fund Manager for assessment and decision
- evidence that funding for the required purpose is not available elsewhere
- an overview of the intended outcome of funding, including estimated timeframes and milestones
- financial quotes to support the total value of funding being sought, inclusive of GST
- the total duration and value of funding sought and budget breakdown for goods and services to be funded.

Source: DoE (2023c, p. 32).

In 2022-23, only 234 applications were submitted (figure 2.5). Submissions suggested the small number of ISS cases was due to:

- complicated application processes and that ‘applications rarely get approved’ (Tyndale Christian School, sub. 215, p. 1)
- challenges in coordinating an application for FDC services that operate across multiple locations (Family Day Care Association, sub. 209, p. 9)
- services being ineligible to apply because families had not sought a medical diagnosis for their child (STaR Ltd, sub. 87, p. 6).

A 2020 review of the ISP (Bray et al. 2021) observed a significant underspend in the ISS budget. The review found that ‘the nature of the program stream, and the application process, do pose a challenge for many services, demanding a set of skills which are not usually expected from them’ (2021, p. 108). And that ‘[e]ven with support for most applications from Inclusion Professionals or provider organisations, almost 40 per cent

<sup>18</sup> Engaging an external support provider to provide coaching, professional development and mentoring educators.

<sup>19</sup> Access to bilingual facilitator, translating and/or interpretive services.

<sup>20</sup> Access to cultural advice and mentoring to support children from Aboriginal and Torres Strait Islander cultures.

<sup>21</sup> Attending networking and community engagements, such as visiting quality inclusive practice, or supporting transitions of children with additional needs.

<sup>22</sup> New or unique approaches to inclusion that are not covered by above categories.

of services and 70 per cent of Inclusion Professionals disagreed that the process was easy' (2021, p. 165). The review recommended that '[t]he processes for submitting Innovative Solutions Support proposals should be reviewed and simplified' (2021, p. v.ii).

A 2019 interim report prepared for the review suggested that 'awareness of this funding stream amongst childcare services needed to be improved, the intent of the funding clarified and widened' (Bray et al. 2021, p. 102). However, the 2020 review suggested that growth in case numbers (from 201 in 2018 to 336 in 2020) pointed to greater awareness of the funding stream.

The slip back to 234 applications raises potential questions about current awareness and capacity to apply, as does the suggestion above that services need a medical diagnosis to apply which is not reflected in the criteria.

Talking about the ISP more broadly, the NSW Aboriginal Education Consultative Group noted that:

The current structure of ISP is limited in allowing the provision of culturally safe ECEC in mainstream services resulting in exclusionary practices that particularly impact Aboriginal and Torres Strait Islander children with additional needs. (sub. 217, p. 24)

Among other things, the Group recommended 'enhance[d] resources and funding for professional development in areas such as inclusion, trauma and additional needs' (sub. 217, p. 24) – something the ISS could be supporting.

It may be that the small number of ISS cases indicates that services are receiving sufficient support from IAs. But the ability of the ISS to fund a range of inclusion-related initiatives strongly suggests that this component of the ISP is not fulfilling its potential. It seems likely that characteristics of the current system, including a lack of awareness and the level of detail required in the application process, explain this outcome.



#### **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.

### **Very little ISP support goes to family day care services**

As noted in box 2.4, an additional Top-Up payment is available to FDC services to cover the loss of income where including a child with additional needs results in the service being unable to enrol the maximum number of children permitted under the NQF (DoE 2023c, p. 28).

Usage of this support is very low (figure 2.5). Between 2019 and 2023, an average of only 56 FDC Top-Up applications were submitted per year (DoE, pers. com., 11 June 2024).

There may be several reasons for this. Based on limited case studies and survey responses from the 2019 AIFS evaluation, the small number of applications for the FDC Top-Up could be attributed to the shortfall of resources effectively supporting educators in delivering support to children with high needs, potential costs to FDC services, and reluctance in asking existing children to leave (Bray et al. 2021, p. 101).

The ISP review similarly expressed concerns about the adequacy of the FDC Top-Up and commented that:

several educators also raised concerns around the level of confidence and capability of the current FDC workforce, noting that inadvertent gatekeeping of children from FDC services may often be a result of fear of being unable to meet the needs of a child in a single educator residence. (DAE 2023, p. 109)

Inquiry participants noted that while the FDC Top-Up payments were crucial in FDC settings, the ISP criteria and administration processes were not practical for FDC services, and further changes were required (Family Day Care Australia, sub. 240, p. 20; ACSSO, sub. 283, p. 12; KU Children's Services, sub. 303, p. 13; Megan Blaxland and Dr Jennifer Skattebol, sub. 233, p. 1; The Front Project, sub. 227, p. 9).

In their research, Blaxland and Skattebol found that:

family day care services no longer try to apply for Inclusion Support Funding because they have determined that they will never successfully meet the funding criteria. In this regard, the ISP does not provide effective support to Family Day Care services. Family Day Care services decide not to apply for funding because of previous experience in having applications fail, not because of the adequacy of the Top Up. This is not to conclude that the Top Up is adequate, but rather its adequacy has not been well tested, having so rarely been granted. (sub. 233, p. 1)

To address these concerns, the ISP review recommended alternative funding arrangements and resources to increase FDC educators' capacity and capability (DAE 2023, p. 109). A new inclusion funding instrument, which allocates funding based on various child, family or service characteristics is discussed in section 2.7.

## **The ISP is not meeting its brief to develop workforce capability**

The 2023 ISP Review noted that the '[a]cademic literature spanning decades demonstrates that inclusive practice of educators is strengthened through ongoing professional learning and development' (DAE 2023, p. 96). And one service quoted in the Review report observed that additional educator funding 'does not help if that staff member, or existing staff members do not have the appropriate training in dealing with the actual issue that requires support and inclusion' (DAE 2023, p. 69).

Inquiry participants also underlined the importance of professional development and capacity building – in all areas of inclusion, such as cultural safety, developmental delay identification and trauma (ACA, sub. 255, p. 64; CYDA, sub. 238, p. 5; KU Children's service, sub. 303, p. 13).

But in a survey conducted with educators and service staff for the ISP review, when asked if they have the knowledge and skills to support children with additional needs, 9% strongly disagreed, 16% disagreed and 25% neither agreed nor disagreed (DAE 2023, p. 64).<sup>23</sup>

While the ISP is intended to develop workforce capability, the review found that:

it is not optimised to do so. Rather, the supports provided tend to be interpreted and applied as relief or capacity measures ... ISP has a strong architecture to build capability – but this is not currently used or distributed consistently and could be strengthened through a more direct focus on professional development. (2023, p. vi)

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<sup>23</sup> The remaining 38% agreed, 12% strongly agreed, and 1% responded as unsure to this question (DAE 2023, p. 64).

On the basis of this observation, to improve the ISP, the review suggested the Australian Government could:

Expand [the] scope of Inclusion Agencies to deliver targeted professional learning and development in effective inclusive practice to services accessing the [Program]. (DAE 2023, p. xxi)

Goodstart Early Learning also supported IAs expanding their professional development role:

We support an increased funding allocation to IAs to reinstate their role in professional development and training and to support inclusive practice uplift. This should include supporting ECEC services to understand their obligations under the Disability Standards for Education and enhanced Tier 2 support (NDIS Review). (sub. 277, p. 57)

Broader concerns about professional development are discussed in paper 3 (recommendation 3.11); this paper considers how professional development relating to inclusion can be ensured through a needs-based inclusion funding model (section 2.7).

### Three other concerns raised with respect to the ISP

During consultations as part of its inquiry, the Commission was told that some services turn children with additional needs away because they already have a number in the relevant care environment and can only have one additional educator.<sup>24</sup> But the ISP guidelines do not preclude multiple additional educators. And they permit an additional educator to be shared where a care environment includes more than one child with additional needs. The comments made to the Commission perhaps reflect a lack of awareness of the ISP guidelines.

The requirement that families provide evidence of high ongoing support needs becomes problematic when a family is unwilling to acknowledge that to be the case. It may be, for example, that a range of behavioural issues fit within this category. To the extent that it is the case, it particularly raises concerns about the support provided to children in lower socio-economic areas. Results from the AEDC show stark differences in the proportions of children with developmental delay by socio-economic status (SES). In 2021, just under 15% of children in the highest SES quintile were developmentally vulnerable on one or more of the AEDC domains, in comparison with just over 33% of children in the least advantaged quintile. For the domain of emotional maturity for example, which includes the absence of fearful behaviour, aggressive behaviour and hyperactivity and inattention, the AEDC results showed 6% of children from the highest SES quintile as vulnerable on this domain in comparison with 12.3% of children from the lowest SES quintile (DESE 2022, pp. 34–35).

Some inquiry participants submitted that services should be able to apply without the parent's consent (Goodstart Early Learning, sub. 277, p. 64). For example, a brief comment noted:

This funding is also given only if we have children with a diagnosis, however a lot of parents of 0–5 year olds are in denial but also sometimes the children just display challenging behaviours that does warrant a diagnosis, but we could do wonders if we could provide an additional educator in the rooms. (Brief comment 151)

The Commission also heard that families find the ISP confusing. While families have to submit evidence that their child has high ongoing support needs to receive additional educator funding, '[a]dditional Educators do not provide individual (one-to-one) support for a child who has additional needs, as they work as a team with other educators to meet the needs of all children within the care environment' (DoE 2023c, p. 26). Families can find it difficult to understand why their child is not receiving dedicated support.

<sup>24</sup> A care environment is a specific setting, room or grouping of children in ECEC services (for example, an educator's home in FDC or a 0-2 year-old room in Centre-Based Day Care) (DoE 2023c, p. 48).

The Commission also heard that some children benefited from one-on-one support, even though this was in some ways contrary to the overarching intent of the ISP, which is to build service capacity and capability.

## **Patterns of ISP use do not reflect need**

Evidence shows that ISP funding is not distributed in line with developmental vulnerability – the proportion of services receiving ISP funding varies little by the socio-economic status of communities (figure 2.7). This pattern might reflect the capping of ISP expenditure and consequent targeting of funding towards children with disability, who live in all parts of the country. But to some extent it might also reflect the fact that services in areas of lower socio-economic status charge lower fees (paper 6), meaning they are less able to cross-subsidise the costs of hiring an additional educator as the subsidy does not fully cover the wages paid and hours worked by additional educators (discussed below), and delays in subsidy receipt.

Whatever the cause of the patterns, the data strongly suggest that the children who would most benefit from an inclusive ECEC experience are more likely to be missing out on additional support. A distribution of funding more in line with the representation of developmentally vulnerable children in communities would be expected in an inclusive system.

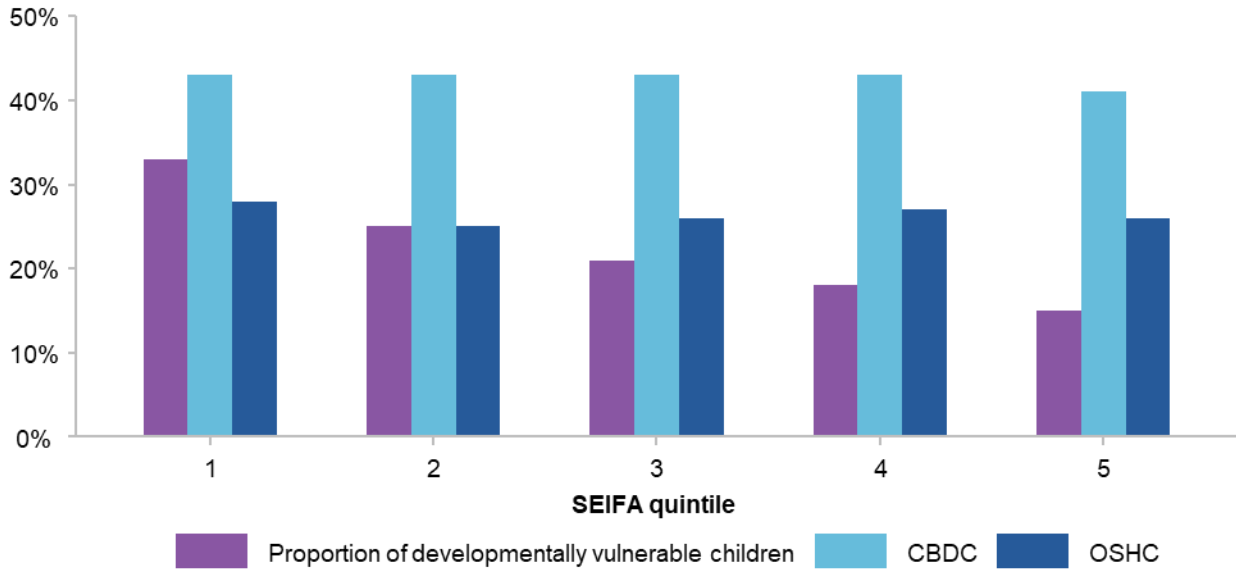
Some inquiry participants suggested that ISP allocation was likely dominated by large providers on the grounds that they had the administrative capacity to apply. The data do not support this contention. 39% of small providers received ISP in 2021-22. A similar proportion of services run by medium (36%) and large (37%) providers also received ISP funding.

There were however marked differences in receipt by ownership type and service size. Not-for-profit providers were more likely to receive ISP in 2021-22 than for-profit providers (41% versus 35%), small CBDC services (11 to 43 places) were less likely to receive funding than their larger peers, and the likelihood of an OSHC service receiving ISP increased with size (figure 2.8).

The difference by ownership type might reflect different motivations yet the gap is not large enough to suggest fundamental differences. The cost of cross-subsidising an additional educator might be material. As the ACCC noted, not-for-profit providers may have cost advantages in rentals and tax that they can direct into staff wages (ACCC 2023c, p. 54). These cost advantages would give some not-for-profit providers capacity to cross-subsidise the costs of additional educators. Similarly, larger services are likely to be in a stronger position to carry the cross-subsidisation than smaller ones.

**Figure 2.7 – IDF-AE funding is not concentrated where children experience developmental vulnerabilities<sup>a,b</sup>**

**Services receiving ISP by SEIFA quintile and service type, 2021-22 FY**



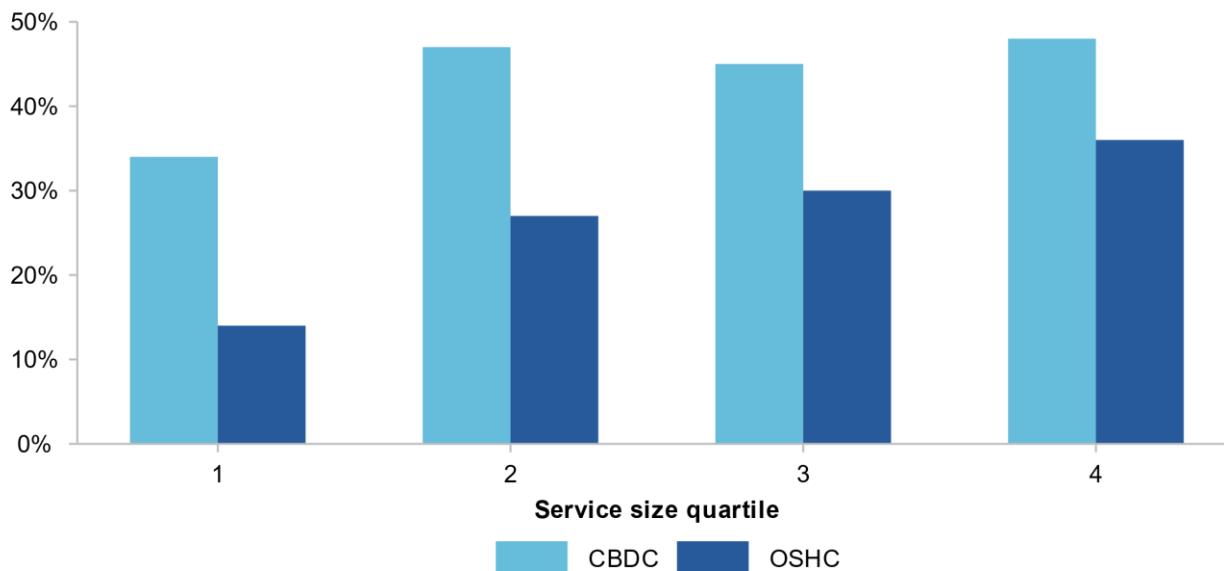
**a.** Proportion of developmentally vulnerable children is based on children who are developmentally vulnerable on one or more domains. **b.** SEIFA quintiles based on the Index of Relative Socio-economic Advantage and Disadvantage of the Statistical Area level 2 of the service.

Source: Productivity Commission estimates based on DoE administrative data (unpublished); AEDC (2021) Public table

by SEIFA 2009–2021, accessed 12 June 2024.

**Figure 2.8 – Smaller services are less likely to receive ISP funding<sup>a,b</sup>**

**Services receiving ISP by service size, 2021-22 FY**



**a.** Service size is based on the maximum number of children the service can care for at any one time. There were 11-43 places in the first quartile, 44-62 places in the second quartile, 63-89 places in the third quartile and 90-208 places in the fourth quartile. **b.** Across CCS-approved services, 7.5% were excluded from analysis because they could not be uniquely matched to data on service size or because they had an extreme value of service size.

Source: Productivity Commission estimates based on DoE administrative data (unpublished) and ACECQA (2023b).



**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.

**The ISP budget does not adequately reflect the program’s intent**

Many inquiry participants submitted that an increase in ISP funding was required to meet the application demand and to support services adequately.<sup>25</sup> In this context, a number mentioned the impact of COVID-19,

<sup>25</sup> Front Project, sub. 227, p. 9; NCEC, sub. 274, p. 6; Tyndale Christian School, sub. 215, p. 2; Goodstart Early Learning, sub. 277, p. 56; PRECI, sub. 249, pp. 5-6; Independent Schools Australia, sub. 251, p. 13; The Hive Mt Druitt (United Way Australia), sub. 234, p. 2; CYDA, sub. 238, p. 5; Guardian Childcare and Education, sub. 254, p. 7.



which is held to have been associated with a worsening of behaviour, mood, anxiety, stress, hyperactivity and inattention among children.<sup>26</sup>

These views align with findings from the 2023 ISP review, which found that '[d]emand for the Additional Educator Subsidy has grown consistently since 2016 and is now exhausting the program budget' (2023, p. 84). Given the prioritisation of children with disability diagnoses when demand exceeds the capped allocation, underfunding risks entrenching the ISP as a 'disability-only' program, with less focus on other additional needs and neglecting non-disability aspects of inclusion, such as cultural safety.

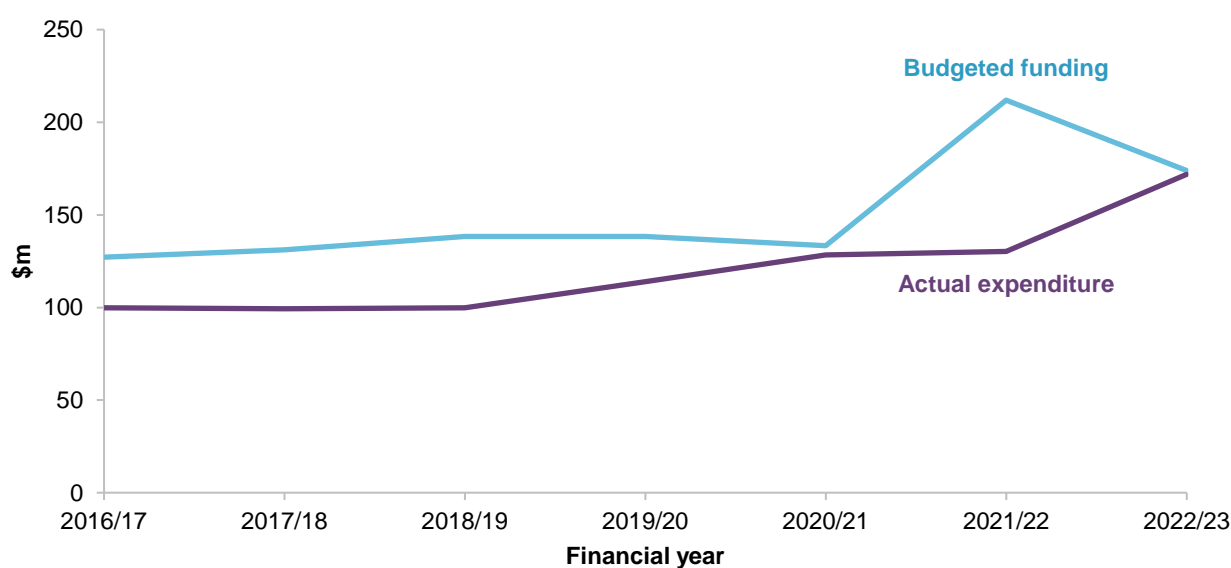
The review also identified resourcing limitations for both the IDFM and IAs, noting resourcing had not grown for these elements of the ISP since 2016 and had fallen in real terms budget' (2023, p. 81). It was also observed that services had reported delays in support and a decreased level of engagement from IAs (DAE 2023, pp. 111–112). Furthermore, only 42% of services agreed or strongly agreed with the statement '[t]he ISP is able to respond to an increased demand for support at the service, if required' (DAE 2023, p. 50).

The Australian Government's annual appropriation for the ISP is \$133 million (DoE 2024c), a similar figure to the level in 2020-21 (Bray et al. 2021, p. 9). As figure 2.9 shows, the Australian Government has topped up this figure in a number of years. For example, in response to the urgent challenges of COVID-19, an additional \$73.9 million was provided to increase access to additional educator subsidies (DESE 2021, p. 9). A top up was also provided in 2022-23 and the Australian Government has committed \$98.4 million for FY 2024-25 (DoE 2024c).

While the ISP budget has been underspent in many years since FY 2017 (figure 2.9), actual and budgeted expenditure coincided in FY 2023. The Australian Government Department of Education noted that the underspend reflected the need to budget for services to receive subsidy support for 52 weeks, but that some children did not need support for all of that timeframe (DoE, pers. comm., 20 June 2024).

**Figure 2.9 – Actual ISP expenditure has a history of being less than budgeted but the funding cap was met in 2022-23**

**Total ISP budget, FY 2017–2023**



<sup>26</sup> Australian Childcare Alliance, sub. 150, p. 45; Big Fat Smile, sub. 120, pp. 2–3; Outside School Hours Council of Australia, sub. 82, p. 3; Waverley Council, sub. 132, p. 4.

Source: DoE, pers. comm, 11 June 2024.

A number of factors support a conclusion that the ISP budget is inadequate:

- only 1.1% of enrolments received funding for an additional educator under the IDF-AE program in 2022-23 in contrast with the 22% of children found to be developmentally vulnerable on one or more of the AEDC domains and 15.3% of school children for whom adjustments to enable participation were funded (of whom 5.7% needed substantial or extensive adjustments)
- growth in demand for IDF-AE subsidies
- the fact that the program budget cap has been reached
- services' lack of confidence that the ISP could respond to an increase in demand
- patterns of ISP receipt by areas of socio-economic disadvantage and other provider characteristics.

The objectives of the program noted above and repeated below are not being met. The objectives of the ISP are to:

- support eligible mainstream ECEC services to improve their capacity and capability to provide quality inclusive practices for all children, to address access and participation barriers and to support the inclusion of children with additional needs, with their typically developing peers
- provide parents or carers of children with additional needs with access to appropriate and inclusive ECEC services that assist those parents or carers to increase their activity including work, study and training. (DoE 2023c, p. 8)

A proposal for a new funding approach is laid out in section 2.7. However, designing and implementing that approach would take time, and the ISP has a range of other problems that need immediate attention.

## **Immediate changes to the ISP are needed**

### **Eligibility rules restrict some children from receiving support**

Many inquiry participants submitted that requirements for diagnosis were a barrier to accessing the ISP.<sup>27</sup> The City of Sydney submitted that:

Inclusion Support Funding heavily relies on a diagnosis which can be problematic and exclude children who may be experiencing behavioural and emotional challenges that may not be easily diagnosed or do not have a diagnosis. (sub. 65, p. 12)

Feedback from inquiry participants also suggests that the ability for children to receive support without a diagnosis is not well enough understood. As noted by the Front Project:

We also support a broader definition of additional needs beyond formal diagnoses, recognising that many children may require extra support without having undergone a formal diagnostic process, and that there can be lengthy delays in the process of seeking assessment and diagnosis. Accepting evidence of additional needs in all circumstances for services seeking access to the Inclusion Development Fund Subsidy and the Family Day Care Top-Up is crucial to ensure equitable access to ECEC. (sub. 227, p. 10)

Goodstart Early Learning (sub. 277, p. 63) supported clarification of eligibility and evidence required for children without a formal diagnosis, noting that '[i]t is important that the documentary evidence requirements

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<sup>27</sup> For example, Australian Childcare Alliance, sub. 150, p. 12; Special Teaching and Research, sub. 87, p. 5; The Salvation Army, sub. 56, p. 15; Independent Schools Australia, sub. 251, p. 13; ACSSO, sub. 283, p. 12.

strike the right balance to ensure program integrity without creating an administrative barrier for children, families and providers’.

At a minimum, these requirements should be more clearly communicated to services and families.



### **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.

## **The subsidy design and rules for additional educators are restrictive**

Under the current rules, eligible services can apply for a subsidy to hire an additional educator on a short- or long-term basis (box 2.4). However, there are several shortcomings in the design of the additional educator subsidies, which limit the support provided to services and children.

### **The subsidy rate of \$23 per hour has not increased since 2016**

Many inquiry participants noted that the subsidy rate of \$23 per hour does not cover the actual costs of employing an additional educator (for example, Australian Childcare Alliance, sub. 150, p. 46; SDN Children’s services, sub. 63, p. 7; Early Childhood Australia, sub. 154, p. 52).

Where the inclusion funding was not enough to cover the additional educator cost, services need to make up the difference from other sources. Local Government NSW and Local Government Children’s Services Managers Group referred to one metropolitan council-run service that received \$660,000 through the ISP in 2023-24, but the actual cost of additional educators was \$1.3 million. The gap of \$663,000 was passed onto families who on average paid an additional cost of \$6 per day to support the funding gap (sub. 287, p. 11).

Goodstart Early Learning observed that the cost of supporting inclusion is continuing to rise. Where inclusion funding did not cover these costs, it prompted services to either re-direct their social purpose investment funding, increase fees to families, or not enrol children with additional needs, ‘creating disproportionate representation of children with additional needs in services that welcome all children’ (sub. 277, p. 63).

Services and stakeholders consulted in the ISP review also noted that the subsidy rate did not sufficiently cover the hourly pay rate of all additional educators. They also stated that this rate did not always reflect labour market expectations of higher wages in areas of workforce shortage (DAE 2023, p. 81).

A survey of services conducted in 2020-21 as part of the AIFS evaluation of the ISP suggested the mean cost to hire an additional educator was \$29 per hour in CBDC and \$30 per hour in OSHC (Bray et al. 2021,

p. 95).<sup>28</sup> The lowest award wage for an educator employed on an ongoing basis upon commencement, with no qualification, is currently \$23.11 per hour, rising to \$26.18 per hour for a certificate III qualified educator (Fair Work Commission 2013). This does not account for superannuation or any relevant casual loading. And rates rise with experience of up to two years. The award rate for a fulltime certificate III qualified educator with two years of experience is currently \$27.94.

There is a clear case for raising the subsidy rate to align more closely with the costs of employing an additional educator. If rates remain low, services will face a disincentive to enrol children with additional needs who require the assistance of an additional educator.

In its draft report, the Commission noted that it would be challenging to set a rate that would suit all circumstances, and suggested the median wage for a certificate III educator, indexed to the Wage Price index, could be appropriate. In addition, the Commission suggested that services that pay additional educators wages below this rate should only receive a subsidy of 100% of the actual wage paid.

Inquiry participants broadly agreed that increasing the additional educator subsidy to the certificate III median hourly wage was appropriate. Some advocated a higher rate, such as at a diploma-level wage with additional on-costs, or to match the NSW additional educator cost, approximating \$31–\$38/hr (Goodstart Early Learning, sub. 277, p. 61; Local Government NSW and NSW Children's Services Managers Group, sub. 287, p. 10; The Front Project, sub. 227, p. 9).

Nearly three quarters of Certificate III qualified ECEC workers had spent more than two years in the sector in 2021 (PC estimates, based on the ECEC National Workforce Census, 2021), meaning they would be paid the Children's Services Employee Level 3.3 rate. This rate would therefore correspond to the median wage for a Certificate III qualified educator that the Commission suggested could form the basis for the additional educator subsidy in its draft report. The hourly rate for this classification, augmented by the general super guarantee rate, could be used to set the subsidy rates in the additional educator programs. The subsidy rate could then change in line with the Children's Services Employee Level 3.3 classification, ensuring it remained in step with other wages in the sector. The Commission also considers that a process of identifying services paying additional educators below the subsidy rate and adjusting the subsidy paid would impose administrative costs that would outweigh any benefits. Services would likely need to report how much they paid additional educators and the Australian Government would require a mechanism to validate this information. Moreover, ideally services would only employ qualified workers with at least two years of experience to care for children with additional needs (whether educators or other inclusion support workers).

### **There are limits on the number of hours per week the additional educator subsidies can be claimed for**

The additional educator subsidy is not always available for the full number of hours the child attends ECEC (Australian Childcare Alliance, sub. 150, p. 45; Early Learning Association Australia, sub. 48, p. 8; Goodstart Early Learning, sub. 125, p. 60; The Y Australia, sub. 127, p. 11).

Limits on the number of hours per week that the additional educator subsidy can be claimed for vary depending on the service type and the number of children the additional educator is supporting. For a single child using a CBDC service the limit is 25 hours per week – although about 35% of children attend CBDC for more than 25 hours on average (PC estimates based on DoE administrative data). One inquiry participant described how families can sometimes be told that their child can only attend for the hours the additional educator is available (Association for Children with a Disability, sub. 78, p. 4).

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<sup>28</sup> Excluded rates of \$15 per hour or less and \$60 per hour or more. Survey conducted between December 2020 and February 2021.

There is no clear reason why a child should only have access to an additional educator for some of their attended hours, as children's needs for inclusion support do not change once the cap has been reached. These hours should be matched to a child's normal attendance hours to ensure services are not out-of-pocket where a child is unwell or otherwise absent with short notice.

### **Additional educators are required to meet NQF qualification requirements**

ECEC services cannot employ people with relevant experience and expertise in an adjacent sector as additional educators unless they also meet NQF requirements. The ISP review recommended considering expanding the subsidy to include other inclusion professionals in some circumstances, such as bicultural workers, community workers and other relevant professionals (DAE 2023, p. 113). This would require changes to the NQF.

The Commission's draft report recommended expanding the range of additional educators, and many inquiry participants supported this recommendation.<sup>29</sup> However, there were mixed views from other inquiry participants. One participant noted that implementation of this recommendation would devalue the role of educators (UWU, sub. 222, p. 48). The Front Project wrote:

Whilst we agree that workers from other relevant professions may bring appropriate skills and expertise to the role of an additional educator, maintaining the integrity of minimum qualification requirements is important to ensure staff are working with a reasonable understanding of early childhood pedagogy and practice. (sub. 227, p. 11)

The NSW Aboriginal Education Consultative Group suggested hiring Aboriginal community members with valid working clearances as additional educators to provide culturally appropriate support to Aboriginal and Torres Strait Islander children (sub. 217, p. 18).

The Commission continues to consider there is merit in expanding the range of professionals who can work as additional educators. Workers from other human services sectors, such as those in disability, aged or youth care, may have transferrable and specific skills that may be beneficial in the role of an additional educator. Expanding the criteria of an additional educator may increase the immediate availability of additional educators and benefit children who require this support. To ensure children's needs are met, a list of approved qualifications or characteristics should be developed by the Australian Government Department of Education, recognising the diverse needs of children. Additional educators should still be required to comply with working with children checks and any other relevant measures designed to ensure the safety of children.



#### **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.

<sup>29</sup> Guardian Childcare and Education, sub. 254, p. 7; NSW Aboriginal Education Consultative Group Inc, sub. 217, p. 18; Queensland University of Technology School of Early Childhood and Inclusive Education, sub. 205, p. 4; Speech Pathology Australia, sub. 210, p. 2; SNAICC, sub. 290, p. 20; The Y Australia, sub. 253, p. 17.



### Finding 2.8

#### Subsidy design and rules for additional educators are unduly restrictive

- 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.

## Services find applying for funding unduly burdensome

As noted above, to access funding under the IDF, services are required to complete an application and a SIP, both of which are managed through the IS Portal. For the IDF Subsidy for an Additional Educator and the FDC Top Up, documentary evidence is also required, which must be sourced from families.<sup>30</sup>

In terms of processing times, the IDFM is contracted to process and notify services of their application outcome within five business days for Immediate/Time-Limited support (I/TL support) or urgent IDF-AE Subsidy applications and 15 business days for additional educator and routine IDF-AE Subsidy applications. Additionally, IDFM is required to notify IAs within five business days if an application is incomplete or requires further information (DoE 2023c, p. 12).

Some data on processing times suggests that particularly long waits for a response to an application for support might be uncommon. In 2022-23, all applications for I/TL support, FDC Top-Up and IDF Subsidies were opened by the IDFM within five days of being submitted by services (DoE, pers. comm., 11 June 2024). When assessed by the IDFM, all I/TL applications were ready to provide an (approved or rejected) outcome within five days. For the IDF-AE Subsidy or FDC Top-Up streams, 28% of applications were provided an outcome in under five days, 52% between 10–14 days, 9% between 15–19 days and 11% between 20–25 days (DoE, pers. comm., 11 June 2024).

While this data suggests that slow processing times may not be a widespread issue, some inquiry participants noted that they can wait months for applications to be approved (Early Learning Association Australia, sub. 48, p. 8; The Parenthood, sub. 122, p. 6). More generally, the Commission heard in a range of consultations, visits and public hearings, from services that have experienced extended waiting times, and that these impacted their financial viability. These views broadly align with findings from the ISP review, which noted services reported delays in receiving support and found the application process for additional educators burdensome (DAE 2023, pp. xvii, 78–79, 111).

The difference between the data from 2022-23 and services reported experiences would appear to be one of timing. The Australian Government Department of Education noted that timeframes have increased in 2024 due to increased application numbers and incomplete applications (DoE, pers. comm., 20 June 2024). As some inquiry participants suggested, IAs and the IDFM can struggle to keep up with demand for IDP-AE Subsidy. This suggests that the funding for these agencies may not be adequate.

A consequence of these delays is that services bear the full financial cost of hiring an additional educator while waiting for the subsidy. The Commission heard of one small service that enrolled a child whose high

<sup>30</sup> The IS Portal is an online platform that services use to interact with the ISP. Services can use the portal to develop a SIP and access support through the IDF.

needs were clearly documented in their application paperwork. The child needed one-on-one support, and the service employed an additional educator to cover all of the hours that the child attended the service. An application for IDF-AE was lodged within a month of the child joining the service, but not approved until three months later, following weekly emails and calls from the centre director to the IDFM trying to get a decision. Services do not receive the subsidy for care provided before a subsidy is approved.

Delays in application processing times add to the financial burden on services in cross-subsidising support for children with additional needs. The disincentive to services to enrol some children is clear.

Inquiry participants also highlighted other areas of concerns associated with the ISP application process, including:

- difficulty using the IS Portal, which one participant noted dissuades some services from submitting applications (Australian Childcare Alliance, sub. 150, p. 45)
- concerns about the burden or complexity of the application process (Australian Childcare Alliance, sub. 150, pp. 45–47; National Outside School Hours Services Alliance, sub. 103, p. 4; Outside School Hours Council of Australia, sub. 82, p. 3; Sandgate Kids Early Education, sub. 51, p. 2)
- for the IDF-AE Subsidy, requirements to review the SIP and seek reapproval when there are changes to the care environment, such as a child changing rooms (Australian Childcare Alliance, sub. 150, p. 74; Goodstart Early Learning, sub. 125, p. 58)
- struggling with the amount of administration work (such as weekly update reports for each child to sustain funding) in centres with significant numbers of children with additional needs (The Hive Mt Druitt (United Way Australia), sub. 234, p. 2).

The ISP review also highlighted that nearly all stakeholders consulted identified the IS Portal as one of the largest barriers to accessing the program (DAE 2023, p. 98). The Commission notes the Australian Government Department of Education and Services Australia is working on enhancements to the IS Portal, to be delivered by June 2024 (DoE, pers. comm, 31 October 2023). The department should continue to monitor the impact of these changes and whether further adjustments are necessary.

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.

### **Immediate/Time-Limited support changes**

The ISP guidelines state that an application for I/TL Support can be approved for up to 12 weeks and up to 25 hours per week, and services do not require a diagnosis or SIP to receive this support (DoE 2023c, pp. 23–25). While it appears that I/TL Support is designed to support the immediate inclusion of a child with high support needs, services are discouraged from using it when the child appears to have longer-term needs. As per the guidelines:

The program acknowledges that younger children, in particular, face delays seeking and obtaining disability diagnosis. As such, the program may provide Immediate/Time-Limited support for all children with additional needs (regardless of diagnosis). (DoE 2023c, p. 7)

However, the guidelines also state that:

If services believe longer term support will be required beyond 12 weeks, then services should apply for IDF Subsidy for an Additional Educator in the first instance. (DoE 2023c, p. 23)

As data presented above show, of 18,300 cases receiving ISP payments in 2022-23, only 1,951 received I/TL support (DoE, pers. comm., 11 June 2024). Applications of this nature have historically been much lower than the IDF-AE subsidy (figure 2.5).

Given periodic challenges with application delays, and the guidelines' acknowledgement of diagnosis delays, I/TL Support could be an effective avenue for increasing the responsiveness of additional educator subsidies. It is likely that in many cases, given the most common disabilities listed in 2022-23, a child's needs will not change, and the service would apply for a long-term IDF-AE Subsidy.

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 using 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 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.





### 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.

## Inclusion programs require greater coordination

### States and Territories also provide inclusion funding in ECEC

States and territory programs to support inclusion (box 2.7) are largely focused on supporting children in preschool programs.

There is diversity in the programs offered. In some respects, this is appropriate, given the varying mechanisms through which states deliver preschool and intervene in ECEC markets. However, it also means children receive different support based on the type of service they attend (section 2.6).

#### Box 2.7 – Examples of state and territory inclusion programs

States and territories also fund programs to support inclusion, predominantly targeted at services delivering preschool programs. Examples are provided below.

##### Victoria

- The **Kindergarten Inclusion Support** program provides support for funded preschool services to enable greater inclusion of children with disability, developmental delay or complex medical needs. Support includes specialist training and consultancy for educators and additional staffing support.
- **School Readiness Funding** provides needs-based funding to services delivering state-funded three and four-year-old kindergarten programs. Services receive funding based on the profile of children enrolled and can choose from a menu of supports to meet the needs of children.

### **Box 2.7 – Examples of state and territory inclusion programs**

- The **Early Childhood Language Program** allows participating preschools to employ a language teacher to deliver part of their four-year-old kindergarten program in another language.

#### **Queensland**

- The **Kindergarten Inclusion Support Scheme** supports preschool services to provide inclusive programs that reflect needs, including those of children with a disability.
- The **Kindy Uplift Program** enables selected preschool services, including community kindergartens and long day care services, to respond to the educational and developmental needs of kindergarten children. It funds programs, resources, supports and professional development.

#### **New South Wales**

- The **Disability and Inclusion Program** provides funding and support to enable the participation of children with disability or additional needs in not-for-profit community preschools.
- The **Ninganah No More** program provides grants to early childhood education service providers and recognised Aboriginal and Torres Strait Islander organisations to teach Aboriginal languages in not-for-profit long day care services and mobile or centre-based community preschools in select regions.

#### **South Australia**

- **Intervac funding** is available for approved outside school hours care services to subsidise an additional educator to support children with additional needs. The funding provides short-term assistance while services apply for the Australian Government's Inclusion Support Program. Services become ineligible for Intervac funding once eligible for the ISP.
- The **Inclusive Education Support** program provides funding for students with disability to receive additional support from their school or preschool.

Source: New South Wales Government Department of Education (2023c, 2023d); Queensland Government (2018, 2021); South Australian Department for Education (2022; 2022); Victorian Government (2023a, 2023b, 2023c).

### **Multiple programs unnecessarily burden services and families and lead to inequitable treatment of children**

Some states and territories provide inclusion programs for children attending dedicated preschools only, while others also offer programs for children attending a preschool program through CBDC (two examples are provided in box 2.8). In some cases, this may mean there are two programs available to a child and service, who then have to manage interactions between the two and make multiple applications or complete multiple pieces of paperwork. Similar challenges can confront children attending both dedicated preschools and CBDCs. The situation also means that children can receive different support based on the setting they attend and the jurisdiction in which they reside.

## **Box 2.8 – Examples of inclusion support for children in preschool**

### **New South Wales**

New South Wales provides an inclusion program for children attending dedicated preschools but no support for children attending a preschool program through CBDC. The latter need to rely on the Australian Government's Inclusion Support Program (ISP) instead. This means the support received by a child varies by the setting they attend.

For example, not-for-profit community preschools may be eligible for various components of the Disability and Inclusion program. These include:

- High Learning Support Needs funding can be used for an additional educator to support a child
- Inclusive Environments funding that covers minor environment adjustments and specialised educational equipment/furniture
- the Sector Capacity Building Program, a training and support program for preschool staff, delivered by an Early Childhood Intervention Service, to support staff to implement inclusive education practices and enhance inclusion readiness
- Early Childhood Inclusive Education Scholarships, a scholarship program for early childhood teachers to undertake a postgraduate qualification in early childhood inclusive education.

Under the ISP, CBDCs delivering a preschool program can receive funding for an additional educator or access the specialist equipment library, similar to the first two components of the NSW program. However, the service will not be eligible for supports similar to the latter two components.

### **Victoria**

In Victoria, state inclusion programs such as the Kindergarten Inclusion Support (KIS) program and School Readiness Funding cover children attending both dedicated preschools and a preschool program through CBDC. Children attending a preschool program in CBDC are also eligible for ISP.

This means children attending a preschool program are eligible for the same level of support, regardless of setting. But it also means services and families have to manage interactions between state programs and the ISP. For instance, 'Additional Educator Funding' from the ISP may be combined with supports provided under KIS, with services having to apply for KIS first and ISP then making up any shortfall.

Source: Victorian Government Department of Education (2023b); New South Wales Department of Education (2023c).

Discrepancies between state and territory and Australian Government approaches to inclusion support can create uncertainty or confusion for services.<sup>31</sup> Inquiry participants noted that the consequences of these issues included additional application burdens for families (Association for Children with a Disability, sub. 78, p. 4) and children attending state and territory funded programs that do not attract CCS are not receiving equitable access to ISP funding (ACT Government, sub. 27, p. 4).

<sup>31</sup> DAE 2023, p. 23; OSHCA, sub. 232, p. 26; PRECI, sub. 249, p. 6; Independent Schools, sub. 251, p. 14; Association for Children with a Disability, sub. 78, p. 4.

Many inquiry participants broadly agreed that greater coordination between governments is needed, particularly for services where there are limited state inclusion programs.<sup>32</sup> The Australian, state and territory governments should work together to consider reducing application requirements where there are multiple programs available to the one service.



### 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.

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.

<sup>32</sup> Some examples of submissions that supported greater coordination include: Queensland University of Technology School of Early Childhood and Inclusive Education, sub. 205, p. 5; Front Project, sub. 227, p. 14; Independent Schools, sub. 251, p. 14; OSHCA, sub. 232, p. 26; PRECI, sub. 249, p. 6; ACA, sub. 225, sub. 18; Goodstart Early Learning, sub. 277, p. 61.

**Recommendation 2.2****Enhancing the Inclusion Support Program should be an immediate priority**

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.

## **2.5 ECEC systems can also support inclusion through connections beyond the sector**

### **ECEC services can help identify and connect children who require support from other services**

ECEC services can do a great deal to promote the inclusion of children with additional needs. But some children will need (or would significantly benefit from) a level of support beyond that within the expertise of educators and other service staff. ECEC services can play a role in connecting children (and families) to other support services. At a minimum, they can play a role in identifying children who may require additional support from other services, such as allied health or community services. While this support would be intrinsically valuable to children's wellbeing and inclusion in many aspects of their lives, it might also enable their better inclusion in ECEC.

ECEC staff may be well positioned to identify developmental delays in children or additional support needs, given the extended time they spend with children and their ability to observe how children are developing in comparison to their peers. By extension, this also means staff and services may be well positioned to identify children who are at risk of abuse or neglect. While child protection legislation varies in each state and territory, educators and/or ECEC staff are generally mandatory reporters (AIFS 2023).

Identification and referral requires staff to have both appropriate knowledge and adequate time and resources. There is evidence some services are facilitating both connections and referrals. For example, work undertaken for the SA Royal Commission into ECEC suggested that almost all CBDC services in South Australia identified needs and offered direct supports or referrals where they could (SA Government 2023b, p. 35).

Several inquiry participants expressed an expectation that ECEC services play this role, with some suggesting ECEC should be the backbone of a child development system (for example, Centre for Policy Development, sub. 156, p. 47; Brotherhood of St. Laurence, sub. 96, p. 6; The Bryan Foundation, sub. 123, p. 8; Royal Far West, sub. 41, p. 7).

While some services may be well-equipped to identify children's needs or provide connections to other services (such as integrated settings discussed in paper 7), some may not be. Support for broader professional development is recommended in paper 3. And paper 7 recommends that as part of a new inclusion funding approach, ECEC services be enabled to use inclusion funding to liaise and coordinate with other services that a child may require or be accessing. A new approach is discussed in section 2.7.

## The interface between ECEC and the NDIS

One particular area of connection between ECEC and other services lies in the support provided to children through the NDIS. Inquiry participants and other reviews have highlighted a range of concerns about the interface between ECEC services, the ISP and the NDIS.

The NDIS, including through its Early Connections Program, supports children who may have a developmental delay or disability. A growing number of children receive NDIS early intervention and scheme support.

As at 31 March 2024, just over 153,000 children younger than nine have an NDIS plan (23.6% of all NDIS participants), with almost 10,800 more accessing the Early Connections Program (NDIA 2024, p. 14). This equated to 5.2% of children in this age group.<sup>33</sup> As of 18 January 2024, there were just over 3,100 service providers registered under 'early intervention supports for early childhood' (NDIA 2023, p. 19).<sup>34</sup> Inquiry participants' raised concerns including rigidities in applying NDIS funding in an ECEC setting, disconnections between the NDIS and ECEC systems and instances of children being unable to use their NDIS package in conjunction with the ISP (Centre for Excellence in Child and Family Welfare, sub. 59, p. 2; G8 Education, sub. 68, p. 10; SDN Children's Services, sub. 63, p. 9).

Others described how the introduction of the NDIS has resulted in a lack of investment in broader mainstream services and impacted the delivery of ECEC (Brotherhood of St. Laurence, sub. 96, p. 6; Community Connections Solutions Australia, sub. 105, p. 11; Early Childhood Australia, sub. 154, p. 52).

The New South Wales Independent Pricing and Regulatory Tribunal (NSW IPART) review of ECEC heard concerns about delivery of therapies in early childhood settings to children with disabilities, including those with NDIS funding, by allied health professionals. While this offers more choice for families, it can be disruptive for ECEC services and places a coordination burden on staff (NSW IPART 2023b, p. 56). The review found there was scope to improve allied health service provision within early childhood services to minimise disruption, reduce burdens and increase efficiency, and achieve better collaboration between ECEC staff and therapists (NSW IPART 2023b, pp. 56–58).

Stakeholder consultations conducted as part of the ISP review highlighted that the introduction of the NDIS and its emphasis on personalised support for children with disabilities has created obstacles in effectively communicating the intent of the ISP to families. The review noted that the ISP, primarily aimed at fostering inclusive practices across services, is at odds with the individualised approach taken by the NDIS (DAE 2023, p. 70).

There are also other intersections between the NDIS and ISP. For example, in 2022-23, a NDIS plan/letter was the most common (55%) type of evidence received in regards to ISP applications (figure 2.5).

As discussed below (section 2.6), the recent review of the NDIS is likely to have profound effects on the ECEC sector. A new inclusion funding instrument (section 2.7) could better enable provision of direct disability or developmental delay supports (such as early identification or intervention programs in ECEC) alongside funding elements that services may require when supporting children with individualised NDIS plans (such as time-off-the-floor for NDIS plan development).

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<sup>33</sup> Based on children aged 0-9 in ABS National, state and territory population as at 30 June 2022 (ABS 2024, tbl. 7).

<sup>34</sup> Types of service providers may include direct personal care (support work), plan management and allied health services such as Occupational Health, psychology, social work or counselling.

## ECEC services can support transitions to schools and between settings

Clearly, the benefits, and importance, of inclusion do not end when a child starts school. Transitions between ECEC and school (and transitions between ECEC settings for some children, such as between OSHC, preschool and CBDC) are significant milestones for children and their families. Successful transitions lead to better learning and development outcomes (AERO 2022b). In other words, successful transitions can contribute to a child's inclusion in a new learning or care environment.

The importance of transitions and continuity of learning is recognised in the NQF and the approved learning frameworks. Under Quality Area 6 of the NQS, services are required to support continuity of learning and transitions for each child by sharing information and clarifying responsibilities (ACECQA 2023a, p. 95). Continuity of learning and transition is included as a practice in the national learning framework for children aged zero to five, while continuity and transitions is a practice in the national learning framework for school-aged children (DoE 2022a, pp. 24–25, 2022c, pp. 25–26).

ECEC services can help support these transitions by facilitating information sharing and supporting continuity of learning.

### The effectiveness of transition to school statements is unclear

Several states and territories use transition to school statements. These are completed by a child's educator prior to them commencing school and are compulsory in some jurisdictions (table 2.1).

The evaluation of the NSW Transition to School Statement in 2015 found that while it was impossible to determine whether statements had improved transitions to school, they were valued among the stakeholders who used them (NSW Centre for Education Statistics and Evaluation 2015, p. 5).

AERO noted that information about children's capabilities is collected in a range of ways, including observations and assessments that happen within ECEC services. It stated that:

When this information is interpreted through the lens of transitions to school and shared between ECEC and schools it can be valuable for identifying what kinds of support a child might need, or which strengths can be celebrated and leveraged to help them through the transition process. (2022a, p. 8)

In response to an information request in the draft report, some inquiry participants observed that the statements were inconsistent between state or territories, time-consuming and should be 'put on hold' until workforce shortages are addressed (KU Children's services, sub. 303, p. 15; Early Childhood Teacher Education Council, sub. 246, p. 5). The Australian Childcare Alliance also noted variation in the effectiveness of statements depending on the level of state or territory support provided, statement format type, existing relationships between ECEC and schools and parental consent (sub. 255, p. 69).

**Table 2.1 – Several states and territories have transition to school statements<sup>a</sup>**

**Summary of transition to school statements in states and territories**

	Name	Details	Requirements to complete
<b>NSW</b>	Transition to School Statement	Completed by a child’s educator and summarises the child’s strengths, interests and approaches to learning.	Compulsory for services receiving preschool funding under the Start Strong program.
<b>Vic</b>	Transition Learning and Development Statement	Comprises sections completed by a child’s educator, the child and the child’s family. Families are given an opportunity to opt out before the statement is shared with the school. Funding of \$9 per child is provided to contribute towards releasing ECTs to complete the statement.	Kindergarten funding conditions require that every child transitioning to school has a statement.
<b>QLD</b>	Kindergarten Transition Statements	Kindergarten teachers complete and provide a snapshot of the child’s knowledge, skills and dispositions for learning.	Only compulsory for children attending a Queensland Government approved kindergarten program for at least 15 hours a week.
<b>SA</b>	No information available publicly.		
<b>WA</b>	No information available publicly.		
<b>TAS</b>	No information available publicly.		
<b>NT</b>	Early childhood transitioning to school – child transition statement	Teachers and educators are responsible for completing a statement for each child in their preschool or Families as First Teachers program.	No information available publicly.
<b>ACT</b>	Continuity and Transitioning Statement	The statement is for children transitioning from ECEC services to four-year old preschool rather than the first year of full-time school and captures educator, child and family reflections.	No information available publicly.

a. Based on publicly available information. State and territory governments may have internal school procedures, particularly where preschool is delivered through schools.

Source: Australian Capital Territory Government (nd), New South Wales Department of Education (2023a, 2023b, 2023e), Northern Territory Government Department of Education (2023), Queensland Curriculum and Assessment Authority (2021, 2023), Victorian Government (2023d).

**But effective transitions require more than statements**

Some inquiry participants raised broader concerns related to transitions and pointed to the need for greater collaboration between schools and ECEC providers. Expanding on this, KU Children Services noted:

Transition to school strategies need to go beyond a developmental summary that unpredictably results in continuity of learning for children. There needs to be a consistent transition process that promotes professional collaboration between prior to school and school settings and includes children and families in the process. An investment of time is needed for teachers and educators to discuss the statements with families and schools. Synergies and learnings from the family environment and prior



to school settings need to be valued and respected as foundations of children's learning and used as a pathway to successful orientation to the school setting. (sub. 303, p. 15)

In its discussion paper AERO noted that effective transitions occur when 'the child feels a sense of belonging in their new community' (2022a, pp. 4, 12–13). This feeling results from interactions with their teacher, curriculum, peers, capacity to succeed in school, cultural identity and by being themselves. This may take 'many months, even years' to occur, and is an ongoing process between educators, schools, families, communities and systems. AERO identified ongoing collaboration and communication between ECEC services and schools as necessary to measure the quality of practices that support effective transitions. To achieve this, AERO suggested that ECEC services and schools should:

- critically reflect on the effectiveness of their collaborative processes
- highlight everyday successes as well as visible gaps
- recognise the need for responsive practice depending on the child's diverse needs and that specific practices might be needed for children with disabilities and developmental delay, children experiencing disadvantage, children from language backgrounds other than English, or for Aboriginal and Torres Strait Islander communities and individuals. (2022a, pp. 11–12)

In other words, effective transition requires more than transition to school statements alone.

Some jurisdictions are bringing this focus to supporting transitions from CBDC-based ECEC to publicly provided preschool. For example, the ACT Preschool Pathways Program offers strategies and resources to support educators and families in their child's transitions to public preschool. This program includes a Preschool Pathway Partner, which works with services, fostering connections between CBDCs and public preschools, and collaborating with families to address inclusion-related issues (ACT Education Directorate 2024).

To improve transitions to school, it is likely that better data is needed to accurately capture children's needs. A 2023 review of the Australian education system found AEDC results do not track whether groups of children 'found to be developmentally at risk or developmentally vulnerable catch up' (DoE 2023b, p. 50). It also found that governments should 'leverage the work being undertaken through the Preschool Outcomes Measure', to better understand transitions to school and support effective early screening mechanisms. With this greater understanding, further consideration should be given to the mechanisms needed to increase the effectiveness of the transition process and how these might apply to all jurisdictions in the future. As Australian, state and territory governments clarify responsibilities and streamline inclusion funding programs (recommendation 2.3), governments should also consider transition-related issues, such as additional fundings and mechanisms that may be required.

## **Transitions for Aboriginal and Torres Strait Islander children and families**

In 2013, SNAICC conducted research on transitions to full-time school for Aboriginal and Torres Strait Islander children. The work found that successful transitions enabled Aboriginal and Torres Strait Islander children to feel comfortable and engage in their class, school and community, and involved families and local Aboriginal communities throughout the process (SNAICC 2015, pp. 10–12).

In a following report, SNAICC also stated that successful transitions provided health, learning development and relationship benefits for Aboriginal and Torres Strait Islander children, noting that:

... significant barriers still exist in achieving this. The effects of colonisation endure today in the lack of trust of and disengagement from educational institutions experienced by many Aboriginal and Torres Strait Islander people, and in the significant additional challenges experienced by a

number of Aboriginal and Torres Strait Islander children in smoothly transitioning to school. (SNAICC 2015, p. 35)

It recommended that governments invest in 'high quality, evidence based and locally designed and driven transition programs in the year prior to school' and cultural competency training and resources be developed for schools and ECEC organisations (SNAICC 2015, p. 35).

Support from members of the local Aboriginal community were found to be helpful 'to assist Aboriginal children in bridging the gap between their different cultural contexts' through their experience of language, dialect and culture (citing Ellis et. al., 2015 and Maher & Buxton, 2015 by Webb 2022).

### **Transitions between school and outside school hours care providers can also be improved**

Similarly, transitions between school and OSHC could be improved through better communication and planning.

The Community Child Care Association (sub. 111, p. 16) suggested that 'a stronger emphasis on the transitions between school and OSHC is vital to support children's learning, wellbeing and development more holistically. Unfortunately, to a large extent, the OSHC sector and schools continue to operate as silos'.

Through its consultation with children, Griffith University noted that more clearly planned physical spaces would support easier transitions between locations on school sites and that there is an opportunity to develop OSHC precincts as part of broader school building plans (Cartmel et al. 2024, pp. 35–36). The latter was also noted by the National Outside School Hours Services Alliance (sub. 103, p. 2).

More broadly, the consultation noted the value of a collaborative relationship between an OSHC service and host school to ensuring that the quality of the OSHC program and child safety is not compromised.

## **2.6 NDIS changes are likely to profoundly affect ECEC**

A review of the NDIS was announced in October 2022, with the review panel delivering a final report to the Australian Government in December 2023 (PM&C 2023, p. 22). The review found that:<sup>35</sup>

Approximately 20 per cent of children experience learning difficulties, developmental concerns, developmental delay, or are found to have disability ... This means that support for children with disability and learning difficulties is a mainstream issue, not a marginal issue and must be addressed systemically. (2023, pp. 41, 116)

The review also found that:

The inadequacy of ... supports outside the NDIS results in poor outcomes for families and children and drives many to seek access to the NDIS because there is nowhere else to go. Situating early supports inside the NDIS disconnects children from mainstream services that promote positive child development. (2023, p. 58)

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<sup>35</sup> While the figure of 20% is drawn from the AEDC and reflects the percentage of children found to be developmentally vulnerable on at least one domain (22% in 2021) (DESE 2022, p. 8), it is very similar to the percentage of school children with disability recorded in the Nationally Consistent Collection of Data on School Students with Disability (box 2.10).

## Potential implications of the NDIS review for ECEC

### The review recommended significant changes to the supports provided to young children

The review recommended significant changes to the supports provided to families and children and set out a new approach to achieve better outcomes for young children, involving more and better support, both within and outside of the NDIS. The approach called on National Cabinet to jointly invest in a new approach via a continuum of supports involving (PM&C 2023, pp. 41, 124):

- **mainstream supports** (including better screening to enable early identification of children with developmental concerns in mainstream settings, and inclusive education)
- significant investment by governments in **foundational supports** outside the NDIS (including expanded supports for children with emerging developmental concerns and disability)
- a reformed early intervention pathway within the NDIS to provide **specialist supports** to children with higher levels of need.

The review also recommended (PM&C 2023, pp. 41, 126):

- early intervention services based on best practice principles and evidence
- far greater consumer education and information and support for provider workforce development
- delivery of support in natural settings wherever possible — homes, early childhood settings and schools
- Lead Practitioners to work with families to identify and address needs, connect them to foundational and mainstream supports, and provide information, advice and coaching to support their child's development.

And concluded that:

Our recommendations will support more children in existing services, such as maternal and child health, integrated child and family centres, early childhood education and schools — reducing the need for families to access the NDIS and leading to better long-term outcomes for children. (2023, p. 42)

Mainstream and foundational supports are to be delivered outside the NDIS. ECEC services would likely be a key setting.

Inquiry participants generally agreed to the integration of envisioned mainstream and foundational supports into ECEC, while noting that considerable structural change would be needed to support this.<sup>36</sup> For example, the Parenting Research Centre commented that:

The rising numbers of families likely to be seeking support through NDIS, paired with increased expectation for ECEC services to support these children through greater inclusiveness and the delivery of mainstream and foundational services, means that more will be needed to equip ECEC services and educators with the tools to meet children's needs. (sub. 328, p. 5)

### The initial Australian Government response to the review sets up changes in the delivery of supports to young children

The Australian Government provided its first legislative response to the NDIS Review on 27 March 2024, through the National Disability Insurance Scheme Amendment (Getting the NDIS Back on Track No. 1) Bill

<sup>36</sup> Some examples of submissions that supported this include: PRECI, sub. 249, p. 3; CYDA, sub. 238, p. 5; Local Government NSW and NSW Children's Services Managers Group, sub. 287, p. 11; Goodstart Early Learning, sub. 277, p. 55.

2024 (the Bill). The Senate referred this Bill to the Community Affairs Legislation Committee for inquiry, with a report due by 20 June 2024 (The Parliament of the Commonwealth of Australia 2024).

The explanatory memorandum notes that the Bill includes a new section (10) which defines the kinds of supports that the Commonwealth is constitutionally capable of funding. Section 10 also allows NDIS rules to be made that narrow the scope of these supports to those that are, and are not, appropriately funded by the NDIS (The Parliament of the Commonwealth of Australia 2024, Schedule 1, pp. 2–3).

Until the new rules are made, the Bill includes a transitional provision that states that any supports mentioned as responsibilities of ‘other parties’ in the Applied Principles and Tables of Support (APTOS) are not NDIS supports (item 124(3)). APTOS sets out principles used to determine the responsibilities of the NDIS and other service systems and assigns the ECEC sector responsibilities:

for meeting the education and care needs of children with a development delay or disability, including through:

- a. reasonable adjustment;
- b. inclusion supports that enable children to participate in early childhood education and care settings; and
- c. building the capacity of early childhood education and care services to provide inclusive education and care to all children, including those with high needs subject to reasonable adjustment. (DSS 2015, p. 10)

Assuming the Bill is passed, and the new rules reflect the recommendations of the NDIS review that children receive mainstream and foundational supports in settings including ECEC, the implications for the ECEC sector could be profound.

## **Reshaping supports for young children with learning difficulties, developmental issues and disability will require investment in the ECEC sector**

Effective implementation of the new rules could require significant investment in the ECEC sector, particularly in the capacity and capability of the workforce. The extent to which this is funded by governments or families is a decision for policymakers. But the NDIS has created an expectation of substantial government support.

Just how much more investment would be required to effectively support families and children is unclear. The Actuaries Institute estimated that ‘approximately \$5 billion of current NDIS spending for children with autism or developmental delay could be spent in a more sustainable way and in line with the social model of disability’. It stated:

This investment could be used to boost the capabilities of early childhood specialists, upskill professionals in mainstream sectors with specialist disability qualifications, and refocus the ECEC system towards building capacity in the community rather than individual provider profit from a model of repeat services. (Ranjan and Lowe 2023, p. 8)

## **2.7 A new approach to supporting inclusion in ECEC?**

Inquiry participants and others have recommended that the ISP is replaced with a new approach to supporting inclusion in ECEC. The approach would involve a new funding instrument. Paper 9 develops a set of principles to guide design of funding models, and their component elements.

This section outlines the suggested new approach, describes potential characteristics of a new funding program and compares it with the ISP using the principles developed in paper 9.

## Views about the need for a new approach to funding inclusion

### A child-centred, needs-based inclusion funding instrument

A number of inquiry participants argued that needs-based funding is needed to achieve equitable ECEC.<sup>37</sup>

Providing needs-based funding should be considered as a future direction to resource delivery of universal, inclusive services, including the increased costs associated with supporting children with disability and/or complex needs. This funding would complement the existing individualised approaches and help to provide certainty and support capability and capacity building. The security of this support could also concurrently help incentivise service provision in some childcare deserts where there is concentrated disadvantage. (The Y, sub. 253, p. 18)

The key benefit of a needs-based funding stream for inclusion is to provide support to children with risk or vulnerability indicators across all services. While the Australian Early Development Census data shows low-SEIFA communities are more likely to have higher proportions of children experiencing vulnerability, we know that children with risk factors attend ECEC across the socioeconomic spectrum. (Goodstart Early Learning, sub. 277, p. 59)

Inquiry participants' views are reflected in the findings and advice to government from the most recent ISP review.

Under an ideal scenario, inclusion supports would be responsive and tailored to the unique needs of each child and their service ... this would mean a resourcing model which genuinely considers the functional needs and support requirements of all children ... By tailoring support to children's specific needs, this approach strives to promote equitable access to opportunities and resources. (DAE 2023, p. 101)

Further, a needs-based approach to supporting children:

emphasises the professional judgement of educators, who are considered to be best placed to determine the level of support a child requires to be included in an education setting. (DAE 2023, p. 101)

The review also noted the ISP focuses on children with disability, and on diagnosis rather than a child-based assessment of need. The outcome is that the program is reactive and that opportunities to implement inclusion supports and strategies at the point of enrolment are limited (DAE 2023, p. 101).

The ISP review also suggested that the Australian Government should adopt a new approach to inclusion, with services receiving funding then providing supporting evidence across time. Examples provided of potential evidence included a child's needs, adjustments made to accommodate them, and ongoing monitoring and review of those adjustments, and of consultation and collaboration with the child's family (DAE 2023, p. 107).

The SA Royal Commission into ECEC recommended the Australian Government consider adoption of a needs-based funding instrument for ECEC services, and noted that:

<sup>37</sup> Centre for Policy Development, sub. 156, p. 27, Goodstart Early Learning, sub. 125, The Parenthood, sub. 122, p. 6; p. 64.

Successful inclusion of disadvantaged or vulnerable cohorts in early childhood education and care can require investment in additional staffing, capability building, additional services and/or outreach. (SA Government 2023a, p. 79)

## Examples of needs-based approaches

### Victoria's School Readiness Funding: a flexible funding instrument

Victoria introduced a needs-based funding program for preschools in 2018. School Readiness Funding (SRF) provides services delivering three- and four-year-old preschool programs with between \$1000 and \$200,000 in SRF per annum, depending on enrolment numbers and children's needs. The SRF aims to improve communication, wellbeing and access and inclusion for children, their families and services (Department of Education, Victoria 2023a, pp. 80–81). Details are presented in box 2.9.

SRF is not the only program to support inclusion. Victorian preschools can also receive support to plan and implement a program for children with a disability, developmental delay or complex medical needs and to employ a teacher to deliver the program in a language other than English (Kindergarten Inclusion Support, box 2.9). Moreover, preschool core funding rates are higher for rural locations and preschools receive supplements to reflect the level of seniority of the early childhood education teachers employed, among other loadings (Victorian Government Department of Education 2024, p. 1).

#### Box 2.9 – Victoria's School Readiness Funding (SRF)

All ECEC services delivering state-funded preschool programs, including centre-based day care services, receive SRF.

Eligible services are advised of their SRF allocations for the following year in September or October. Subsequent SRF rounds in December and April capture any services that were not eligible to receive SRF during the primary allocation round and new services.

The level of funding is determined by the needs of children enrolled in a service. Need is informed by information on the occupation and education levels of parents attending the service in preceding years – considered by Victoria to be an accurate predictor of educational disadvantage.

Each year, providers have to develop an SRF Plan for each of their services, working with their local Early Childhood Improvement Branch (early childhood specialist staff in departmental regional offices) in the process. Plan development involves:

- collection of data on the learning and development needs of children and families attending a service. Potential data sources include community/child-, service- and educator-level information. Examples include the Australian Early Development Census, services staffs' observations of children, attendance patterns and the skill development needs of staff identified in professional learning plans
- analysis to create a picture of issues and needs at the service
- identification of priorities and goals in one or more of three priority areas (table below)
- selection from a 'menu' of programs which cover, for example, direct service provision to children (such as by allied health workers), educator and service capability uplift (such as training, mentoring or leadership services), and family level services (such as play-based programs in understanding language and development).

**Box 2.9 – Victoria’s School Readiness Funding (SRF)**

Programs associated with the menu items are determined by the Victorian Department of Education. A prospective menu provider is assessed on their:

- understanding and alignment with the Victorian Early Years Learning and Development Framework Practice Principles
- alignment with SRF priority outcomes
- demonstration of appropriateness for implementation in Victorian ECEC settings.

Receipt of funding is conditional on a service’s plan being approved by the department.

**Examples of approved menu items funded through SRF**

Communication	Wellbeing	Access and inclusion
<b>Additional educator:</b> regular and long-term employment of additional educators to support children	<b>Bridges out of Poverty:</b> group training in working with families affected by intergenerational training	<b>Breakfast club:</b> providing children with free, healthy breakfast to increase attendance rates and conditions
<b>Speech Pathologist:</b> working with families and educators to build child’s communication and language.	<b>Trauma–informed mentoring:</b> leadership and mentoring through trauma--informed lens	<b>Aboriginal cultural supports:</b> advice, training, coaching and outreach support for services
<b>Up Therapy:</b> provides practical strategies to develop children’s skills in language, behaviour and play	<b>Hey Little Warrior:</b> workshop for educators to support children with anxiety	<b>Bush Kinder:</b> training sessions on understanding and implementing Bush Kinder in their service

Services receiving \$5,000 or less must spend 100% of their funding on menu item; those receiving more need to spend at least 75%, and the remaining 25% can be spent on non-menu items to address immediate or community-related priorities and for costs related to implementing the SRF (capped at 5%).

Half of the funding is paid at the beginning of the year; half in the middle, and funding must be used within the year it is allocated. If a service underuses more than \$1000, the underspent amount is deducted from the following year’s SRF.

Providers complete a mid-review and end of year acquittal to confirm how funding has been used.

Source: Department of Education, Victoria (2023a, 2023b, 2023a, pp. 80–81; 2024d, 2024b; Victorian Government Department of Education 2023).

A 2022 review of the SRF concluded it was contributing to improvements in children’s communication and wellbeing, with early analysis of reading results showing that children in the first year of school of up to 1.4 times more likely to achieve at or above the expected level than children from the same preschools prior to implementation of the SRF (Department of Education, Victorian Government 2022, p. 5). A majority of services agreed that SRF had improved their capacity to respond for children and families’ needs and nearly 70% agreed it had led to an increase in the use of evidence-informed programs. Intended actions in light of the feedback received included review of the way priority areas are defined, an extension of the planning cycle from one to two years, steps to improve the SRF menu and streamlining of planning and administration.

An example of the potential benefits of a fully flexible approach is provided in box 2.10.

### **Box 2.10 – An example of the potential benefits of flexible funding**

Recent research has illustrated the potential effects of flexible funding in ECEC, particularly when linked with professional learning.

In the *Supporting Participation in ECEC of Children from Low Socio-Economic Status Backgrounds* project, communities were allocated \$15,000 to respond to the non-fee barriers of low socio-economic families not attending ECEC. The funding was used for locally developed initiatives to increase attendance, and was accompanied by delivery of professional modules and mentoring support visits.

A goal was to develop services' capacity to identify and address non-fee barriers faced by families, and the project involved ECEC services, researchers and local community organisations working cohesively. With respect to the locally developed initiatives, the researchers concluded that:

The allocation of resources directly to centres/schools empowered them to make local decisions and take actions to address local concerns and barriers to ECE participation. The funding allocation enabled centres/schools to address needs that specifically apply to their children and families, or potentially, to collaborate to share costs of providing specialist support for children such as occupational health or speech therapy on-site. This feature of the PLaS intervention provided tangible benefits to children and families. (p. 48)

Source: Harrison et. al (2023, pp. 9–13).

### **Calculating need with the Schooling Resource Standard model**

The Australian Government Schooling Resource Standard (SRS) is designed to provide adequate and equitable funding in schools to meet students' educational needs (DoE 2024g). Proposed in the 2011 Review of Funding for Schooling (also known as the Gonski Review), it consists of a base amount plus needs-based loadings based on the characteristics of students attending a school. More detail on loadings is presented in box 2.11.

Design of the SRS reflects the governments' obligation to accommodate all children because school is compulsory. It also reflects the fact that, for government schools, parent contributions are voluntary in most states. Further, the loadings are structured to address the potential educational disadvantages faced by children from different backgrounds. As a consequence, a loadings approach would need to be thought about differently in the play-based learning environment of ECEC where the expectations of child educational outcomes from participation in school do not apply. Nonetheless, the approach represents one potential approach to determining needs-based resourcing for ECEC services.



### Box 2.11 – Needs-based loadings in the Schooling Resource Standard (SRS)

The Australian Government Department of Education calculates the SRS base amount and loadings annually for each school using formulas set out in the *Australian Education Act 2013 (Cth)*.<sup>a</sup> Students potentially attracting additional funding under more than one loading. A school's SRS can include up to four student-based loadings.

**Disability loading** – based on the professional, evidence-based judgements of teachers and other classroom professionals, with this information reported in the Nationally Consistent Collection of Data on School Students with Disability (NCCD). The loading depends on the number of children receiving additional support in the classroom and the level of that support – with three levels of adjustment need funded. Estimated amounts for 2024 are presented in the following table. The NCCD also includes a fourth level of need, with support provided as part of standard, responsive, teaching practice.

Examples of student characteristics under the other three NCCD adjustment levels include:

- supplementary: students who have particular difficulty acquiring new concepts and skills outside a highly structured environment
- substantial: students who require curriculum content at a different year level to their same-age peers; students who need significant curriculum adjustments, have limited capacity to communicate effectively or who need regular support with personal hygiene and movement
- extensive: students with complex support needs.

In 2022, NCCD data indicated that 7.1% of all school children received support through differentiated teaching practice. A further 15.3% received a higher level of adjustment (table below).

#### Estimated 2024 student with disability loadings by NCCD level of adjustment

	Supplementary	Substantial	Extensive
Primary student	\$5,694	\$19,793	\$42,298
Secondary student	\$5,622	\$19,762	\$42,249
% students 2022	9.6	3.8	1.9

**Aboriginal and Torres Strait Islander loading** – the loading increases with the number of Aboriginal and Torres Strait Islander children in a school. A school with one child receives a loading of 20% for that child. A school with 100% First Nations children receives a loading of 120% for each. In 2024, 20% equates to about \$2,700 for primary school students and \$3,400 for secondary students. 120% equates to about \$16,300 and \$20,400 for primary and secondary students, respectively.

**Socio-educational disadvantage loading** – based on the number of students in the lowest 2 quartiles of socio-educational advantage (SEA, a measure developed by the Australian Curriculum Assessment and Reporting Authority based on the occupational and educational status of students' parents). The loading increases with the percentage of children in the bottom two SEA quartiles, up to a maximum of 50% for quartile 1 and 37.5% for quartile 2. For example, in 2024, a school with 35% of children from a quartile 1 background and 30% from quartile 2 would receive loadings of about \$4,250 and \$2,650 for each child from the two quartile backgrounds, respectively.

**Low English language proficiency loading** – based on the number of students from a language background other than English where at least one parent does not have a level of education beyond

### **Box 2.11 – Needs-based loadings in the Schooling Resource Standard (SRS)**

year 9. The loading is 10% of the base, so about \$1350 and \$1700 for primary and secondary school students respectively in 2024.

The SRS can also include up to two amounts based on school characteristics.

**School size loading** – set as a fixed dollar amount and allocated to primary schools with up to 200 students and secondary schools with up to 700 students, based on a sliding scale. Maximum amounts in 2024 are about \$213,800 and \$342,000 for primary and secondary schools, respectively.

**School location loading** – based on a school's Accessibility/Remoteness Index of Australia (ARIA) score and calculated as a percentage of base amount + size loading. The loadings range from zero for schools in major cities (ARIA score of 1) to 80% for those in very remote areas (with an ARIA score of 15).

The base amount for most non-government schools is reduced by an assessment of the school community's ability to financially contribute to operating costs.

Each year, the SRS base and loadings are indexed to reflect changes in prices affecting the costs of providing schooling. The rates are the higher of 3%, a composite index equal to 75% of the wage price index and 25% of the CPI or a rate prescribed by the Minister for Education.

Schools determine how to spend resources their funding. The Australian Education Act 2013 (Cth) established an oversight entity – the National School Resourcing Board. Together with the Australian Education Regulations 2023 (Cth), the Act tasks the Board with periodically reviewing school funding arrangements and requirements. In addition, state and territory education departments have systems in place to monitor and audit government school spending, for example, Cases 21 and required financial policies in Victoria (Department of Education, Victorian Government 2024c).

Source: (DoE 2023d, 2024g; 2024a, 2024b, 2024c; SCRGSP 2024).

## **What might a revised needs-based approach to funding inclusion look like in ECEC**

### **Outline of a revised needs-based approach**

While the ISP is needs-based, it only meets some of the inclusion needs of children and families. The ISP primarily provides support to services to meet the needs of individual children, particularly those with diagnosed disability. Insufficient support is being provided to meet broader inclusion needs within the community of children and families supported by services.

An enhanced and expanded needs-based funding approach would contribute to all children being supported to succeed, regardless of their circumstances and abilities. It would enable services to provide culturally safe ECEC in addition to supporting children with disability, developmental delay and complex needs. It would also support services to reach out to families and to connect with the other services that support them and their children. It would also assist services to make reasonable adjustments to their facilities to enable the inclusion of all children, irrespective of their abilities.

An ECEC Inclusion Fund should be established with three streams.

- Children with high support needs should be supported through a stream similar to the IDF, 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 supported by funding based on the characteristics of that community (Mainstream Inclusion Stream).
- A program should be established to enable services to apply for support with upgrades to physical facilities to ensure all children can be included, irrespective of their abilities (Inclusion Fund Grant Stream).

The Innovative Solutions Support program should be discontinued.

### **Disability and Complex Needs Stream**

Immediate improvements to the subsidy design, conditions and responsiveness of the ISP (recommendation 2.2) would help ensure that children with demonstrated higher support needs can access individualised additional educator support in a timely manner. Similar support should continue.

While services could also use funding from the Mainstream Inclusion Stream to hire additional educators (on items such as cultural support or fill-in support for service-wide training), the Disability and Complex Needs Stream of funding should only be available for children with demonstrated higher support needs due to disability, developmental delay or other complex issues. This fund should also only exclusively provide additional educator subsidies, and services will need to apply for this funding separately from the Mainstream Inclusion Stream. Funding for this stream should be the highest priority.

### **Mainstream Inclusion Stream**

The SRF and SRS approaches provide pointers to how a needs-based mainstream funding instrument to support inclusion in ECEC might be designed.

Calculation of the level of funding provided to a service through the Mainstream Inclusion Stream could draw on indicators correlated with children's inclusion needs and data from the services' historical enrolment profile. Examples could include:

- service-level data, such as enrolment numbers and hours attended, location (for example, if the services provider levy a higher charge for delivering programs in regional and remote areas) and child ages (very young children, for example, might require less support)
- parental occupation and education (to reflect families' socio-economic status)
- children's characteristics, including:
  - disability or developmental delay (including NDIS participant status)
  - behavioural or trauma-related concerns
  - Aboriginal and/or Torres Strait Islander backgrounds
  - culturally and linguistically diverse or non-English speaking backgrounds
  - refugee or humanitarian backgrounds.

Much of the information required is already collected by the Australian Government Department of Education as part of the CCS system, and the department would be the logical entity to determine how much funding each service receives.

As for both the SRF and SRS, the Mainstream Inclusion Stream could embody a process that ensures timely allocation of funds. Services could have funding available to address children's needs when those children enrol. Allocations could be based on a combination of enrolments and average hours attended in the year to November, with funding paid in two tranches in the following year, reflecting the tendency for enrolments to

increase across the year in many services. And the program design could include a mechanism to provide support to services that commence operation during the course of a year.

Ideally, a service would have flexibility in determining how funds were used to best fit the needs of its community. A planning process that involves services identifying needs in their community and how they might be addressed should be part of the Mainstream Inclusion Stream design. Design of the fund could include a once yearly review by services of progress against this plan to help them develop a sense of what is working well and what might be improved, and an acquittal process of all three funding streams to verify how funds were used. As per the SIP, services could be supported in developing these plans. Plans should be approved before Mainstream Inclusion Stream funding is allocated.

The Commission has heard that the SIP can be a box-ticking exercise undertaken simply as a requirement to receive the IDF-AE Subsidy. The process of developing a plan to receive funding to address the broader needs of its community, and reviewing progress against it, would ideally make the planning process more valuable to services. And it would obviate the need to develop a plan to receive funding under the Disability and Complex Needs Stream.

The design could also allow services to receive additional funding in exceptional circumstances where discrepancies have been identified before the yearly review. This could include scenarios where more children with disability are enrolled after the initial funding allocation.

In addition, an approach of providing services with a 'menu' of approved programs could help them to locate support from verified providers. As per the SRF, recipients of larger funding allocations could have some flexibility in implementing programs that were not on the menu. Prospective program providers could tender to be included in the menu, in a process like that in place for whole of government purchasing. Without being prescriptive of the types of things that might be on the menu, the Commission suggests the fund could include programs and services that aim to increase:

- participation of all children with additional needs (such as connecting children to behavioural specialists, additional educators or trauma-related programs)
- cultural safety for children with diverse backgrounds (such as the use of bicultural workers)
- access for children who face practical barriers (such as lunch boxes, clothing, transport in alignment with recommendation 7.1)
- culturally safe and inclusive support for families in vulnerable circumstances (such as liaison, language or other services related to barriers to access or participation)
- inclusion-specific professional development and capacity building for educators and services (such as training, consultation and paid time-off-the-floor to attend)
- connections with non-ECEC organisations (such as to liaise and coordinate with other services a child may require or be accessing, such as allied health or NDIS professionals, in alignment with recommendation 7.9).

While the Commission does not propose that ECEC services are responsible for therapeutic interventions, as noted in section 2.2, they are well-placed to identify developmental or behavioural differences in children and connect them to other services. If services identified that an issue was prevalent across the service (for example, multiple children with developmental delay), similar to the SRF, they could use funding under the Mainstream Inclusion Stream to deliver specific interventions facilitated by external organisations.

Trials to test the effectiveness of different program and service approaches (including in OSHC and FDC settings) could be set up, with results feeding into changes in the menu across time. And the Inclusion Fund could be evaluated after three years to gain insight into outcomes, sufficiency of funding, menu content and features of fund administration.

Unlike the ISP, under the Mainstream Inclusion Stream all services would have an allocation of funds that could be spent in ways that they determined best suited the needs of the children and families in their community (provided they have an approved plan). For services where very few children and families have additional needs, funding would be very small.

Services would need assistance in developing their plans and navigating the new approach – ‘inclusion coordinators’. The Australian Government Department of Education would need to ensure this support was available. IAs would be well-placed to provide it, and contracting them to perform this role would retain existing connections between IAs and services.

Entities providing support to services would ideally have the ability to:

- provide mentoring and support based on their direct experience in ECEC
- provide professional advice and capacity building to services on inclusion-related areas (such as cultural safety, disability, developmental delay or trauma)
- support the practical applications of legislative and regulatory expectations of inclusion, described in the *Disability Standards of Education 2005* or NQF
- communicate up-to-date information on any regulatory or legislative changes related to inclusion. Where entities do not already have these characteristics, training could be provided to build expertise in any areas of gap.

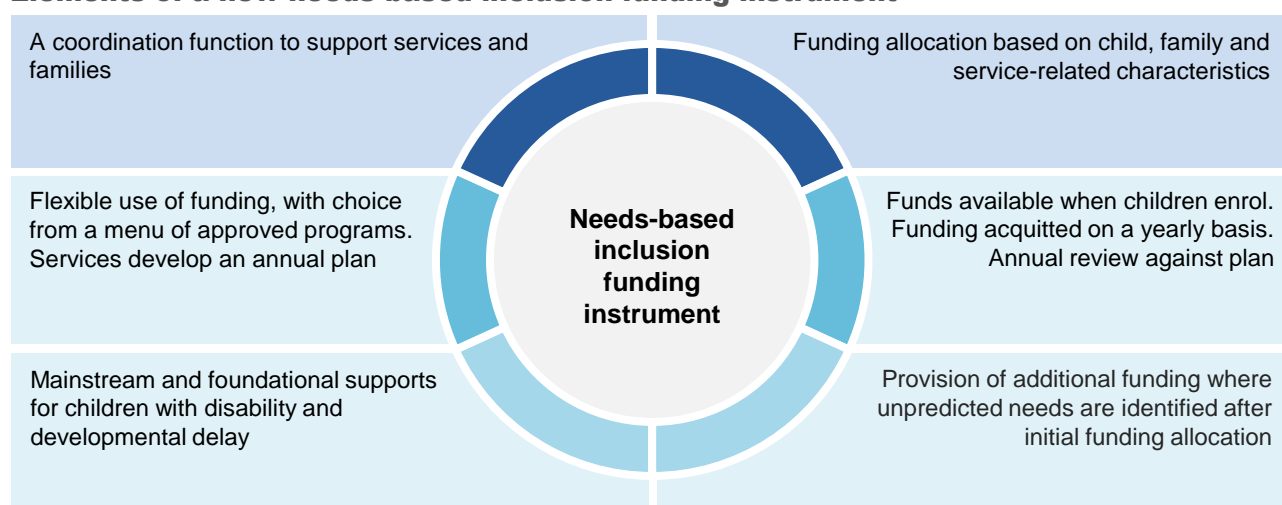
Depending on the outcomes of the system navigator trial (recommendation 7.2), these entities might also be tasked with working with families experiencing complex barriers to help them navigate and access the ECEC system.

Better inclusion in ECEC will require an increase in Australian Government expenditure. Based on the budgets allocated to the Victorian SRF program, the national costs could reach more than \$500 million a year.

Elements of the Mainstream Inclusion Stream instrument are summarised in figure 2.10.

**Figure 2.10 – Potential elements of an ECEC Mainstream Inclusion Stream**

**Elements of a new needs-based inclusion funding instrument**



**a.** Based on the outcomes of the system navigator trial (recommendation 7.2). **b.** Dependent on the Australian Government’s response to the NDIS review, including the implementation of the Bill.

## Inclusion Fund Grants Stream

Services are obliged to make reasonable adjustments to enable a child with disability to equally participate in ECEC services under the *Disability Discrimination Act 1992* (section 2.2). It is unclear how many CCS-approved services obtain funding to make adjustments beyond an additional educator or borrow equipment, such as physical modifications to an ECEC building or playground.

Some ECEC services, particularly if providing preschool program, may be eligible for state or territory government funding grants for infrastructure and capital upgrades. The Victorian Government Department of Education provides 'Building Blocks Grants', with a stream dedicated to inclusion. Services can apply for a grant of up to \$200,000 to spend on upgrades to buildings, playgrounds and equipment to ensure inclusivity of children with all levels of abilities (Department of Education, Victorian Government 2024a).

Parents with multiple births (for example, triplets) also report physical barriers to accessing ECEC (sub. 182, p. 9).

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.

## Support for services under a new inclusion funding approach

When the implications of the Australian Government's response to the NDIS review become clearer, they could be reflected in determination of funding levels for all three streams (as a proportion of funding may be redirected from the NDIS) and menu items for the Mainstream Inclusion Stream. For example, with appropriate funding, menu items could be expanded to cover the skills and tools educators, teachers and services will require to deliver foundational supports.

Assuming the Australian Government adopts the NDIS review recommendations, children with higher support needs (such as psychosocial or physical disability) will continue to obtain support from specialised NDIS planning and funding. While the NDIS may provide primary support, such as provision of personal care staff or therapy, these children should still be welcomed and supported in ECEC settings via the Disability and Complex Needs Stream. The Mainstream Inclusion Stream could include funding for service staff to spend time-off-the-floor to collaborate on developing and implementing the child's NDIS plan.

Funding provided through the three streams should be adequate to support targeted programs for children experience significant disadvantage. For example, recent Australian research into a targeted, intensive ECEC program for children experiencing significant disadvantage has shown considerable benefits to children attending (box 2.12). Further trials are underway (Aly and Stitt 2022).

### **Box 2.12 – Research on an intensive early childhood education and care model**

Australian research into an intensive early childhood education and care model has shown the potential impact of tailored ECEC programs for children experiencing significant disadvantage.

As part of the Early Years Education Program, to be eligible for participation, children had to be aged between 0–3 years, have two or more risk factors, be currently engaged with family services or child protection services, and have early education as part of the child's care plan. Among others, risk factors included having teenage parents, parental substance abuse, parental mental health difficulties, and the presence of family violence. Children who participated in the program were offered 50 weeks of care and education per year (five hours per day, five days per week) for three years.

**Box 2.12 – Research on an intensive early childhood education and care model**

Key features of the program included high staff–child ratios (1:3 for children under three years and 1:6 for children over three years), qualified and experienced teachers and educators, and an infant mental health consultant and family support practitioner as members of staff. The program also used a primary educator model, where each child was allocated a primary educator when enrolled, and applied a relationship-based curriculum, informed by trauma and attachment theories and early learning theories.

A randomised control trial was undertaken alongside the program. It found the program led to benefits for children’s cognitive development, social and emotional development and behaviour.

Source: Tseng et al. (2017, 2022)

Funding should be made available to CCS-approved services. As noted, dedicated preschools (and some CCS-approved services in certain jurisdictions) have access to state government-funded inclusion programs. Ideally these programs would be integrated. The Australian, state and territory governments should clarify responsibilities and streamline their inclusion programs as much as possible in the course of the Australian Government designing and implementing the ECEC Inclusion Fund.

Across time, the Australian, state and territory governments would need to work together to remove overlaps and gaps between their inclusion funding programs. An early candidate for streamlining with the ECEC Inclusion Fund would be the Victorian SRF. 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.

**Summary comments about a new ECEC Inclusion Fund**

The Commission developed a set of principles to guide the design of funding models in paper 9 (box 2.13).

As set out in that paper, with respect to inclusion, funding instruments should be carefully designed to be effective, needs-based and targeted. In line with the draft National Vision for ECEC, they should ensure services are inclusive of children and families with additional needs, contributing to the vision’s outcome that ‘[a]ll children are supported to reach their potential’. And, more specifically, that ‘[s]ervices respond to community, cultural and family contexts and can provide continuity of learning and care to children’.

The enhanced and expanded needs-based approach outline above would be more consistent with *all* children being supported to reach their potential than the ISP. The approach would also provide a higher level of resourcing to services with a higher representation of families with lower socio-economic status – consistent with the higher levels of developmental vulnerability recorded in those communities.

The fact that the ISP does not meet the costs of additional educator wages indicates that it is not currently consistent with the quality principle. There is a risk however, that the ECEC Inclusion Fund would likewise not provide sufficient resourcing to enable services to be inclusive and provide a high-quality service. Resourcing would need to be calibrated to avoid this outcome. As noted above, while all three streams should be adequately funded, the Disability and Complex Needs Stream is the highest priority.

In terms of simplicity, services might face a bigger administrative burden in acquitting funds under the Inclusion Fund, but primarily because they would have more flexibility in determining how funds were used and, presumably for some, access to more funding. Being able to choose from a menu of items would reduce the burden associated with identifying program providers and remove the need for services to obtain quotes. Recommended changes to the ISP to enable service providers to seek funding for an additional

educator where a family is unwilling or unable to obtain documentary evidence would reduce administrative complexity for some families.

Tendering to create a panel of menu item providers under the Inclusion Fund would be more administratively efficient than requiring services to source their own service providers, as occurs for the ISS.

As for the ISP mechanisms would need to be incorporated in the design of the Inclusion Fund to ensure integrity.

### Box 2.13 – Principles to inform design of a funding instrument

In paper 9, the Commission noted that funding decisions should be guided by a clear framework and recommended that governments adopt a set of principles to guide decision-making about ECEC funding models. These principles should also hold for the design of individual instruments within a model.

Drawing on the draft National Vision, the inquiry’s terms of reference and feedback from inquiry participants, the Commission developed seven principles: inclusivity, affordability, quality, accessibility, simplicity, efficiency and integrity. The table below reproduces a summary from paper 9.

Paper 9 noted that different funding types could be used in this context including activity-based, needs-based or programmatic funding (section 9.1). For example, funding instruments could be targeted to specific cohorts (as is the case with ISP) or provided as grants to services to improve their capacity and capability to support children with additional needs (as per the proposal for Inclusion Fund).

#### Key funding model design principles

	Application to funding instrument design
<b>Equity</b> (or inclusivity)	Funding instruments should be needs-based, targeted and carefully designed to ensure that services are inclusive of children and families with additional needs.
<b>Affordability</b>	Funding instruments should be designed such that they take account of capacity to pay, are not regressive in nature and prioritise support to families facing higher affordability barriers. The funding approach adopted should be sustainable.
<b>Quality</b>	The funding architecture should incentivise appropriate quality provision that meets the quality standards. In practice, this means that overall funding should be adequate to cover the costs of providing required quality and that providers face incentives to deliver it. Eases Funding should be indexed to ensure it keeps pace with cost increases.
<b>Accessibility</b> (or availability)	Funding should incentivise investment to provide services that meet communities’ needs.
<b>Simplicity</b>	The funding system should not create barriers to access for families. Instruments should be designed in a way that shields families from unnecessary complexity and administrative processes or requirements.
<b>Efficiency</b>	The most efficient funding system results in the highest net benefit to the community. Funding instruments should be designed to achieve: <ul style="list-style-type: none"> <li>• productive efficiency, by encouraging providers to deliver ECEC services at the desired quality at the least possible cost</li> <li>• allocative efficiency, promoting an ECEC sector that maximises net benefits for the community</li> <li>• dynamic efficiency, by encouraging innovation and efficient investment.</li> </ul>



**Box 2.13 – Principles to inform design of a funding instrument****Integrity**

Funds allocated to the ECEC sector should only be directed towards efficiently and effectively achieving governments' objectives. Any funding instrument should be designed to enable accountability and transparency mechanisms to be cost-effectively incorporated into its design.

In summary, in comparison to the ISP, the ECEC Inclusion Fund would much more strongly align with the equity principle that forms part of the foundations of the draft National Vision for ECEC:

All children are supported to succeed, regardless of their circumstances and abilities. Carefully designed strategies and targeted investment provide additional support to children and families when and where they need it. (DoE 2023a, p. 2)

and with the Australian, state and territory government's vision that:

Every child can access and participate in high-quality, culturally responsive ECEC, including preschool, to support their right to thrive, grow their sense of identity and connection to the world, and become confident and engaged learners. (DoE 2023a, p. 2)

**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 2.3

#### 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.

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.

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## 3. The ECEC workforce

### Key points

- ✳ **The early childhood education and care (ECEC) workforce is fundamental to the sector, providing high-quality ECEC to hundreds of thousands of children. The workforce will be essential to creating a universal ECEC system.**
  - About 221,000 people are employed in ECEC and the workforce has grown considerably in recent years. ECEC occupations are some of the most feminised in Australia.
- ✳ **Workforce constraints and recruitment difficulties are affecting the sector, to the point that ECEC access for some families is restricted. Constraints appear to be most severe for early childhood teachers (ECTs) and in regional and remote areas.**
  - Early evidence suggests that vacancy rates have moderated somewhat over recent months after increasing significantly in the aftermath of the COVID-19 pandemic.
  - Workforce challenges are partly cyclical, but structural factors – such as relatively low pay, unattractive working conditions, poor career pathways and barriers to accessing qualifications – are constraining the longer-term supply of workers in key ECEC occupations.
- ✳ **To assist with guiding the actions of governments to grow and develop the ECEC workforce, and to provide a yardstick against which progress can be assessed, governments should establish a set of goals for the ECEC workforce.**
  - These goals should include reference to: the pay and conditions being sufficient to attract and retain enough qualified workers in the sector so that all families have access to at least 30 hours or three days of ECEC if they choose to use it; there being a pipeline of future educators and teachers that will meet future ECEC demand; and the ECEC workforce having access to pathways that facilitate career advancement and that encourage ECEC workers to view a career in the sector as attractive and rewarding.
  - The goals should be incorporated into an enhanced ECEC workforce strategy and the ECEC Commission should regularly and publicly report on progress against them. As part of this, the ECEC Commission should consider the state of the ECEC workforce, the key policy developments and actions that affect it, and whether the impacts of these developments and actions bring the sector closer to delivering the goals for the workforce. Decisions on how policy levers affecting the workforce would remain with governments and other decision-making bodies (such as the Fair Work Commission).
- ✳ **The ECEC workforce is relatively low paid. Families' capacity or willingness to pay higher fees can limit the extent to which providers are able to fund wage increases. Barriers to enterprise bargaining and perceptions about the value of work undertaken in the sector may also affect wages.**

- As a result of changes to the industrial relations system, actions are underway in the sector that can be expected to lead to wage increases for many ECEC staff, including a significant multi-employer bargaining process and proceedings by the Fair Work Commission to address potential gender undervaluation in the *Children's Services Award 2010* (with the most recent Annual Wage Review identifying this as one of five awards requiring priority consideration in regard to gender undervaluation).
- In the 2024-25 Budget, the Australian Government signalled its intention to contribute to funding a pay increase for the sector. Without some form of contribution, there is the potential for significant adverse impacts for families and providers, including higher out-of-pocket expenses, less service availability and potentially reduced ECEC quality as services seek to offset higher wage costs elsewhere.

**\* There have been significant changes to ECEC vocational education and training (VET) training packages in recent years, but it is still too early to discern their effects on graduate quality, job readiness and employment outcomes**

- Reflecting this, HumanAbility – the organisation responsible for the VET training packages relevant to the sector – should commission an evaluation of ECEC VET training packages no later than 2025. The entry requirements for the Diploma of Early Education and Care should be reviewed as a matter of priority, and work should be undertaken to develop traineeship pathways in family day care settings.

**\* With demand for ECTs set to remain high for the foreseeable future, governments should reduce the barriers that can impede Diploma-qualified educators upskilling to become ECTs. Governments should:**

- work with universities and the ECEC sector to develop and promote accelerated early childhood teaching degrees for educators that duly recognise their prior training and experience
- provide educators with wrap-around supports while they are undertaking early childhood teaching degrees
- provide financial support to ECEC services so they can provide a reasonable amount of paid leave to educators to complete supervised professional experience required as part of early childhood teaching qualifications.

**\* Teacher registration offers considerable benefits for ECTs, but inconsistent registration requirements across jurisdictions risk being problematic. State and territory governments should amend their teacher registration requirements.**

- Teacher registration should be extended to include ECTs working in ECEC settings in all jurisdictions.
- Any ECT-level qualification that has been approved by the Australian Children's Education and Care Quality Authority for recognition under the National Quality Framework should be automatically recognised as meeting qualification requirements associated with teacher registration.

**\* Aboriginal and Torres Strait Islander educators and teachers are a vital part of the ECEC workforce, bringing their own cultural experiences, perspectives, knowledges, languages and ways of teaching and learning to the sector. But many Aboriginal and Torres Strait Islander people can find it difficult to access training to obtain the ECEC qualifications needed to work in the sector.**

- In collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, governments should trial tailored pathways for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications that better recognise their cultural knowledge and experience.

**\* While the take-up of professional development opportunities by the ECEC workforce is relatively widespread, staff in the sector still face significant barriers accessing professional development. To overcome some of these barriers, the Australian, state and territory governments should contribute towards the cost of professional development for the ECEC workforce.**



The early childhood education and care (ECEC) workforce has profound impacts on the accessibility and quality of ECEC services. The size and spread of the workforce are key factors that influence how many families have access to ECEC services, while the experience, skills and qualifications of the workforce are factors that can influence the quality and safety of the education and care provided. Further, providing ECEC is labour-intensive – labour costs make up nearly 70% of the total cost of providing centre-based day care (CBDC) and nearly 80% of costs of providing outside school hours care (OSHC) services (ACCC 2023b, p. 10) – meaning that changes in the supply, demand and conditions of ECEC workers have the potential to significantly affect providers’ costs, fees, and ultimately the affordability of ECEC services for families.

Unless there are sufficient workers to deliver quality ECEC, attempts to make the sector more universally accessible will ultimately fail. As the Centre for Policy Development said:

workforce is *the* critical enabler for the operation and reform of the system. (sub. 156, p. 38, emphasis in original)

This paper examines the ECEC workforce. It first provides a breakdown of who works in ECEC and examines some key trends in the ECEC workforce (section 3.1), before examining the role of government in developing the ECEC workforce (section 3.2). The paper next examines the extent to which there are enough ECEC workers – both now and into the future – to deliver on the policy goals that governments seek to achieve through the sector (section 3.3) before articulating goals for the ECEC workforce (section 3.4).

The paper then looks at key levers that governments can use to influence the size and composition of the ECEC workforce, namely:

- pay and conditions (section 3.5)
- qualification and career pathways (section 3.6)
- professional development arrangements (section 3.7)
- migration arrangements (section 3.8).

In section 3.9, the Productivity Commission examines opportunities to improve the existing National Children’s Education and Care Workforce Strategy (*Shaping our Future*) to guide governments’ actions to grow and develop the ECEC workforce.

### **3.1 Who works in early childhood education and care?**

The ECEC sector employs a reasonably large, highly feminised workforce with a wide variety of skills, experiences and qualifications. Most people who work in the sector are either early childhood teachers (ECTs) or educators (box 3.1).

In 2021, a census of ECEC providers (the ECEC Workforce Census) found that the sector employed about 221,000 people in a typical week (although issues with how the data is collected may mean the true number is slightly higher or lower). This figure does not include people working in vacation care (which the Commission has excluded to limit double counting given that the census of vacation care providers was undertaken at a different time to other providers). However, vacation care workers are an important part of the ECEC workforce – they provide safe and stimulating environments for children during school holidays and allow their parents to continue to work during this time.

### **Box 3.1 – Key occupations in the ECEC sector**

Staff working in the early childhood education and care (ECEC) sector cover a range of occupations, including:

- *early childhood teachers (ECTs)*, who hold an early childhood teaching qualification that has been approved by the Australian Children’s Education and Care Quality Authority (ACECQA). Such qualifications are typically bachelor’s-level or higher. Among other roles, ECTs often: design, plan and implement educational programs including approved learning frameworks; lead and support the learning and development of children; provide pedagogical leadership; and coach, mentor and supervise staff. ECTs work predominately in centre-based day care and preschool settings
- *educators*, who, depending on the ECEC setting they work in, are often required to hold an ACECQA-approved Certificate III or Diploma-level Vocational Education and Training (VET) qualification. Among other roles, educators: support children’s learning and development, including contributing to the educational program and practice; assist with delivering approved learning frameworks; and support the daily routines of children. Educators work across all ECEC settings, including centre-based day care, family day care, outside of school hours care and In Home Care
- *family day care coordinators*, who have Diploma-level qualifications and provide leadership and support for family day care educators
- *service directors and managers*, who are responsible for the overall planning, staff, administration, marketing, resourcing and compliance activities of ECEC services
- *other occupations*, such as cooks, cleaners and allied health professionals, who may work in – or provide their services in – ECEC settings.

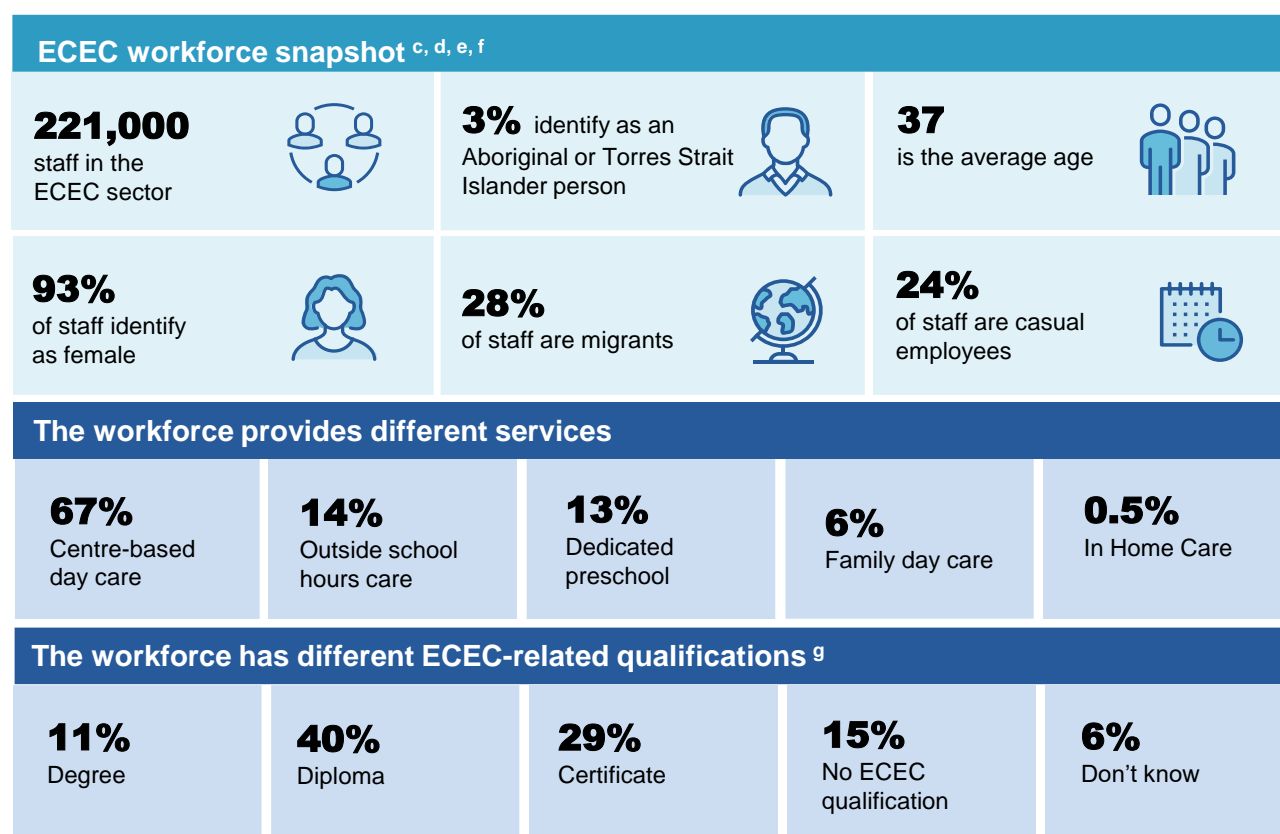
Some organisations that publish data on the ECEC workforce, including the Australian Bureau of Statistics and Jobs and Skills Australia, tend to do so on the basis of the Australian and New Zealand Standard Classification of Occupations (ANZSCO). When looking at this data, the Commission has focussed on two occupations within the ANZSCO – ‘child carers’ and ‘early childhood (pre-primary) teachers’.

- ‘Child carers’ (ANZSCO code 4211) are identified as providing care and supervision for children in residential homes and non-residential childcare centres. This covers four more specific occupations: childcare workers, family day care workers, outside of school hours workers and nannies. Given that the number of nannies is likely to be small relative to these other occupations – and given the tasks undertaken and qualifications required by ‘child carers’ set out in the ANZSCO – the Commission considers that the ‘child carers’ occupation used in the ANZSCO is a very close representation of the occupation of educators (which is the preferred term of both the Commission and the sector).
- ‘Early childhood (pre-primary school) teachers’ (ANZSCO code 2411) are identified as teaching the basics of numeracy, literacy, music, art and literature to early childhood (pre-primary) students and promoting students’ social, emotional, intellectual and physical development, and are typically degree-qualified.

Source: ABS (2022); ACECQA (2023e, 2023f); ECA (2021).

Most of the ECEC workforce are employed in CBDC (figure 3.1). The workforce is overwhelmingly female – across the sector, about 93% of the workforce are women. However, in some service types, this share is even higher – for example, 96% of family day care workers and CBDC workers are women. This points to ECEC occupations being some of the most feminised in Australia.<sup>1</sup>

**Figure 3.1 – The ECEC workforce in a typical week<sup>a,b</sup>**



**a.** Dedicated preschool workforce data for all jurisdictions is included. Data for all jurisdictions except for South Australia and Western Australia is from the 2021 National Workforce Census, where preschool participation in the Census was optional and 59% of in-scope preschools participated. Western Australia and South Australia reported preschool workforce statistics separately. **b.** Vacation care staff data is excluded because this data was collected in a separate reference week and duplication with other ECEC service types is likely. **c.** Aboriginal and Torres Strait Islander status was stated for 75% of workers in the 2021 National Workforce Census, and there are additional observations that could be preschool staff responses. **d.** Preschools only report age brackets and not the exact ages of their workers, so it is assumed that staff are uniformly distributed across these brackets. Age data for preschools in South Australia and Western Australia is excluded because age is not reported for all staff. **e.** Gender data for preschools in South Australia and Western Australia is excluded because gender is not reported for all staff. **f.** The number of migrants is likely understated because the Australian Census and Migrant Integrated Database does not have data for migrants that arrived prior to 1 January 2000. **g.** Qualifications exclude preschools because of different categorisation and missing data.

Source: Productivity Commission estimates based on ABS (*Tablebuilder, Census of Population and Housing, 2021; Microdata, Australian Census and Migrant Integrated Database, 2021; Microdata, Australian Census and Temporary Entrant Integrated Database, 2021*); SRC (2022).

<sup>1</sup> Of the (over 1,200) occupations that recorded 100 or more workers in the 2021 Census of Population and Housing, family day care workers ranked 4th highest in terms of the share of the occupation that are women, while educators (recorded as 'child care workers') ranked 13th, child care managers ranked 31st and out of school hours care workers ranked 130th (Productivity Commission estimates based on ABS (*Tablebuilder, Census of Population and Housing, 2021*)).

Jen Jackson submitted that the ECEC workforce also included many people who had faced disadvantage.

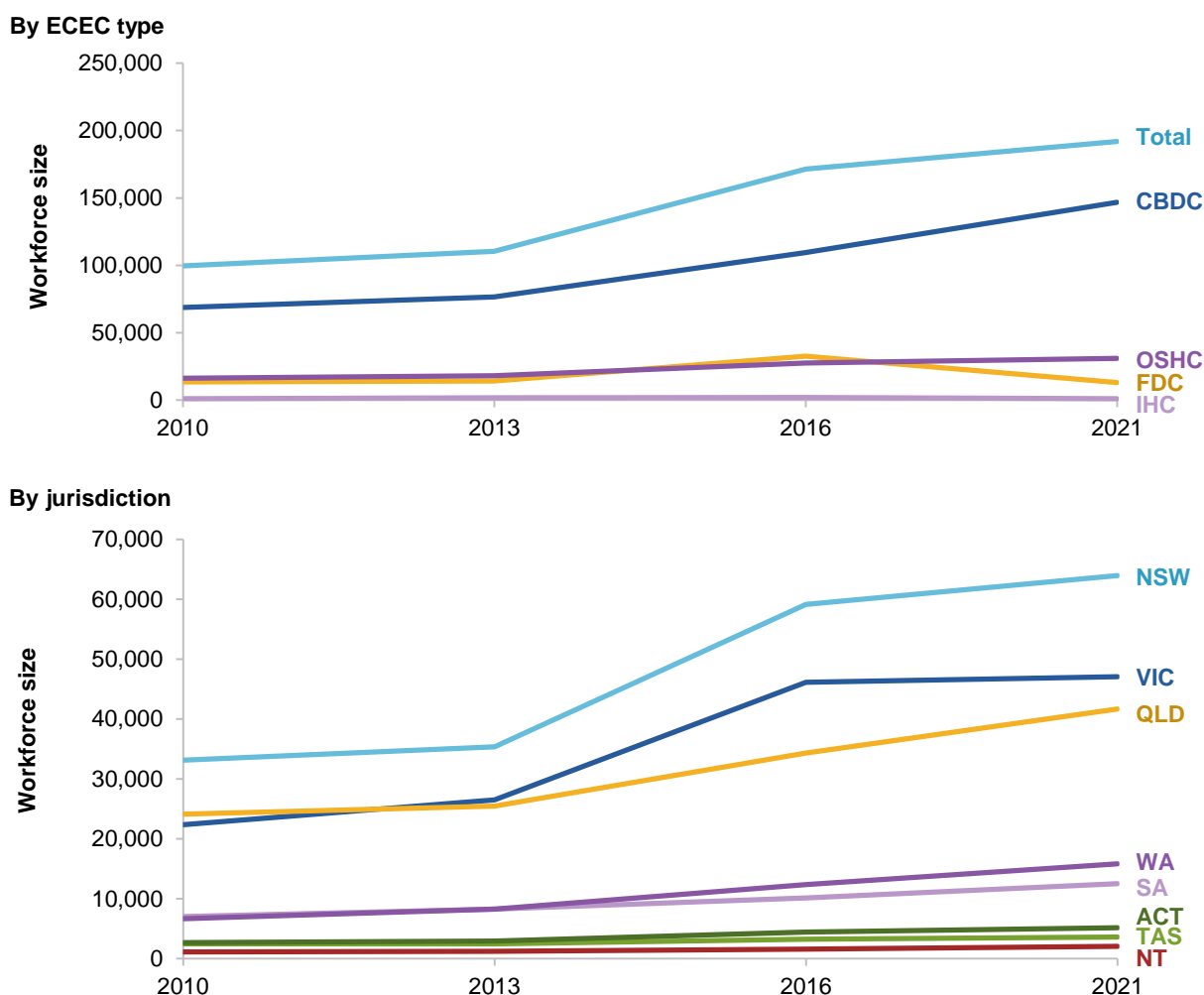
The socio-economic characteristics of the early childhood workforce were the subject of my doctoral research completed in 2018. Using large-scale data, I found that many early childhood educators came from backgrounds of relative socio-economic and educational disadvantage. I also found that ECEC provided one of the strongest pathways for young women who did not achieve highly at school to pursue higher vocational qualifications ... or university degrees. (sub. 320, p. 2)

## Key trends in the size and composition of the ECEC workforce

### The workforce grew substantially in the decade to 2021

There has been significant growth in the ECEC workforce over time – the ECEC Workforce Census indicates that the number of workers employed in ECEC increased by over 90% between 2010 and 2021 (figure 3.2).

**Figure 3.2 – The ECEC workforce has grown significantly over time<sup>a</sup>**  
**Size of ECEC workforce by service type and jurisdiction, 2010–2021**



a. Data represents a weighted estimate of workers in all approved childcare services as at a reference week. Data does not include people working in dedicated preschools due to data limitations or people working in vacation care to limit double counting with the OSHC workforce. Data may include some double counting of staff with more than one employer.

Source: SRC (2011, 2014, 2017, 2022).

This growth has largely been driven by workers in CBDC, with lower, but still significant, growth occurring in the OSHC workforce as well. The number of people working in family day care (FDC) has fallen – in part because of a reduction in FDC services due to changes in policy and regulation and the use of more stringent measures by governments to ensure the integrity of FDC providers (SRC 2022, p. 6).

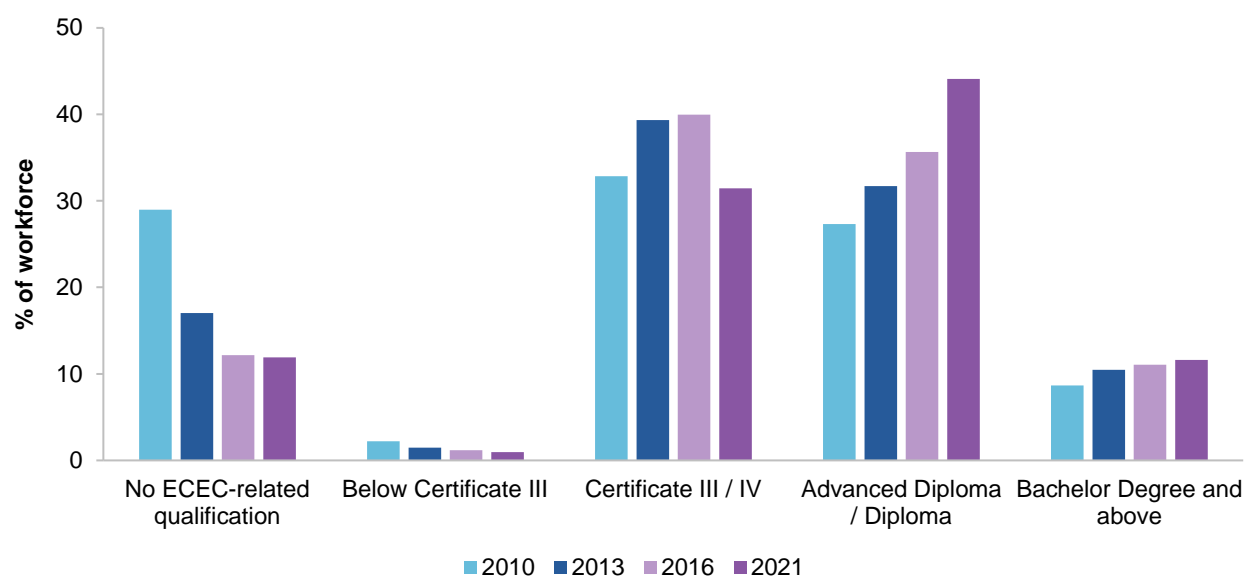
The ECEC workforce has grown in all states and territories since 2010.

### More workers have qualifications (and higher qualifications) compared with 2010

The share of workers holding an ECEC-related qualification has also grown significantly, rising from about 70% in 2010 to just under 90% in 2021. Further, the level of qualification held by ECEC staff has generally increased over this period – ECEC staff were somewhat more likely to hold a Bachelor-level qualification, and significantly more likely to hold a Diploma-level qualification, in 2021 compared with 2010 (figure 3.3). The introduction of the National Quality Framework (NQF) in 2012, which generally lifted the minimum qualification requirements for staff working in the sector, is likely to have contributed to this increase (ACECQA 2017).

**Figure 3.3 – The share of the ECEC workforce holding a qualification has increased since 2010<sup>a</sup>**

**Share of the ECEC workforce by highest ECEC-related qualification, 2010–2021**



a. Workforce data represents a weighted estimate of workers in all approved childcare services as at a reference week. Data does not include people working in dedicated preschools due to data limitations or people working in vacation care to limit double counting with the OSHC workforce. Data may include some double counting of staff with more than one employer.

Source: SRC (2011, 2014, 2017, 2022).

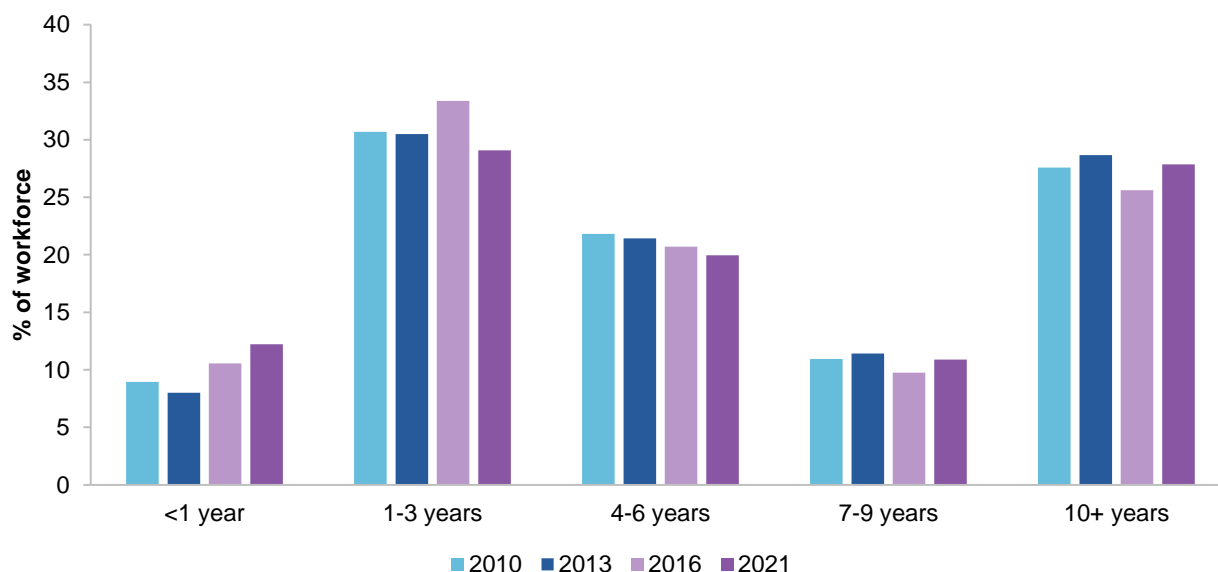
### The amount of time workers have spent in the sector remained broadly unchanged between 2010 and 2021

Notwithstanding a slight increase in the share of the workforce that has been in the sector for less than a year – which is consistent with the substantial growth in the number of ECEC workers over time – there has not been a significant change in the number of years ECEC workers have been employed in the sector since

2010 (figure 3.4). In 2021, just under 60% of the ECEC workforce had worked in the sector for at least four years (the same proportion as 2011).

**Figure 3.4 –The number of years ECEC workers have spent in the sector has not changed significantly since 2010<sup>a</sup>**

**Years of experience in the ECEC sector for ECEC workers, 2010–2021**



a. Workforce data represents a weighted estimate of workers in all approved childcare services as at a reference week. Data does not include people working in dedicated preschools due to data limitations or people working in vacation care to limit double counting with the OSHC workforce. Data may include some double counting of staff with more than one employer. Source: SRC (2011, 2014, 2017, 2022).

### 3.2 Why are governments involved in ECEC labour markets?

Governments are involved in labour markets for a range of reasons, irrespective of the particular sector or industry they operate in. For example, governments:

- set the industrial relations framework through which employers and employees interact, with the aim of addressing power imbalances and to set minimum standards that all employees are entitled to. Governments also regulate workplace safety for similar reasons
- subsidise – and in some cases, deliver – many qualifications and training courses, in part because there are public benefits from these that mean they may be underprovided or not taken up as much as they should be if they were left to the private sector alone to provide. Governments also regulate training quality with the aim of ensuring that students can be confident that they are receiving training that is of a good standard and employers can be confident that graduates are competent in their field
- establish the rules and procedures by which migrants can come to Australia to work, with the aim of ensuring that both migrants and local workers are treated fairly, maintaining the integrity of Australia’s border control system, and maximising the economic and social benefits the community receives from migration
- undertake data collection on – and ongoing monitoring of – the workforce, so to have the information needed to be an effective steward of labour markets and for the management of the economy more broadly.

These reasons for government involvement all apply to the ECEC labour market. But there are some other reasons why governments have a role (and an interest) in specifically developing the ECEC workforce, namely:

- the ECEC sector, and those who work in it, help to deliver important economic and social outcomes around childhood development and workforce participation. If there are too few workers in the sector – or those who work in the sector do not have the necessary skills and experience – these outcomes will not be realised to their fullest extent
- governments directly influence ECEC workforce outcomes through their policy approaches for the sector and by how they fund and regulate services. And governments may also provide ECEC services and directly employ ECEC workers (as is often the case with state and territory managed preschools for example).

These reasons point to a rationale and a need for governments to play a more active role in developing the workforce for the ECEC sector than they might for many other sectors or industries in the economy.

## **The ECEC workforce helps to deliver important economic and social outcomes**

The Productivity Commission's survey of the research on the effects of ECEC on children's development highlights credible evidence that uptake of ECEC can have positive impacts across a range of domains, from school readiness to longer-term outcomes such as educational attainment, employment and health (paper 1).

A well-functioning ECEC sector also supports families to make choices about caring for children and participating in the labour market (paper 4). For many parents – mainly mothers – access to ECEC is a prerequisite for undertaking paid work. ECEC can also enable families to engage in other activities they value, such as studying or volunteering. ECEC, therefore, has the potential to be something of a 'multiplier sector' – that is, if accessible and well-functioning, ECEC can help to increase workforce supply to other sectors of the economy. Conversely, poor access to ECEC, including because there are too few ECEC workers available to staff services, can exacerbate labour market pressures – a point made by inquiry participants, including the Regional Education Commissioner (sub. 102, p. 2), Early Childhood Australia (sub. 154, p. 60) and the Northern Territory Government, which said:

the limited ECEC workforce is also reducing the capacity of services ... and is particularly problematic in the NT townships of Alice Springs and Katherine. This in turn is inhibiting workforce participation in these communities, including the ability for professionals who provide other essential services such as policing, health, social services and education to return to work after having children. (sub. 157, attachment, p. 12)

While the Northern Territory Government's comment points to the role the ECEC workforce can play in unlocking workforce supply in regional areas (areas where ECEC is often less available, paper 5), ECEC can play a similar role in urban areas too.

If objectives relating to child development and labour force participation (or other valuable activities) are to be fully realised, sufficient ECEC workers must be available. And that workforce must have the skills and experience needed to deliver quality ECEC. This link between the size and composition of the ECEC workforce and the goals that governments seek to achieve through the sector is an important reason why governments have a policy interest in developing the ECEC workforce.

## **As the major funders and regulators of the ECEC sector, governments' decisions directly influence workforce outcomes**

Governments are also a major funder of the sector. As staff costs make up – by far – the largest component of the costs of providing ECEC services, funding provided by governments to the sector can have a major influence on workers' rates of pay, and the resources available for training and professional development.

The ECEC sector is also heavily regulated by governments, and some regulations – such as minimum qualification requirements and educator-to-child ratios – directly impact on the size and composition of the ECEC workforce. The underlying rationale for these regulations is to ensure that the services provided meet a minimum standard of safety and quality. But as well as setting standards, governments have an interest in ensuring those standards are met. Part of this involves monitoring and compliance actions to address instances where workforce regulations are not met. However, given the wider role of governments in the sector and the important policy goals that ECEC seeks to achieve, this also includes developing and supporting the ECEC workforce.

Finally, governments also directly provide some ECEC services – most notably, state and territory managed preschools. This means that governments have an interest in developing the ECEC workforce to ensure the services they provide are well-staffed and effective.

The different roles that governments play in the sector – including as funder, regulator and employer – mean that governments often face a complex set of incentives, including with respect to the ECEC workforce, that do not always perfectly align. For example, government initiatives to expand access to government operated preschool may increase the share of ECEC staff that governments directly employ, but this has the potential to draw workers away from other providers in the sector, reducing their capacity to provide quality ECEC to families.

### **3.3 Workforce constraints are affecting ECEC accessibility**

This section draws on the lived experience of those in the sector, and data on vacancies, waivers and turnover, to examine the extent to which there are workforce constraints in the sector that are impeding families' access to ECEC, and – if there are – what the implications of these might be.

What this section does not seek to do is judge whether there is a shortage of ECEC workers (box 3.2). Such an assessment requires evidence of hiring difficulties or high vacancy rates remaining in the sector *after* employers have raised wages for a sustained period of time in an attempt to attract more workers.

Given the data available, it is difficult to be definitive about whether wages in the sector have risen enough to meet the definition of a shortage. Data from the Australian Bureau of Statistics (ABS) does show that while the hourly wages of educators have increased since 2010, for the most part, the rate of growth has been in line with all occupations. This indicates that while educators' pay has risen in absolute terms, their pay relative to other occupations has remained reasonably constant (figure 3.5).

That said, between 2018 and 2023, educator wages did rise somewhat faster than those of other occupations, which *could* provide an indication that ECEC employers are increasing wages in response to a shortage of suitable workers, although more data points would be needed to verify this trend. The available data is not granular enough to examine the pay of other key ECEC occupations – namely ECTs – which also complicates assessments about whether the sector is facing a workforce shortage.



### Box 3.2 – What is a workforce shortage?

Different definitions have been put forward for what constitutes a workforce shortage. One interpretation is provided by Jobs and Skills Australia.

An occupation is in shortage when employers are unable to fill or have considerable difficulty filling vacancies for an occupation or cannot meet significant specialised skill needs within that occupation, at current levels of remuneration and conditions of employment and in reasonably accessible locations.

In 2023, using this definition, Jobs and Skills Australia assessed both educators (defined as the ANZSCO group ‘child care workers’) and early childhood teachers as being subject to national shortages.

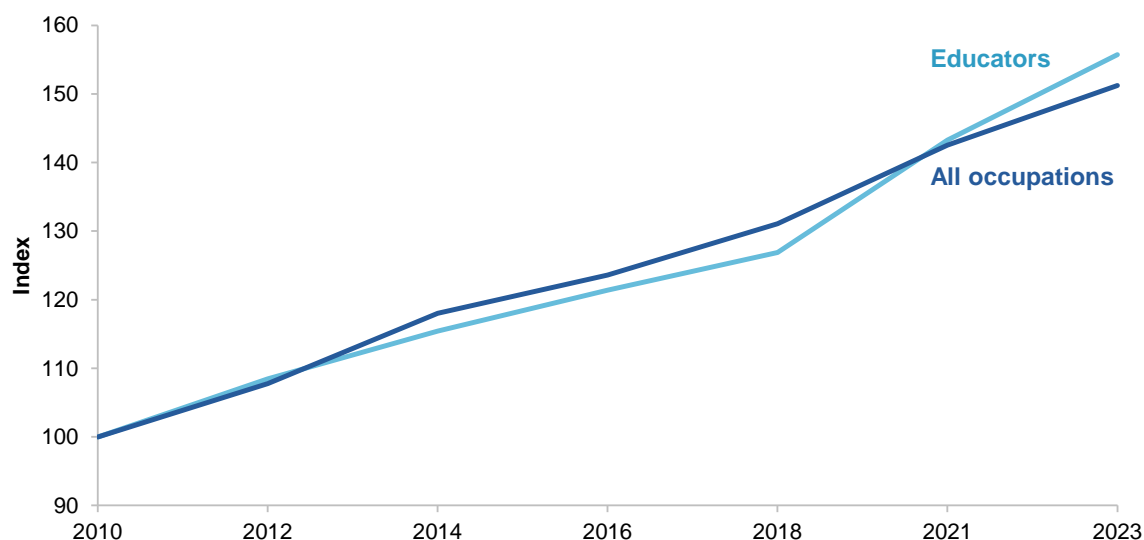
However, this definition is problematic because it presumes that supply should meet demand at the prevailing wage. As the Commission has previously said:

shortages should be identified where employers have difficulties in hiring even after significant wage increases rather than ‘at current levels’.

As such, in order for a sector to be facing a shortage, there must be evidence of both increased wages, and recruitment difficulties remaining after these increases.

Source: Jobs and Skills Australia (2023a, p. 2, 2023b); PC (2023a, p. 34).

**Figure 3.5 – Educators’ hourly wages have grown in line with the broader workforce<sup>a</sup>**  
Index of average hourly total cash earnings, 2010=100



a. ‘Educators’ is based on the ANZSCO occupation group ‘child carers’ and includes nannies.

Source: Productivity Commission estimates based on ABS (*Employee Earnings and Hours, Australia, various years*).

## Many inquiry participants indicated that they were facing workforce constraints and recruitment difficulties

There was a very widely held view among inquiry participants that workforce constraints and challenges recruiting and retaining staff have been impacting on the sector's capacity to provide education and care for children and families (box 3.3). Many participants went as far as saying that the sector is facing a workforce crisis. For example, Thrive by Five – Minderoo said:

across Australia, the ECEC workforce is in crisis, with high turnover, staff shortages and stress being reported by teachers and educators. (sub. 70, p. 17)

And the Salvation Army said:

The ECEC workforce is in crisis – characterised by staff shortages, high turnover and stress. This is of grave concern when the wellbeing and education of children in ECEC is linked with the qualification and wellbeing of the ECEC workforce. (sub. 56, p. 23)

The experiences of inquiry participants suggest that the impacts of workforce constraints are pervasive. Participants identified challenges recruiting and retaining both educators and ECTs, and both large and small providers reported being impacted. Nor were concerns about securing enough staff restricted to just CBDC services, with providers of other care types also indicating that they were being affected. For example, the Outside School Hours Council of Australia said:

like many sectors across Australia, the OSHC sector is also experiencing critical staff shortages now. While staff shortages existed in advance of Covid-19, they have now become acute and unworkable. (sub. 82, p. 8)

The NSW Family Day Care Association reported that the FDC sector was also facing 'an acute workforce shortage and is having difficulty ... in recruiting new FDC educators' (sub, 209, p. 5).

### **Box 3.3 – Submissions and comments from inquiry participants on workforce constraints and recruitment challenges**

Sandgate Kids Early Education:

in several instances, Sandgate Kids have been unable to appoint appropriate qualified people to permanent positions, and they have been left vacant for a period due to staff shortages or have been backfilled by casual educators working towards a qualification. (sub. 51, p. 5)

National Catholic Education Commission:

the education and care sector is extremely challenged in relation to the attraction and retention of experienced, passionate and qualified staff. (sub. 69, p. 5)

The Australian Government Department of Education:

evidence suggests that the ECEC workforce is experiencing long term, persistent challenges, including supply and retention, which have been further exacerbated by the impacts of the COVID-19 pandemic. (sub. 90, p. 42)

### **Box 3.3 – Submissions and comments from inquiry participants on workforce constraints and recruitment challenges**

The WA Government:

workforce shortages are a major constraint to current availability of ECEC places, especially in regional and remote areas. Measures to increase access to quality ECEC services cannot be effective without a sustainable, trained workforce to deliver these services. (sub. 162, p. 11)

Early Childhood Australia:

one of the most critical issues facing the ECEC sector is a significant workforce shortage and continued recruitment challenges. These issues have a direct impact on implementation of a universal approach. (sub. 154, p. 60)

The Australian Childcare Alliance:

ECEC services are taking steps to recruit and train new educators into their services, however, so are [the] majority of services. Consequently, there is exceptionally high demand for prospective ECEC staff new to the sector and attracting already qualified and experienced ECEC staff into services ... The overarching issue is the supply of qualified and experienced Early Childhood Educators and Early Childhood Teachers across Australia. (sub. 150, pp. 38–40)

Brief comment 123:

staffing shortages pose a significant challenge for operators in centre-based services. The demand for qualified early childhood educators often exceeds the available supply, making it difficult to recruit and retain skilled professionals. This shortage not only increases workloads for existing staff but also compromises the quality of care provided, affecting the holistic development of children. Ensuring an adequate number of qualified professionals is crucial for maintaining a safe and nurturing environment.

Royal Far West:

... at the moment we're hearing lots of reports about essential workers not being able to go to work because where there are early learning settings in the bush they're – because of the workforce issues, they're having to limit hours of operation, limit days of operation, it really is at a crisis point. (Royal Far West, transcript, 26 February 2024, p. 9)

While the Commission heard that challenges are an issue in metropolitan areas, several inquiry participants noted that services in regional and remote areas have found it especially difficult to attract and retain staff (for example, National Catholic Education Commission, sub. 69, p. 5; Australian Government Department of Education; sub. 90, p. 40; Meli, sub. 139, p. 2; Glenelg Shire Council, sub. 242, p. 1).

Participants were forthcoming about how these constraints were affecting their capacity to provide ECEC for children and families.

Some inquiry participants said that workforce constraints have meant that they were unable to offer places to families on their waiting list (for example, Phillip Island Early Learning Centre, sub. 5, p. 1). Others reported that services were capping enrolments or closing rooms because they were unable to secure enough staff to run at full capacity (for example; The Parenthood, sub. 122, p. 5). In a survey of services undertaken in February 2023 by the Australian Childcare Alliance (ACA), more than two-thirds of respondents indicated

that they were capping enrolment numbers, which was estimated to amount to over 16,000 forgone ECEC places. In a second survey, undertaken in May 2023, more than half of respondents indicated that they were capping enrolments (ACA 2023b).

Sample survey data collected by the Australian Government Department of Education in late 2023 found that about 86% of services surveyed were operating below full capacity during the reference period, and of these, about 29% were limiting or capping children during the reference period because they were not able to employ enough staff (with some variation by care type) (DoE 2024a, unpublished).<sup>2</sup> This suggests workforce staffing constraints are likely still biting.

Some inquiry participants – mainly from regional communities – pointed to service closures as a result of a lack of staff. For example, Binarri-binyja yarrowoo Aboriginal Corporation reported that the OSHC service in Kununurra has closed due to ‘staffing challenges’ (sub. 85, p. 7). As another example, Graham Costin reported that the kindergarten service in Apollo Bay has ‘too often been forced to close at short notice due to staff shortages’ (sub. 26, p. 1). And in public hearings, the Commission heard about closures in other areas, such as the Kimberly region of Western Australia.

... workforce shortages are at the heart of the current crisis in the Kimberley. The inability to fill vacancies, cover staff leave, and meet educator to child ratios, have seen centres either reducing services or closing altogether. (RDA Kimberly, transcript, 13 March 2024, p. 40)

Family Day Care Australia reported the closure of several FDC services – across a range of states and territories – which has coincided with a significant decline in educators working in that part of the sector (Family Day Care Australia, sub. 66, pp. 4–5).

Closures like these – even if temporary – are likely to cause significant disruption to the children and families affected, and are particularly impactful in regional and remote areas where there are relatively few alternative ECEC options available.

Workforce challenges also impact on workers in the sector, who may feel pressured or obligated to pick up more hours or responsibilities than they would prefer. Some of these potential impacts were pointed to by Thrive Group Tasmania.

Low staff numbers lead to extra expenditure on wages as the remaining staff work overtime to meet the service’s needs ... staff burn out from working too much overtime, but don’t feel able to take time off because of community pressure and the knowledge that if they are away the service may need to close. (sub. 81, p. 1)

Others pointed to shortages contributing to staff being asked to take on responsibilities that they were not ready or are underqualified for, such as Certificate III staff taking on functions more appropriately undertaken by Diploma-qualified educators, or staff taking on key leadership and management roles with minimal experience (International Child Care College, sub. 293, p. 6, Community Child Care Association, transcript, 5 March 2024, p. 91).

## Vacancy data points to recruitment challenges

As well as drawing on the lived experience of those in the sector, another way to form conclusions about the presence and size of workforce constraints is to examine vacancy data. Such data is collected by Jobs and

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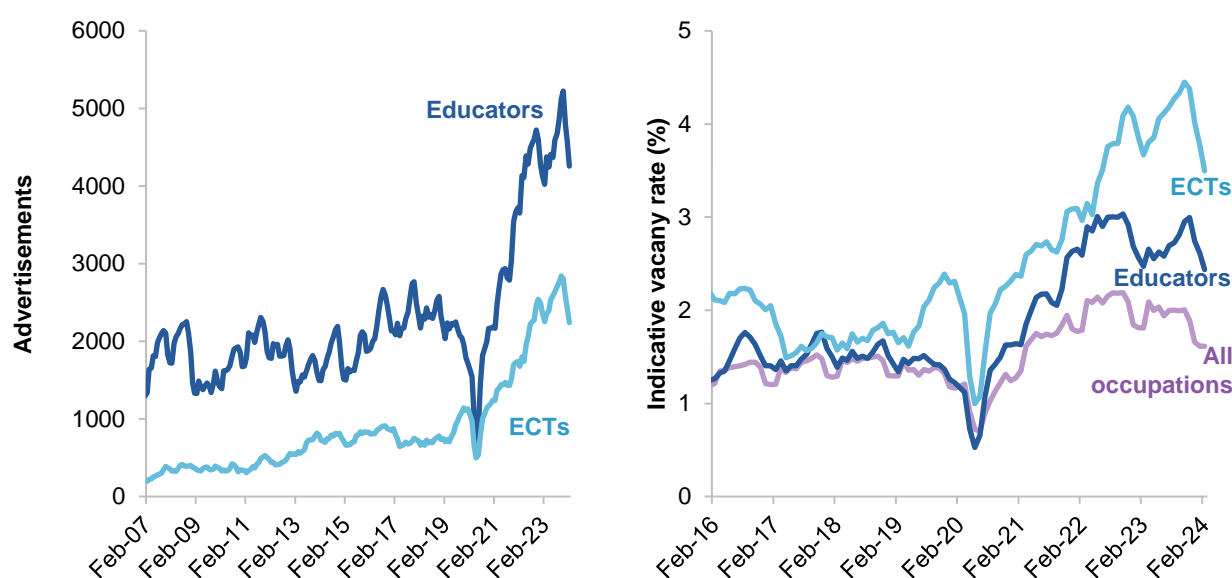
<sup>2</sup> Of services that reported not operating at full capacity, 43% of OSHC services, 23% of CBDC services, and 21% of FDC services were limiting or capping the number of children they accepted during the reference period due to not having enough staff.

Skills Australia through their Internet Vacancy Index, which provides a month-by-month count of online job vacancies since 2006 by ANZSCO occupation (box 3.1, above).

Despite moderating somewhat in recent months, vacancies for educators and ECTs remain near record highs, after climbing rapidly in the wake of the COVID-19 pandemic (figure 3.6, left panel). The Commission has also calculated indicative vacancy rates for educators and ECTs using Jobs and Skills Australia's internet vacancy data and estimates of occupational employment over time (figure 3.6, right panel). Vacancy rates compare total vacancies with the number of jobs in a sector and are a better indicator of the difficulty of attracting staff. Vacancy rates for both educators and ECTs have grown since the pandemic, and presently sit well above the rates for all occupations. Vacancy rates for ECTs remain higher than those for educators.

**Figure 3.6 – Vacancies in the sector have climbed post-pandemic<sup>a,b</sup>**

**Advertised vacancies and indicative vacancy rates, to February 2024**



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

Source: Productivity Commission Estimates based on Jobs and Skills Australia (*IVI index and NERO model - data downloaded on 26 March 2024*).

Analysis by the ACCC found that vacancies for CBDC staff are highest in remote and very remote locations, further suggesting it is in these areas that workforce challenges are most pronounced (ACCC 2023b, p. 75).

Survey data collected from a sample of services in late 2023 points to all care types having trouble filling vacancies during the survey reference period. More than three-quarters of FDC services and more than 80% of OSHC services that participated in the survey reported that filling vacancies was difficult or very difficult, while 75% and 66% of CBDC services that participated in the survey reported that they found it either difficult or very difficult to fill vacancies for ECTs and educators respectively. Services that participated identified receiving too few applications, applicants lacking necessary qualifications and applicants lacking the necessary experience as the most common reasons for why they were experiencing recruitment difficulties during this period (DoE 2024a, unpublished).

## Concerns about staff retention and turnover remain

As with other organisations and sectors, high turnover rates can make it more difficult for ECEC services to sustain a capable workforce, and can mean services have to devote considerable time, effort and resourcing to recruiting and training new staff. But high turnover rates have additional impacts in ECEC, in that they can disrupt the rapport that children and families develop with ECEC staff – a relationship that the Commission heard is highly valued (box 3.4).

### **Box 3.4 – Children and parents value their relationships with educators and teachers**

As part of this inquiry, the Commission commissioned two reports in order to better understand the perspectives of children and what they value from attending ECEC. The first of these reports, undertaken by the Front Project with the Creche and Kindergarten Association (2024), centred on the experiences of children in centre-based day care (CBDC) settings, while the second, led by Jennifer Cartmel from Griffith University (Cartmel et al. 2024), focused on children in outside of school hours care (OSHC).

In capturing the experiences of children in ECEC, both reports commented on the rapport that children have with their educators and teachers. For example, one of the children spoken to as part of the OSHC study indicated the important role that educators play in this setting.

They plan activities. They look after us. (p. 15)

An important theme that emerged through the study was that children valued consistency in the educators who provided ECEC for them.

It was also noted that to build trusting relationships with children and between children it was expected that there is consistency of the workforce. This helped children feel safe to be themselves in the space they shared with adults and other children. They wanted educators who knew them – what they like to eat, what they like to do, and would take time to talk to them. (p. 15)

Drawing on their consultations with children, the Front Project and the Creche and Kindergarten Association found that educators and teachers were also valued by younger children, and played an important role in helping to reflect and foster relationships and connections in children's lives.

The connections that ECEC settings developed with their community enabled children to explore places within their local area as well as explore the environment, history, and culture of their place. Children referenced the direct relationships and connections that they had with their teachers and educators with feelings of affection and in relation to the support they offered. The connection between children and their teachers and educators were also important because of the way they reflected and fostered other significant relationships and connections – such as those with their family, peers, community, and place. (pp. 40–41)

The Commission also heard from parents who expressed their appreciation for ECEC educators and the role they play in the lives of children.

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

### **Box 3.4 – Children and parents value their relationships with educators and teachers**

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)

Data collected by the Australian Children's Education and Care Quality Authority indicates that having highly skilled educators is consistently one of the most important factors families consider when choosing which ECEC services they will use (ACECQA 2023c, p. 50).

Numerous inquiry participants told the Commission that the sector is experiencing high turnover<sup>3</sup>: Goodstart Early Learning noted that turnover rates are particularly high for workers in their first three years working in the sector sub. 277, p 77).

Data on employee turnover rates of large CBDC providers was collected by the ACCC in 2023 as part of its childcare inquiry, which found that large for-profit providers had turnover rates of over 40% in 2022 (coinciding with the very tight labour market immediately after the COVID-19 pandemic), while large not-for-profit providers had turnover rates of about 27% (ACCC 2023b, p. 56).

More recently, sample survey data collected on behalf of the Australian Government Department of Education estimated average turnover rates (for the four months from July to October 2023) of:

- 21% for ECTs working in CBDC
- 14% for educators working in CBDC
- 15% for staff working in OSHC
- 10% of staff working in FDC (DoE 2024a, unpublished).<sup>4</sup>

As an indicative benchmark, ABS data indicates an economy-wide turnover rate of about 17%<sup>5</sup> between February 2022 and February 2023 (noting that this is not perfectly comparable with the data above). Taken together, the analysis undertaken by the ACCC and the survey data collected on behalf of the Australian Government Department of Education suggest that turnover rates in parts of the ECEC sector are higher than those experienced across the economy as a whole.

However, what is not captured in the above data is the split between workers who are leaving their employer to work for another employer in the sector *vis a vis* people leaving their employer and exiting the sector entirely. This is an important distinction – and from a sector-wide workforce planning perspective, the latter is of more interest because it means that the worker is effectively 'lost' to the sector, as opposed to the former, where the worker remains in the sector and still provides education and care to children, albeit with a different employer.

<sup>3</sup> This included: the Child Development, Education and Care Research Group, sub. 19, p. 4, United Workers Union, sub. 147, p. 1; the Northern Territory Government, sub. 157, attachment, p. 11; Faculty of Education, Monash University, sub. 80, p. 4; Brief comment 84.

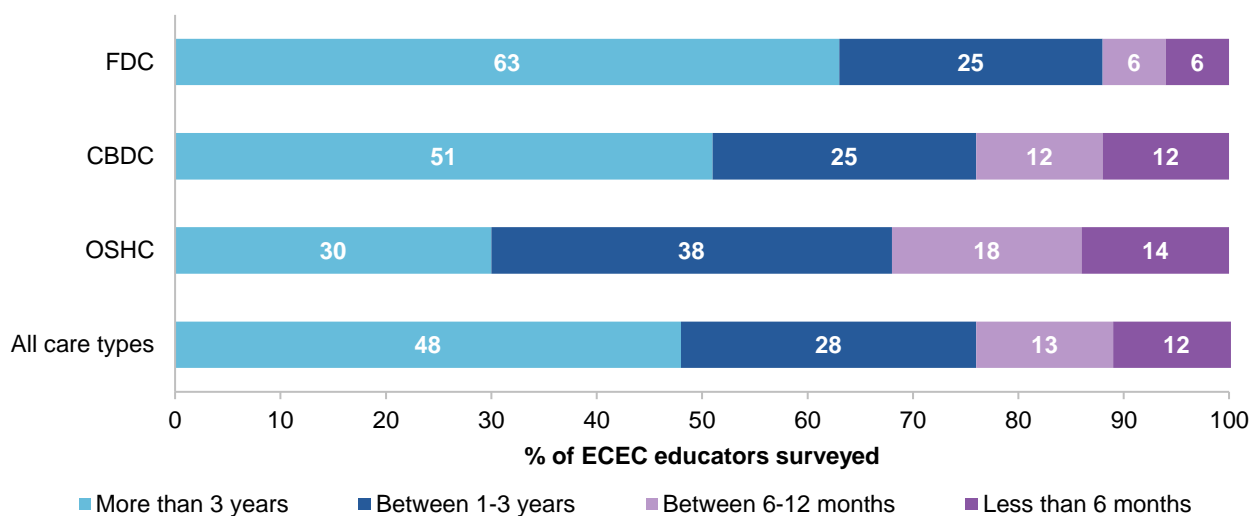
<sup>4</sup> Turnover rates were calculated as the number of employees who left the surveyed service between 1 July and 30 October 2023, divided by the average number of employees during the same period. The average number of employees was estimated as the average of the number of staff employed at the service as at 30 June 2023 and the number of staff employed at the service as at 30 October 2023.

<sup>5</sup> Productivity Commission estimates based on ABS (Job mobility, February 2023). Estimates were calculated by dividing the number of people who left or lost their job in the year to February 2023 (2.3 million people) by the average employment across February 2022 and February 2023 (13.6 million people).

Throughout this inquiry, the Commission has heard that the share of workers who are leaving their employers to exit the sector (rather than just changing jobs within the sector) is significant. This is consistent with the Commission’s analysis of Census longitudinal data, which showed that about half of those who identified working in ECEC in the 2006 Census had exited the sector by the 2011 Census, and a similar proportion who were working in the sector in 2011 had exited by 2016 (which is consistent with figure 3.4 above). The Commission heard that those leaving the sector often found employment in the school and retail sectors, while others left the labour force entirely (Byron Bay Preschool, sub. 18, p. 2; Goodstart Early Learning, sub. 125, p. 36; Outside School Hours Council of Australia, sub. 82, p. 8, Brief comment 25).

Attitudinal data collected via a voluntary sample survey of 5,643 ECEC educators (DoE 2024a, unpublished) also points to a reasonable share of the survey respondents looking to exit the sector in the near future, with roughly one-in-four respondents indicating that they want to work in the sector for no more than 12 more months. There was some variation by service type, with FDC respondents less likely, and OSHC respondents more likely, to report wanting to exit the sector within 12 months (figure 3.7). The higher proportion of OSHC respondents looking to exit the sector, likely reflects the different composition of the OSHC workforce and the split nature of OSHC work days.

**Figure 3.7 – Educator intentions to remain in the ECEC sector by service type**  
**Distribution of sector staff responses when asked how much longer they would like to stay working in the ECEC sector, by care type, 2023**



Source: DoE (2024a, unpublished).

### Waiver data suggests that many services are struggling to meet their workforce requirements

Data collected by the Australian Children’s Education and Care Authority (ACECQA) suggests that the share of services with a staff waiver in place has increased significantly over the past decade – rising from about 3% in the third quarter of 2013 to nearly 10% in the fourth quarter of 2023 (figure 3.8). This provides another indication that workforce constraints are having a significant impact on the sector, and that this impact is more significant now than what it was in the past.



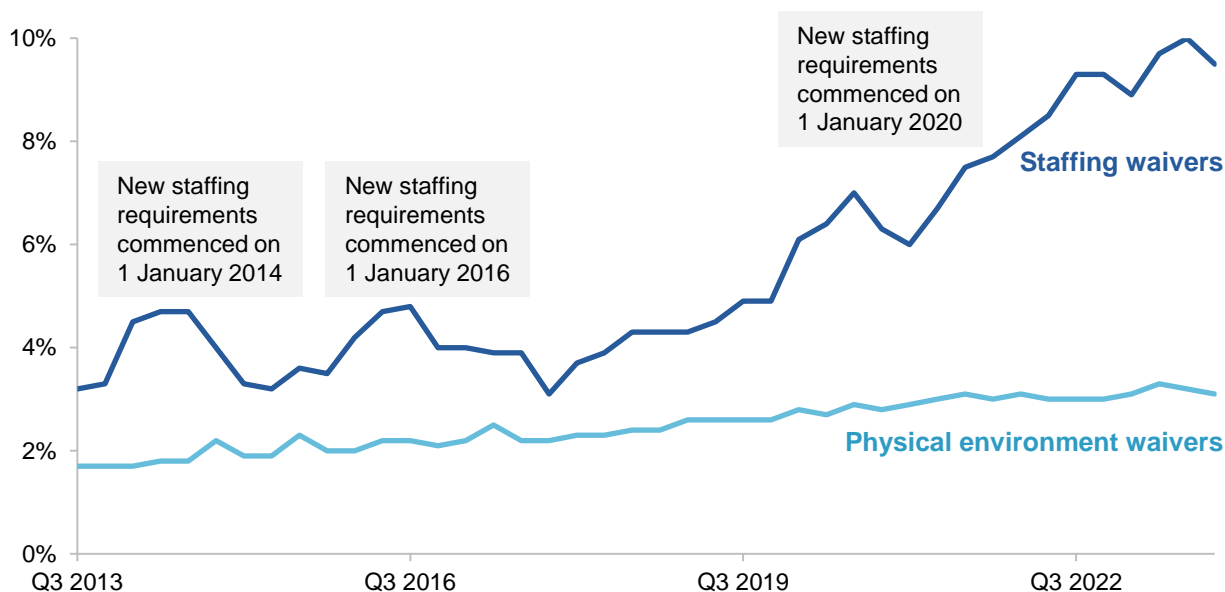
In February 2023, waivers were overwhelmingly held by long day care services<sup>6</sup> (about 92%), with most of the remainder granted to preschools/kindergartens and OSHC services (just under 4% each).

Most waivers exempted services from requirements for ECTs (figure 3.9). This suggests that services were having the most trouble meeting these requirements and provides further evidence of services having difficulty recruiting and retaining ECTs. Almost all these exemptions were granted to long day care services, and very few were granted to preschools (which compete with long day care to secure teachers) suggesting that long day care services are having much more difficulty meeting teacher requirements.

A smaller number of waivers were related to general educator qualification requirements – these were split between long day care services (55%), OSHC services (32%) and preschools (13%) – suggesting that some services across all these service types are struggling to meet these requirements.

### Figure 3.8 – The share of services with staffing waivers has increased significantly since 2013

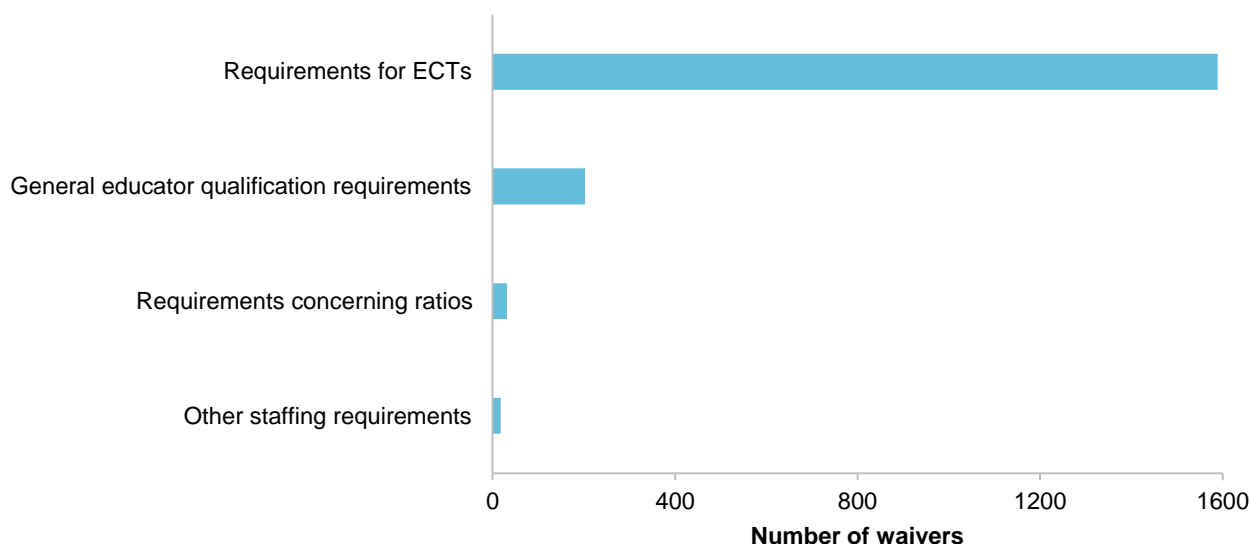
#### Proportion of services with a waiver, by quarter, by category, 2013–2023



Source: ACECQA (2024b).

<sup>6</sup> The NQF categorises service types differently to the classification system used for the Child Care Subsidy (CCS), which has been adopted throughout this report. Long day care services refer to centre-based services which provide all day or part-time care for children aged birth to six who attend on a regular basis (ACECQA 2024a, p. 683).

**Figure 3.9 – Most staffing waivers are granted for requirements associated with ECTs<sup>a</sup>**  
**Number of waivers in force as of 15 February 2023, by exemption area, all service types**



a. The Commission has classified the following regulations of the Education and Care Services National Regulations as containing requirements related to ECTs: Regulation 130; Regulation 131; Regulation 132; Regulation 133; Regulation 134 and Regulation 272. The Commission has classified the following regulations as containing general educator qualification requirements: Regulation 126; Regulation 127; Regulation 128; and Regulation 321(2). The Commission has classified the following Regulations as containing requirements concerning ratios: Regulation 123; Regulation 123A; and Regulation 124. The Commission has classified the following regulations as containing other staffing requirements: Regulation 72A; Regulation 120; and Regulation 136. Missing observations have been excluded.

Source: Productivity Commission estimates based on ACECQA administrative data (unpublished).

### Evidence suggests workforce constraints are biting ...

Looking at the suite of evidence – including the lived experience of inquiry participants, vacancy data, turnover data and data on waivers – it is apparent that the ECEC sector is experiencing considerable workforce challenges. Constraints for ECTs appear to be most severe but are present for educators as well. And while there are challenges in metropolitan areas, regional and remote areas seem particularly affected.

As a result, ECEC is less accessible than it would be if there were more ECEC workers available. Many families are unable to access ECEC – or are unable to access as much ECEC as they would like – to the detriment of children’s developmental outcomes and the workforce participation opportunities of their parents.

The ECEC sector has experienced reasonably rapid growth over the past decade – with the number of services increasing by about 25% and the number of approved places offered increasing by nearly 50% in the ten years to 2023 (paper 5). To some extent, it is natural that such a substantial rate of growth over a relatively short period of time is contributing to workforce challenges, especially because minimum qualification requirements – while being an important way to maintain ECEC quality – can limit the extent that the workforce can immediately grow in the wake of increased demand for staff.

Cyclical factors are also likely driving part – and potentially a relatively large part – of the workforce challenges facing the sector. Since the COVID-19 pandemic, the Australian economy as a whole has been characterised by relatively low unemployment, near record levels of vacancies and higher job switching by employees<sup>7</sup>, pointing to competition for labour remaining high across the entire economy. Given these

<sup>7</sup> ABS (Labour Force, Australia, April 2024, Job Mobility, February 2023), Jobs and Skills Australia (Internet Vacancy Index).

cyclical factors, it is therefore likely that some of the workforce challenges facing the sector will moderate to an extent when more capacity returns to the broader labour market.

However, there is also evidence to suggest there are structural factors at play. While workforce constraints may be particularly impactful now given the generally tight labour markets, challenges have persisted for some time. For example, the Commission heard evidence of shortages affecting the sector as far back as 2011 (PC 2011), and in its previous inquiry into the sector in 2014, noted that it was presented ‘with substantial evidence ... of widespread staff shortages in the ECEC sector, particularly in long day care’ (PC 2014, p. 327). This suggests that there are some structural factors contributing to there being too few ECEC workers to meet demand – including relatively unfavourable pay and conditions, qualification and career pathways that are difficult to access, and a lack of support for professional development. These are explored in more detail below.

### **... and without action, there is a risk that workforce constraints will remain problematic over coming years**

There is likely to be some growth in the ECEC workforce in the near future. Data on Vocational Education and Training (VET) enrolments shows some growth in the number of students enrolled in ECEC VET courses in recent years – there were about 113,000 students undertaking an ECEC VET course in 2022, compared with about 105,000 in 2018. However, there has been a significant compositional shift in the courses undertaken, with a relatively larger share of students undertaking Certificate III level qualifications, and a relatively smaller share studying diplomas (figure 3.10). Data on enrolments and completions for university-level early childhood teaching courses also points to an increase in enrolments. Completions have also increased, but at a lower rate (figure 3.11). While not pictured, enrolments in primary school-level teaching courses (which are commonly identified as an alternative teaching option to working in ECEC) were relatively steady from 2012 to 2022 (at about 30,000 enrolments each year), but the number of completions fell over this period.

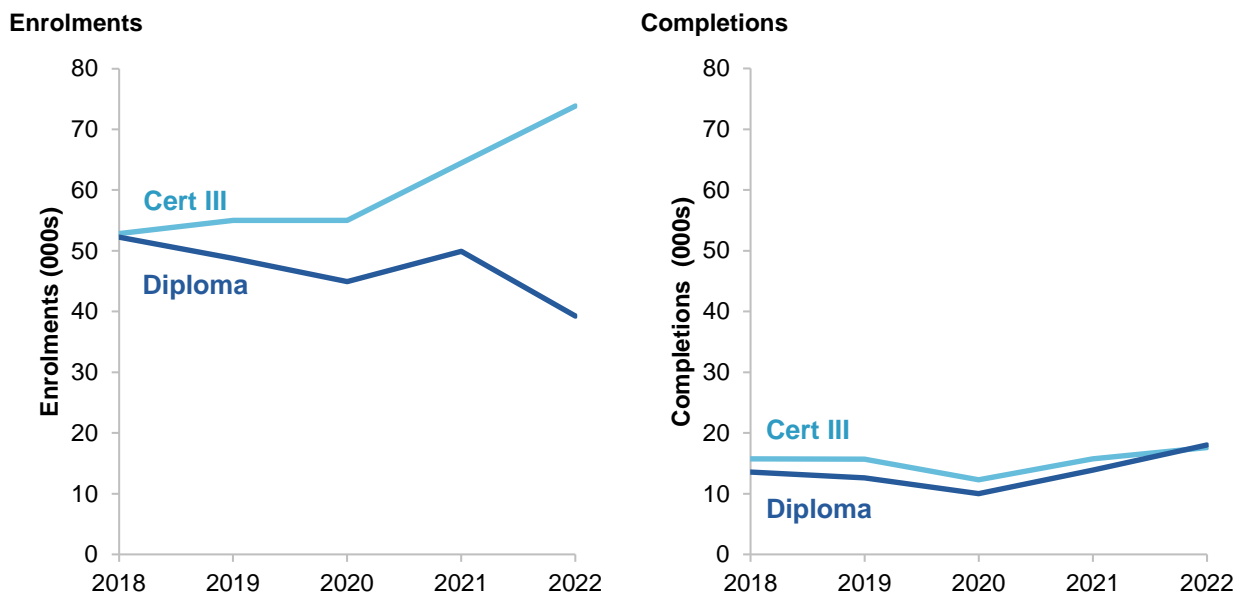
The increase in enrolments in ECEC-related qualifications, both at a VET and a university-level, is positive, and assuming this translates into increased completions, may be a sign of increased workforce growth over the next few years. But demand for ECEC workers can be expected to grow in coming years too. The number of children in Australia continues to grow – the ABS projects there will be about 114,000 more children aged 0-12 in 2034 compared with 2024.<sup>8</sup> And in addition to *more* children potentially needing ECEC services, governments have implemented reforms that aim to increase the *amount* of subsidised ECEC that children and families can access. This includes initiatives being undertaken by several state and territory governments to reduce fees or expand preschool hours for four-year-old children and preschool access for three-year-old children (appendix E). This increased demand will be further elevated by the recommendations made by the Commission, which, if adopted, can also be expected to lead to increases in families’ demand for ECEC services and consequently demand for ECEC staff.

Indicative estimates by the Commission suggest that – under the Commission’s proposed changes to the Child Care Subsidy and activity test (set out in recommendation 6.1) – about 20,000 more ECEC workers could be needed in CCS-approved services alone to accommodate the increased demand from those changes (that is, not including growth in the workforce of dedicated preschools, and not including the number of staff needed to fill existing vacancies in the sector). Workforce estimates produced for Jobs and Skills Australia also point to strong future demand for ECEC staff, with estimates of the increase in staff needed (to 2034) ranging between 1.5% to 3% a year depending on the policy settings modelled. For ECTs, the projections range from 1.4% to 5.4% a year (Jobs and Skills Australia 2024b, forthcoming).

<sup>8</sup> Under its medium growth scenario. ABS (Population Projections, Australia, November 2023, table B.9).

**Figure 3.10 – While enrolments in Certificate IIIs have increased, enrolments in Diplomas have declined, and completions have somewhat increased**

**Number of enrolments and completions in ECEC VET courses, 2018–2022<sup>a</sup>**

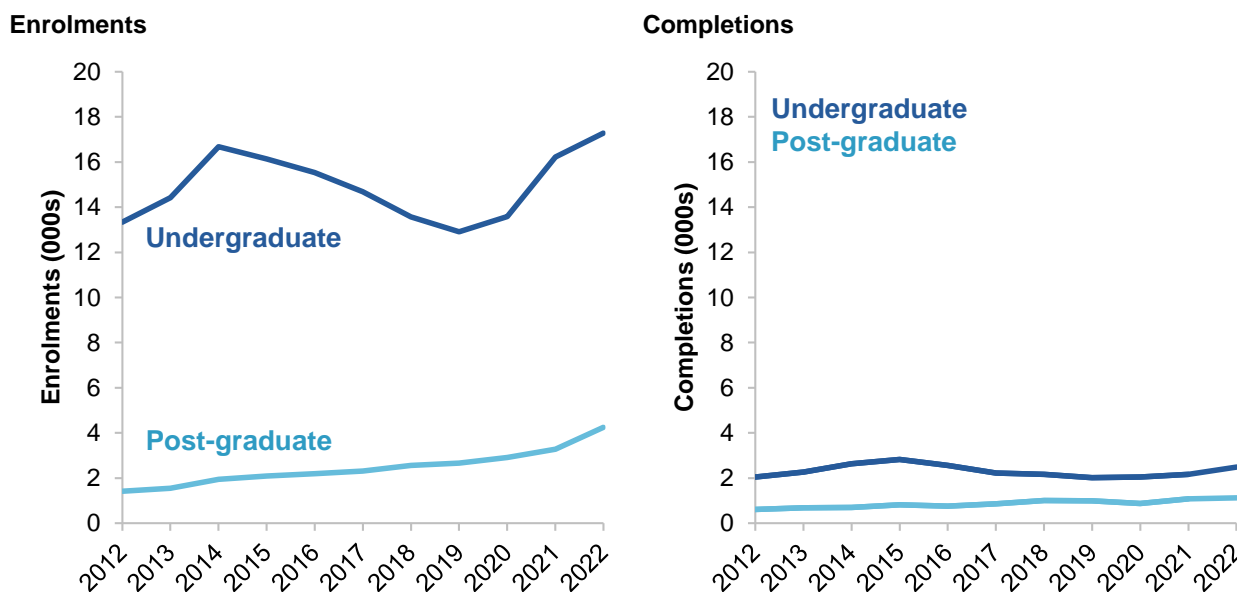


a. The courses captured in this figure are Certificate III in Early Childhood Education and Care (course codes CHC30113 and CHC30121) and Diploma of Early Childhood Education and Care (course codes CHC50113 and CHC50121).

Source: NCVET (2023a).

**Figure 3.11 – ... and while enrolments in early childhood teaching programs have increased significantly, completions have increased at a lower rate<sup>a,b</sup>**

**Enrolments and completions in Early Childhood teaching courses, 2012–2022**



a. Classification of courses is determined by individual higher education institutions based on the Australian Standard Classification of Education. ACECQA has noted that ‘[as] a general rule birth to five and birth to eight focussed programs are classified as ‘early childhood’ while birth to 12 programs are typically, however not exclusively, classified as ‘primary’ (ACECQA 2019b, p. 25). b. An ‘enrolment’ exists when a person has been admitted to a course and is at a higher

education institution at the census date, and the person is entitled to continue with their studies and has not formally indicated before the census date that they have withdrawn (DoE 2023b). A 'completion' is the successful completion of all the academic requirements of a course (DoE 2023b).

Source: Productivity Commission estimates based on DoE data (unpublished).



### 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.

## How should governments respond to these workforce challenges?

Recognising the public benefits that arise from families' access to ECEC (in the form of improved developmental outcomes for children and greater scope for workforce participation by parents), governments have an interest in helping to alleviate any workforce constraints that threaten to restrict families' access to ECEC – particularly when such constraints are widespread or persistent.

The need for governments to play a role developing the ECEC workforce is heightened where and when there are significant step changes in the demand for ECEC services because of government initiatives to improve the accessibility or affordability of ECEC. The expansion of preschool programs underway in several jurisdictions – and is proposed in others – is an example of such a step change. If adopted, the proposed reforms to introduce greater universality into the ECEC system that are outlined in this report will be another.

In addition to assisting with growing and developing the ECEC workforce in response to any major changes in government policy, governments also have a responsibility to identify and address any structural or systemic factors that may unnecessarily hold back workforce growth. The fact that workforce constraints have been present for some time suggests that such factors are present in the ECEC sector. Addressing these structural factors should be a focus for government action.

However, in undertaking action, governments need to be mindful that any attempts to build the ECEC workforce can also impose costs on the community. These costs can include resources spent on initiatives to grow and develop the ECEC workforce that could be spent elsewhere. Costs can also arise when government actions to grow the ECEC workforce entice workers to come to the sector from other parts of the economy where they may be needed more. The risk of these costs is particularly heightened in times when there is limited spare capacity in the labour market. If these costs are large (relative to the benefits of having more ECEC workers), they can impose a net cost on the community.

Governments must be alert to these potential costs, and in undertaking any actions to build the ECEC workforce, seek to minimise them by ensuring that their interventions are:

- timely – that is, interventions are started when they are needed and stopped once the need for them has passed
- well targeted and proportionate to the problems, challenges or barriers that they seek to address
- underpinned by effective monitoring and evaluation processes to ensure any resources are prudently and productively used, to guard against unintended or perverse consequences, and to understand how interventions can be improved.

The Commission has drawn on these principles when assessing how governments should exercise their policy levers to help develop an ECEC workforce that is well placed to meet the demands that will be placed on the sector in the future.

There is no single policy lever available to governments to address the constraints the sector is facing. Rather, a suite of policy actions is needed that address the structural factors that are impeding the growth and retention of the ECEC workforce, some which will take time before their full effects are realised.

The Commission acknowledges that governments and sector participants have already charted a series of actions to develop the ECEC workforce through the National Children's Education and Care Workforce Strategy (*Shaping our Future*) (box 3.5).

**Box 3.5 – The National Children's Education and Care Workforce Strategy (*Shaping our Future*)**

In late 2019, Australian Education Ministers endorsed the development of a 10-year national workforce strategy as a joint partnership between all governments, the children's education and care sector and other stakeholders. The Australian Children's Education and Care Quality Authority (ACECQA) was responsible for coordinating the development of this strategy.

In September 2021, the National Children's Education and Care Workforce Strategy (*Shaping our Future*) was released. The overarching vision of the strategy is that 'the children's education and care sector has a sustainable, high-quality workforce of teachers and educators that is highly respected and valued by the broader community.' The strategy identifies 21 actions to be undertaken across six focus areas (professional recognition; attraction and retention; leadership and capability; wellbeing; qualifications and career pathways; and data and evidence). The strategy provides a rationale for each action and provides a brief overview of what needs to be done.

An Implementation and Evaluation Plan for the strategy was released in August 2022. It provides a high-level overview of how the actions identified in the strategy will be undertaken and how progress will be tracked. It also outlines some basic governance arrangements, including that progress updates will be provided to Education Ministers on a regular basis to inform implementation and future priorities. Actions in the strategy are to be subject to biennial review and amended as appropriate, particularly in response to emerging priorities.

Since being developed, 17 of the 21 actions have been 'accelerated' (Australian Government Department of Education, pers. com., 27 October 2023).

Source: ESA (2021, 2022b).

Several inquiry participants emphasised the importance of implementing the strategy to the Commission (for example: Albury Preschool, sub. 43, p. 3; Corowa Preschool, sub. 44, p. 2; G8 Education, sub. 68, p. 3; Howlong Preschool, sub. 77, p. 2; Community Early Learning Australia sub. 92, p. 6; and Community Child Care Association sub. 111, p. 6).

The Commission's broad view is that governments' implementation of the strategy should continue, with oversight and reporting arrangements on progress implementing the strategy shifted to the proposed ECEC Commission (paper 10). However, there is scope to improve the strategy's usefulness and influence as a

tool to guide governments' actions to grow and develop the ECEC workforce into the future (which is explored in section 3.9).

That said, the Commission heard concerns from some participants that the actions of the strategy either lacked ambition or were potentially insufficient to address the workforce challenges affecting the sector. For example, the Australian Research Alliance for Children and Youth said:

the 2021 strategy, *Shaping our Future ...* was developed when the workforce issues were less pressing than they are now ... and was not backed with significant new funding commitments from the Commonwealth to the States to support the workforce. (sub. 107, p. 9)

Along a similar vein, Goodstart Early Learning said:

the Strategy was outdated even when it was published, with a list of actions that are significantly inadequate to the scale of the challenge the sector faces. The Workforce Strategy largely consists of a long list of reviews with no resourcing for major action. (sub. 277, p. 88)

And the Australian Education Union told the Commission:

... a 10 year plan is great, but the needs of the workforce are more urgent than that. The initiatives can't wait for a 10 year strategy to be rolled out ... there needs to be greater resourcing for some of that work to be sped up in order to support what is needed, the support and the development of the workforce. (transcript, 7 March 2024, p. 49)

The recommendations outlined in the remainder of this paper represent opportunities for the actions of the strategy to be expanded, supplemented or expedited, and incorporated into future versions of the strategy.

### **3.4 Setting goals for the ECEC workforce**

Before considering specific actions to respond to workforce constraints, it is useful first to consider and craft goals for the ECEC workforce. These goals can set out the long-term aspirations for the ECEC workforce, guiding the actions of governments to grow and develop the workforce, and providing yardsticks against which progress can be assessed.

Many inquiry participants presented their goals for the ECEC workforce (a subset of which are outlined in box 3.6).

Governments have expressed aspirations for the ECEC workforce too. For example, a vision for the workforce is set out in the National Children's Education and Care Workforce Strategy (*Shaping Our Future*), which was developed by the Education Ministers Meeting (consisting of the education ministers from the Australian, state and territory governments) (ESA 2021). This vision is that:

the children's education and care sector has a sustainable, high-quality workforce of teachers and educators that is highly respected and valued by the broader community (p. 6).

### **Box 3.6 –Participants’ goals for the ECEC workforce**

Many inquiry participants presented their goals and aspirations for the ECEC workforce.

**KU Children’s Services:**

ECE has a stable, skilled, and well-resourced workforce. (sub. 83, p. 8)

**Northside Community Service:**

the ECE system is viewed with the same respect and value as primary and secondary education, and educators are paid and supported as professionals. Governments fund the system directly, and ensure that educators and teachers working in the system are well-paid, have access to high-quality professional development and are supported to ensure the learning and wellbeing of all children (sub. 29, p. 2).

**Goodstart Early Learning:**

the ECEC workforce should be valued, respected and paid as a key component of the education system, comparable to schools. (sub. 125, p. 38)

**The Australian Education Union:**

secure employment, appropriate recognition, remuneration, career paths and the status of early childhood teachers and educators must be a priority. This must include parity of salary and conditions with other education sectors, irrespective of the location or centre type in which preschool education is provided and must ensure fair and reasonable workloads. Raising the status of the profession within society should also be a priority, to help the community understand the expertise and qualifications required to teach young children. (sub. 144, p. 9)

**Brief comment 71:**

early childhood educators need better recognition through their pay, entitlements and working conditions.

The Draft National Vision for ECEC – a more recent joint initiative of Australian, state and territory governments – also articulates a vision for the sector’s workforce, this being that:

the ECEC workforce is highly skilled, valued, and professionally recognised and the sector is supported to attract and retain workers.

The Draft Vision also set out some associated outcomes.

- ECEC workers are valued and respected
- A sustainable and experienced workforce builds relationships with children
- Workers feel supported and are retained in the sector
- New workers are inspired and supported to train and work in the ECEC sector. (DoE 2023c)

The outcomes for the ECEC workforce set out in the Draft National Vision for ECEC largely correspond to the core considerations that the Commission has focussed on as it has developed its recommendations. But



in some cases, the Commission has taken these principles further by considering what their successful application looks like in practice. The Commission's goals for the ECEC workforce include that:

- pay and conditions are sufficient to attract and retain enough qualified workers 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 use it, and for outside school hours care to be available in all public schools where there is sustainable demand
- there is a pipeline of future educators and teachers that will meet future ECEC demand
- the ECEC workforce has 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.

The goals for the ECEC workforce should be formally articulated in an enhanced ECEC workforce strategy (recommendation 3.12). Significantly, this would mean that progress towards achieving these workforce goals would be considered as part of the proposed ECEC Commission's (recommendation 10.2) public reporting functions – which would include reporting on government's progress on implementing the workforce strategy and whether this progress has brought the sector closer to the workforce goals. This would, in turn, inform government actions on whether they need to adjust their policy settings further to realise their goals for the ECEC workforce.



### 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.

## 3.5 Pay and conditions to sustain the ECEC workforce

### The ECEC workforce is low paid

Many inquiry participants cited prevailing pay and conditions as one of the most significant factors (and for some, the most significant factor) contributing to the workforce constraints faced by the sector. Many commented that rates of pay are not in line with the professional nature of the work undertaken by the

workforce, nor the central role that ECEC workers play in educating children. The Brotherhood of St Laurence, for example, submitted that:

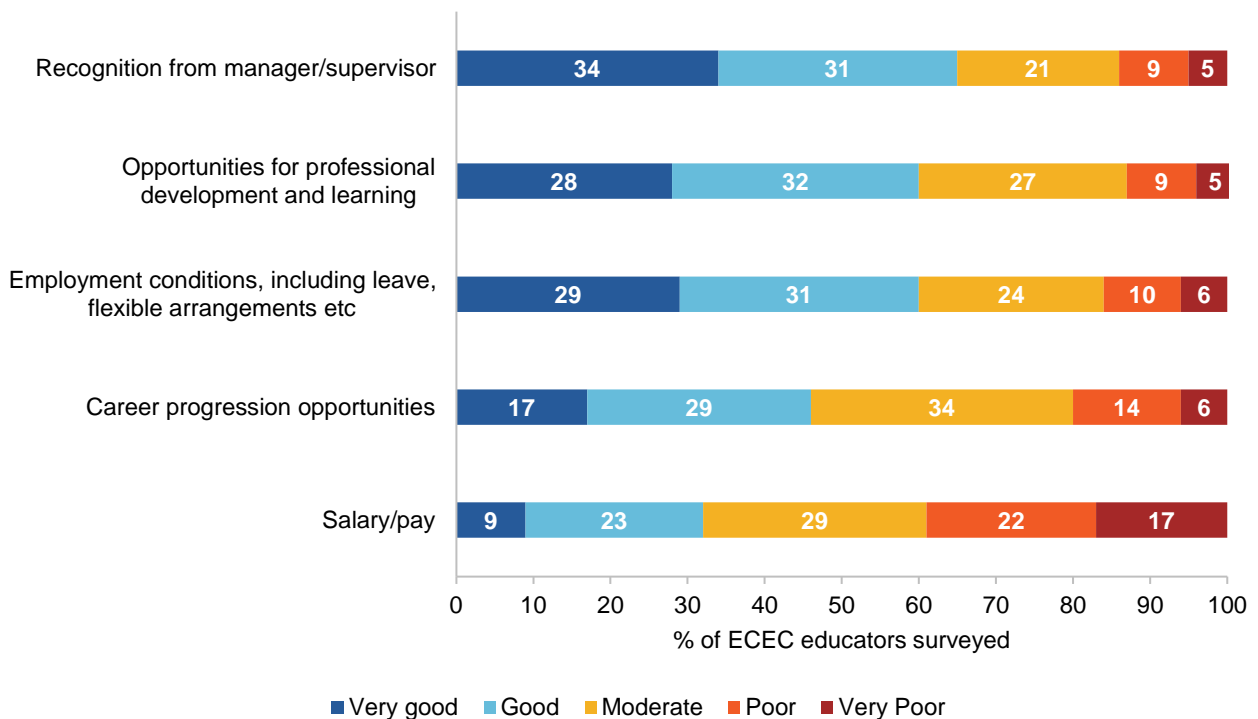
current levels of pay do not reflect the importance of early childhood development, the high levels of responsibility that early childhood workers assume, and the value they contribute to society. (sub. 96, p. 11)

While a brief comment provided to the Commission said:

early years educators have complex roles and shoulder great responsibility. They look after the many needs of children and families and are expected to do it all with a smile. The peak body ACECQA sets the benchmark for education standards that must be complied with and it is the most highly regulated sector. All this and workforce shortages put even more pressure on teachers and educators who are paid little and feel undervalued. They deserve better for the important work they do for without them no one else can work and most importantly, the first five years are crucial to brain development. (Brief comment 27)

Attitudinal data collected via a voluntary sample survey of 5,643 ECEC educators showed that a significant share (about 40%) of those working in the sector considered their pay to be poor or very poor (figure 3.12). There was considerable variation by ECEC type, with CBDC staff surveyed more likely to report their pay as poor or very poor (about 44%) compared with OSHC (22%) and FDC (17%).

**Figure 3.12 – Educator perceptions of various aspects of their current job**  
**Educator ratings of various aspects of their jobs**



Source: DoE (2024a, unpublished).

Many ECEC workers feel that their wages do not reflect the professional nature of their work (Irvine et al. 2016, p. 5; McDonald et al. 2018, p. 657), or that their work is undervalued by the community, including through the COVID-19 pandemic, when services generally remained open after other industries shut down

(McFarland et al. 2022, pp. 183–184; Murray et al. 2022, p. 140). Inquiry participants also pointed to a disparity between how the sector is valued in terms of pay and the responsibility placed on it during lockdowns. For example, Gowrie SA said:

it was effectively demonstrated during the pandemic just how vital ECEC services are to the Australian economy. ECEC leaders and educators continued to work throughout the entire pandemic while other businesses closed down or moved to work from home arrangements to protect staff from infection. The ECEC sector more keenly felt undervalued and underpaid leading to the current workforce crisis (sub. 25, p. 13).

While another inquiry participant said:

it is disappointing that during the recent pandemic Early Childhood Educators were expected to become essential workers. This was described as keeping the economy ticking over. This was while receiving extremely poor wages and conditions – and no increase in sick leave ... (Brief comment 126)

The Commission also heard that pay in the sector was so low that it left some workers in a precarious financial position – something that has also been identified in a range of studies and surveys (box 3.7).

### **Box 3.7 – Studies into the financial position of ECEC workers**

Several studies have examined the financial position of ECEC workers. For example:

- Drawing on interviews with educators, McDonald et al. (2018, pp. 657–658) found that some ECEC workers relied on income from other sources – for example from partners, ex-partners or parents – while others took on second jobs in order to sustain working in the sector.
- In a survey of ECEC workers undertaken by the United Workers Union as part of a broader campaign to improve wages and conditions in the sector, two-thirds of respondents indicated that they were ‘always’ worried about their financial situation and over 80% said they would find it difficult to cover a \$400 emergency expense (United Workers Union 2021, p. 12).
- Superannuation fund HESTA reported that nearly 20% of its members who worked in ECEC made a claim on their superannuation under the temporary rules allowing for early release during the COVID-19 pandemic. HESTA noted that the average claim was just over \$10,000, and that the median balance of ECEC members fell by about half when early releases were allowed (HESTA 2021, p. 11).
- Attitudinal data collected via a voluntary sample survey of 5,643 ECEC educators found that about 5% of survey respondents working in the ECEC sector held two or more jobs in the sector, and 18% of respondents working in ECEC also had paid employment outside the sector, suggesting some take-up of second jobs by ECEC respondents. There was, however, considerable variation by ECEC type, particularly with respect to second jobs outside the sector, with more than one-third of OSHC respondents holding a second job outside the sector, compared with 20% of FDC and 13% of CBDC respondents (DoE 2024a, unpublished).

The Commission also regularly heard that staff in the sector could earn similar rates of pay working in other parts of the economy, and often without the qualification requirements and workload associated with working in ECEC.

For ECTs, participants noted that the ECEC sector struggles to offer wages that are commensurate with those provided in the schools sector. Byron Bay Preschool – for example – said:

experienced qualified teachers move to roles in primary schools where they can be better compensated for their work. Bright enthusiastic students that have a desire to work with young children study degrees for primary and secondary teaching instead of early childhood, as the recognition and pay they receive is significantly higher. These issues directly relate to a lack of qualified experienced teachers needed to support children during the most critical stage in their development (sub. 18, p 2).

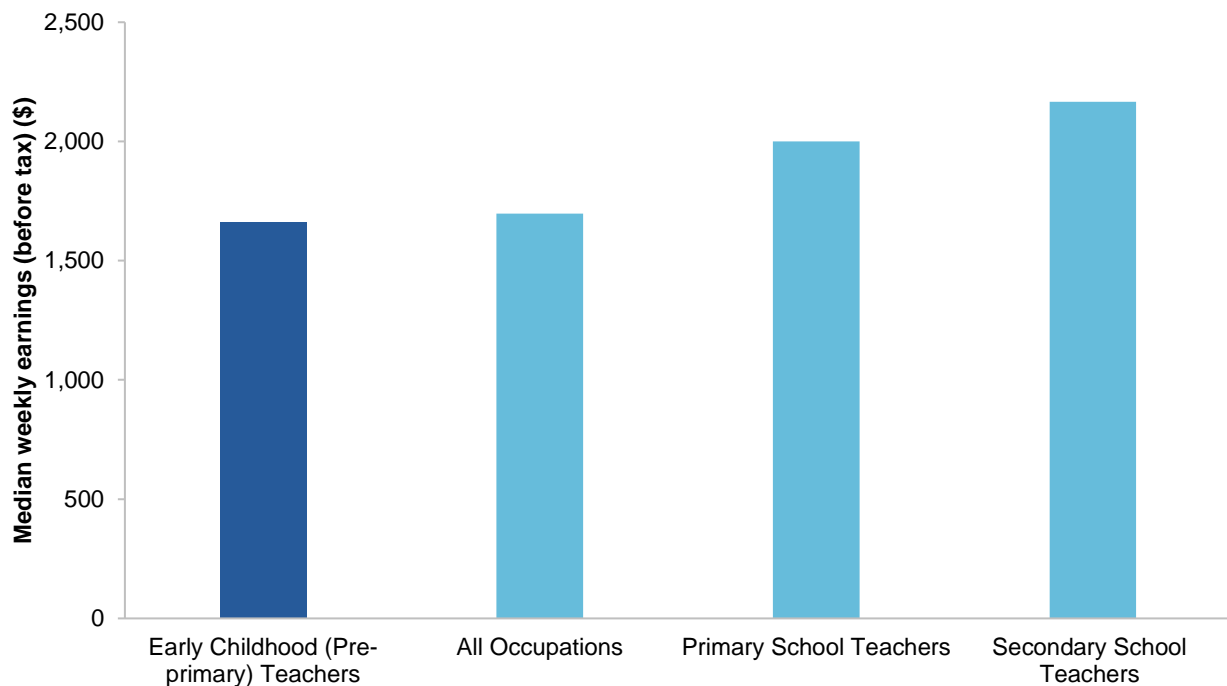
While the Academy of Social Sciences in Australia submitted:

a key challenge is that comparatively lower pay and less favourable conditions contribute to attrition of qualified educators and teachers to other sectors, notably the school sector. The issue of pay parity has an enormous impact on career choices (sub. 116, p. 6).

In aggregate, there is a significant pay differential between the earnings of ECTs and the earnings of primary and secondary school teachers. Estimated median earnings are about \$340 (or about 20%) less per week for ECTs compared with primary school teachers, which equates to about \$17,500 per annum (figure 3.13). In 2023, median hourly earnings are estimated to be \$44 for ECTs, compared with \$57 for primary school teachers.

**Figure 3.13 – Median weekly earnings for ECTs are significantly lower than primary and secondary school teachers**

**Median weekly earnings for full-time non-managerial employees of teaching occupations, 2023**



Source: Jobs and Skills Australia (*Occupations profiles data, February 2024*).

Pay is only one factor that can drive ECEC staff to seek employment in schools. For example, the Commission heard that teachers who work in schools are typically entitled to more leave, have more

structured career progression, and have better access to mentoring and peer support than most ECTs working in the ECEC sector.

Given how teaching degrees are structured, the choice between working in ECEC or in primary schools is a real one for many teaching graduates. Many universities offer teaching programs designed to provide students with the content they need to enable them to teach children aged 0–8 or 0–12 years (as opposed to more specialised pre-primary early education degrees, which focus on teaching children aged 0–5). These degrees that cater to teaching broader age groups enable students to have a choice about which sector – schools or ECEC – they work in.

There is evidence to suggest that many early education teaching graduates elect to work in primary schools instead of the ECEC sector. Drawing on surveys of graduates, ACECQA reported that between 2015 and 2017, between one-half and two-thirds of graduates of ‘early education’ degrees ended up working in primary schools (ACECQA suggested this high number was likely driven by students who had completed courses covering the 0–8 age range primarily choosing to work in the schools sector instead of ECEC (ACECQA 2019b, p. 27)).<sup>9</sup> Drawing on their own experience, Susie Raymond, Anne Marie Morgan and Shane Dawson from the University of South Australia submitted that more than two-thirds of students completing their 0–8 teaching degree program choose to undertake their final placement (which is often an indicator of future employment intentions) in primary schools (sub. 39, p. 5).

The tendency for many teaching graduates to aim for careers in the schools sector over the ECEC sector is likely to continue while differences in pay and conditions between the sectors remain so stark.

Considerable pay differentials for ECTs also exist *within* the ECEC sector itself, depending on the jurisdiction and setting that they work in. For example, in some jurisdictions, ECTs working in government-run preschools receive pay and conditions that match teachers working in schools, while those working in CBDC settings are often paid less. In 2020, a review of preschool funding arrangements found:

a two-tiered system of ECT compensation exists in Australia. Some ECTs enjoy pay, leave and condition parity with school teachers in some states and settings, while ECTs in many CBDCs are being paid close to minimum award wages ... The Review heard from many CBDC providers that expressed the financial challenges of providing ECTs with comparable pay and conditions to school-based or government run preschools and difficulties in recruitment and retention. (COAG Education Council 2020, p. 58)

The pay and conditions of ECTs – and the extent they vary within the sector – can be influenced by the degree to which governments directly provide preschool services. The Commission has heard that jurisdictions with a higher level of government preschool provision are likely to have more ECTs on pay and conditions that are similar to school teachers. And how governments fund (non-public) preschool services can also have an effect. For example, the Victorian Government provides higher per child funding to preschool (kindergarten) services that have certain enterprise agreements in place.<sup>10</sup> Almost all sessional

<sup>9</sup> ACECQA also noted that whether a degree is classified as an ‘early childhood’ teaching degree or a ‘primary’ teaching degree for the purposes of reporting is ultimately determined by universities, and therefore there is some variation in how degrees are treated. That said, as a general rule, ACECQA noted that birth-to-five and birth-to-eight focussed programs are classified as ‘early childhood’ teaching degrees while birth to 12 programs are typically, however not exclusively, classified as ‘primary’ teaching degrees.

<sup>10</sup> These eligible agreements are the Victorian Early Childhood Teachers’ and Educators’ Agreement (VECTEA), the Early Education Employees’ Agreement (EEEA) or another agreement that is equivalent to these. Services operating under an eligible agreement receive a core per child contribution of \$4233, compared with \$3831 if they do not have an

kindergartens qualify for the higher subsidy, but many CBDC services do not. As a result, this funding can help eligible services to pay higher wages to their ECTs (closer to what they could earn in schools), but at the same time, also works to exacerbate wage differences between ECEC services that are eligible for the additional funding and those that are not (while also incentivising services to enter into an agreement to access the additional funding).

This variation in what ECTs earn suggests that there is a hierarchy around where ECTs prefer to work, with schools and government run preschools often the first choice, and CBDCs – particularly those that pay relatively low wages – a less preferred option. This means that in times where demand for ECTs is high – as is the case now – it is the lowest paying CBDCs that will struggle to attract and retain staff the most (a phenomenon that is likely to continue while large pay differentials across the sector remain). And even in times where the supply of ECTs broadly matches demand, this disparity in conditions may lead to the most qualified, experienced or capable teachers gravitating to roles in the ECEC settings that feature better pay and conditions, potentially exacerbating uneven levels of quality across the sector.

For the ECEC workforce more broadly, inquiry participants submitted that pay rates could be below or commensurate with those for some occupations in the hospitality, retail, and aged and disability care sectors (for example, Outside School Hours Council of Australia, sub. 82, p. 5, Community Early Learning Australia, sub. 92, p. 12, United Workers Union, sub. 147, p. 3). This view is supported by data on the hourly median earnings of occupations, collected by Jobs and Skills Australia (figure 3.14).

And (as is the case with ECTs) the pay and conditions of educators varies within the sector, with government-operated services often the most attractive settings for educators to work in. This points to an ongoing challenge that many providers in the sector face when attracting and retaining staff – not only do they have to compete with employers outside the sector for staff, but they also have to compete with the top paying employers within the sector as well.

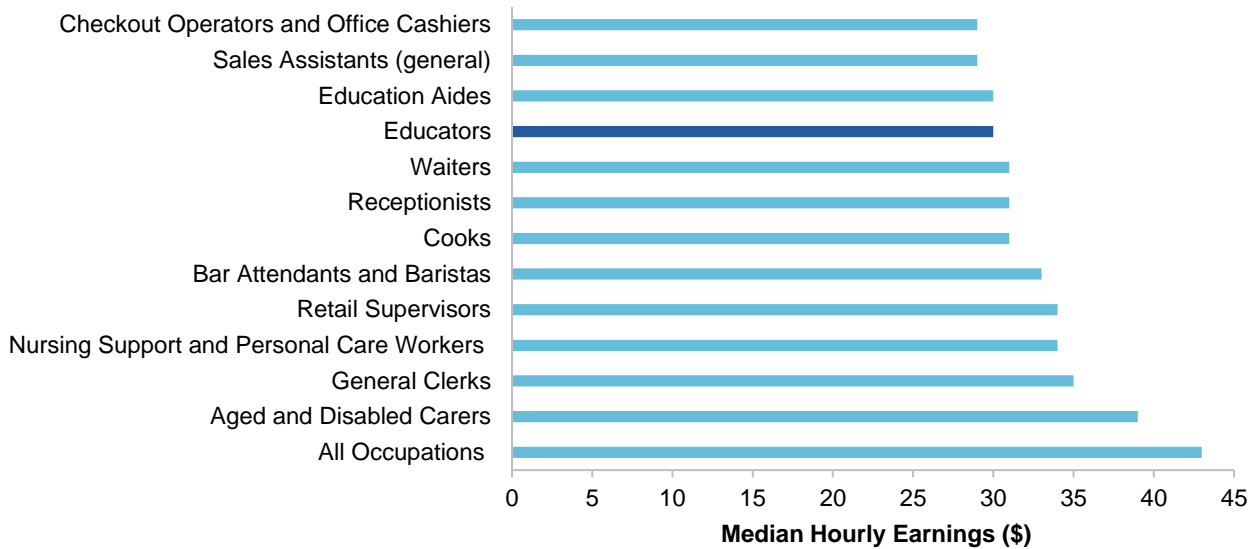
Comparing *actual* total weekly cash earnings (which captures pay for actual hours worked, even if part-time) across all occupations shows that educators and ECTs are situated towards the lower end of the earnings distribution. In May 2023, the average weekly total cash earnings of educators were in the lowest decile when ranked against all other occupations for which there is data. The earnings of ECTs were higher, but still significantly below the median earnings of all occupations (figure 3.15).

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eligible agreement in place (both rates are higher for services operating in rural areas), along with other sources of funding (Victorian Government 2023d).

**Figure 3.14 – Hourly earnings for educators are similar or less than some retail, office-based and care occupations<sup>a</sup>**

**Median hourly earnings of selected occupations, 2023**

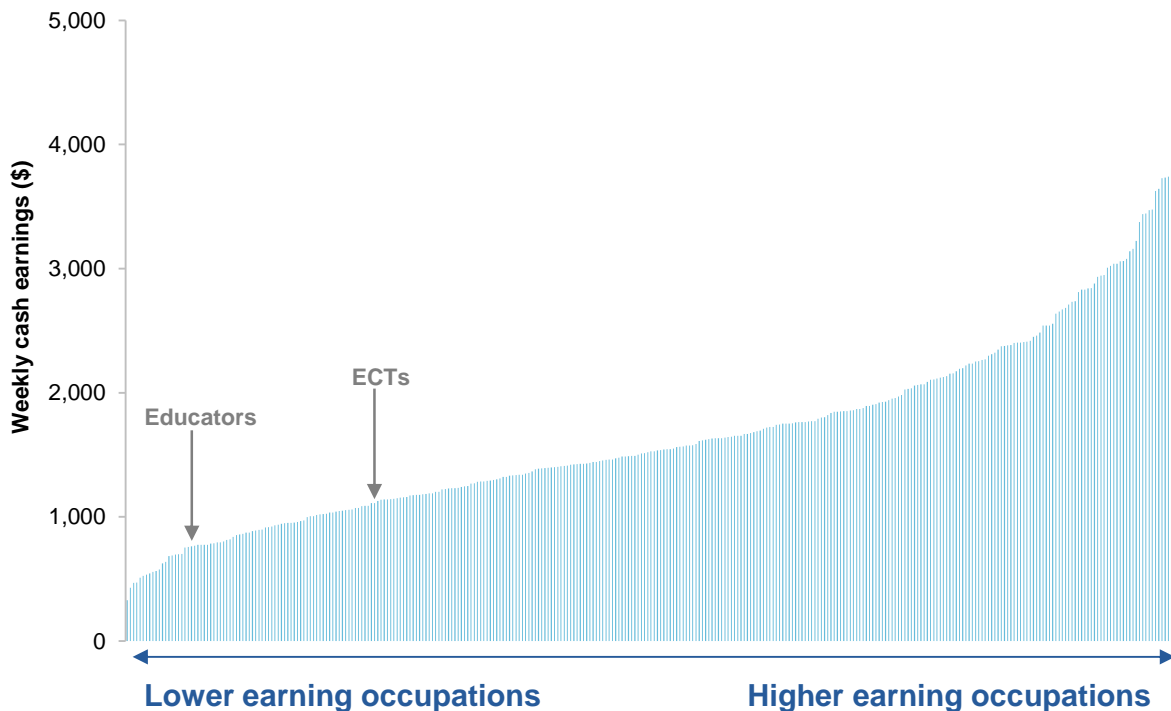


a. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies.

Source: Jobs and Skills Australia (*Occupations profiles data, February 2024*).

**Figure 3.15 – Earnings of educators and ECTs are lower than most other occupations<sup>a</sup>**

**Average weekly total cash earnings, all occupations (in ascending order), May 2023**



a. Excludes occupations with missing values or those with relative standard errors above 25%. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies.

Source: Productivity Commission estimates based on ABS (*Employee Earnings and Hours, Australia, 2021, table 1*).

## Many factors contribute to the sector's relatively low pay

Several factors have been identified as constraining wage growth in the ECEC sector, even in the wake of high demand and workforce constraints.

One reason that is often put forward for low wages in the sector is the market-based nature of ECEC provision, which means services face some incentive to compete on price – particularly when seeking to attract new customers – and to ensure their prices are comparable to their nearby competitors (ACCC 2023b, pp. 98–99; McDonald et al. 2018, p. 650; PC 2014, p. 324). This may make individual services hesitant to fund pay increases for their staff through higher out-of-pocket expenses for families, particularly as enrolments are a critical determinant of service viability. This can be compounded by limits on families' capacity or willingness to pay higher fees for ECEC services, which can also limit the extent to which providers are able to fund pay increases.

Further, wages are by far the largest cost component of operating an ECEC service, so there may be limited scope for providers to fund pay increases by reducing costs elsewhere. However, there is also variation across the sector on how much revenue providers spend on staff costs. For example, the ACCC found that labour-related costs made up more than threequarters of all costs faced by large not-for-profit CBDC providers, but under two-thirds of costs for large for-profit CBDC providers (with the ACCC suggesting that cost advantages elsewhere – such as lower land, finance and administration costs – potentially provide not-for-profit providers with greater capacity to invest in staff *vis a vis* for-profit providers) (ACCC 2023b, pp. 54–55).

Another factor that is often cited as constraining wages in the sector is the high reliance on awards to set the pay and conditions of employees. Awards, in effect, set the minimum pay and conditions that employers must pay their staff, with two main awards applying in the ECEC sector (box 3.8).

### Box 3.8 – Awards in the ECEC sector

Two awards are particularly relevant for the Early Childhood Education and Care sector.

- The *Children's Services Award 2010* [MA000120], which covers child care workers, room leaders, directors and support workers (among others) who work in the 'children's services and early childhood education' industry. This includes people working in childcare centres<sup>a</sup>, out of school hours care, vacation care, in home care, and preschools and kindergartens. It does not cover qualified preschool and early childhood teachers (Fair Work Ombudsman nd).
- The *Education Services (Teachers) Award 2020* [MA000077], which covers qualified teachers (among others) in the school education industry or the children's services and early childhood education industry (Fair Work Ombudsman nd).

Some employees working in the sector may also be covered by *the Local Government Industry Award 2020* [MA000112] (Fair Work Ombudsman nd).

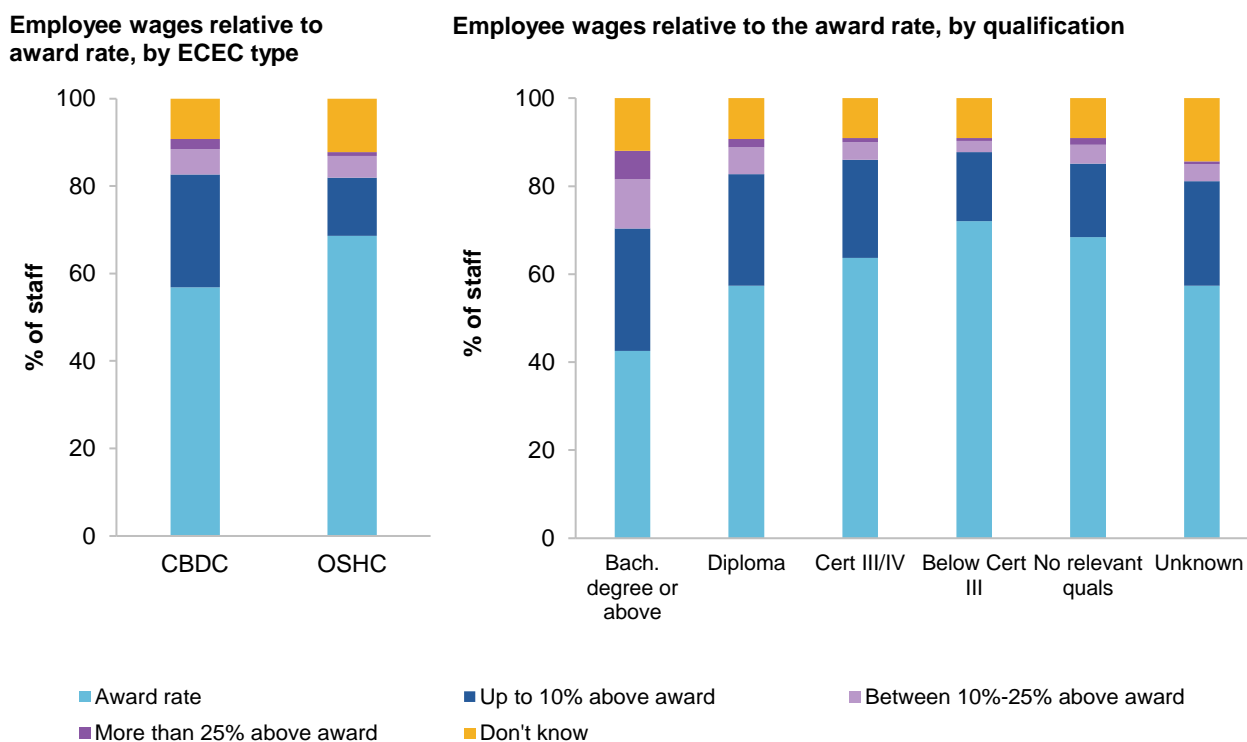
The minimum pay and conditions set out in these awards have been subject to periodic review, including as part of the (now defunct) requirement for the Fair Work Commission to review awards every four years, and through the Fair Work Commission's Annual Wage Review (with the 2023-24 Review raising minimum award rates by 3.75%) (Fair Work Commission 2024a, p. 8).

a. The terms 'child care workers' and 'childcare centres' represent the terminology used in the award.



Data from the 2021 ECEC Workforce Census indicates more than half of employees were paid at award rates, and being paid at award rates was common across all qualification levels (although this is slightly less so for workers with a bachelor's degree or above) (figure 3.16).

**Figure 3.16 – More than half of employees were paid at the award rate in 2021<sup>a</sup>**  
**Pay rates of ECEC paid contact staff relative to relevant award rates, 2021**



a. Excludes staff working in family day care and In Home Care, where a large proportion of staff work as independent contractors, meaning award rates would not apply. A high proportion of responses for these categories were also for 'don't know'. Excludes vacation care to limit overlap with outside school hours care. Excludes staff working in dedicated preschools. Source: Productivity Commission based on DoE data (unpublished).

Available data suggests the use of enterprise agreements in the sector is relatively low. Enterprise agreements must build on award pay and conditions and as such, offer more generous terms than those required under awards. It has been estimated that only about 13% of employers (covering about 16% of employees) have an enterprise agreement in place. In contrast, more than one-in-three employees economy-wide were covered under a collective agreement in 2023. However, there is some variation across the sector – for example, nearly one-third of not-for-profit providers have an enterprise agreement in place, compared to just 3% of for-profit providers (Deloitte Access Economics 2023, unpublished).

Some inquiry participants suggested the relatively low access to enterprise bargaining is one structural factor contributing to the low pay of workers in the sector (for example: Community Early Learning Australia, sub. 92, p. 11; Community Child Care Association, sub. 111 p. 11; United Workers Union, sub. 147, p. 5).

A commonly cited reason for the low take up of enterprise bargaining is that the fragmented nature of the sector – characterised by a relatively large number of small providers (some of which are parent-led) – means that many providers lack the capacity or the incentive to engage in enterprise bargaining or implement performance-based pay arrangements (which can be costly or time consuming to negotiate) (McDonald et al. 2018, p. 650; PC 2014, p. 324).

Another possible contributor to low wages in the sector relates to service priorities. Even when services may have scope to offer higher wages to their staff, they may allocate resources towards other activities that they consider to be a higher priority, such as ensuring care is affordable for local families or expanding their service, instead of improving the pay and conditions of their workforce.

ECEC staff might also be somewhat hesitant to seek significant wage increases because they expect that they will need to be funded through higher fees to families, who in turn may face difficulty paying higher out-of-pocket expenses and potentially withdraw their children from ECEC (Jovanovic 2013, p. 530).

Participants suggested that the nature of work in ECEC is underappreciated and undervalued by much of the community, and that this was another reason for the sector's low pay. Some have attributed this view to the fact that the ECEC workforce is overwhelmingly female. For example, the Centre for Research in Early Childhood Education said that:

historically, work in the ECE sector has been undervalued, largely due to the feminised nature of the ECE occupations [and] associated gender-biased assumptions in wage setting, combined with the entrenched gender wage gap in the Australian labour market ... (sub. 21, p. 17)

The Diversity Council of Australia pointed to gender norms also contributing to this perception.

The ECEC sector is experiencing significant staffing shortages, driven largely by low wages and poor working conditions. This is because traditional gender norms surrounding caring, with childcare being seen as 'women's work', leads to the undervaluation of paid caring roles and low award wages in the childcare sector. (sub. 71, p. 7)

The United Workers Union presented a similar point.

Despite regulatory standards that mandate a high level of skill in early childhood education and care work, ECEC remains labour that is economically and socially undervalued because of its historical association with unpaid 'women's work'. (sub. 147, p. 5)

It is difficult to identify which of these factors – or combination of them – has the most significant effect on wages. Notwithstanding these factors, some services are willing and able to pay above (and sometimes well above) award rates, which suggests that not all providers face these constraints to the same extent.

## **Changes to the industrial relations environment are highly consequential for the sector**

In December 2022, the *Fair Work Legislation (Secure Jobs, Better Pay) Act 2022* (Cth) received Royal Assent. The Act brought a suite of changes to Australia's industrial relations system. These included (but were not limited to):

- changing the objectives of the *Fair Work Act 2009* (Cth) to include promoting job security and gender equality
- prohibiting pay secrecy
- establishing expert panels within the Fair Work Commission to focus on pay equity in the care and community sector
- changes to promote increased access to multi-employer bargaining
- limiting the length of fixed-term contracts
- changes to the objectives of modern awards and minimum wages to include the need for gender equality
- changes to the requirements for equal remuneration orders (Fair Work Ombudsman 2023a, 2023b).

In the second reading of the Bill to introduce these changes, the Minister for Employment and Workplace Relations pointed to gender equality being a major focus.

Some of the most undervalued workers in our country are workers in female-dominated industries. Many are the very workers who put their health and safety on the line to guide us through the shutdown period of the pandemic. Workers in health care, aged care, disability support, early childhood education and care, the community sector and other care and service sectors. Work in these industries is undervalued because of unfair and discriminatory assumptions about the value of the work and the skill required to do the job. This undervaluation is one of the biggest causes of the gender pay gap and our reforms take a number of key steps to address it. (Burke 2022)

The reforms introduced through the Act are set to have a major impact on the ECEC sector and have already facilitated two significant processes that have the potential to substantially change pay and conditions in the sector. The first of these processes relates to multi-employer bargaining, which is already underway between unions and employer representatives in the sector. The second relates to steps that the Fair Work Commission is undertaking to examine and address gender undervaluation in modern awards. And while they have yet to be used, changes to the circumstances where an equal remuneration order can be made may also prove to be consequential for the ECEC workforce.

### **Supported bargaining is underway**

One way the changes to the Fair Work Act are likely to impact on the wages and conditions of ECEC employees is through changes to multi-employer bargaining arrangements and, in particular, changes to what was previously known as the 'low-paid' bargaining stream. These changes include changing the name of the stream to the 'supported' bargaining stream, removing some restrictions, and broadening the test to be considered by the Fair Work Commission when determining if multi-employer bargaining should take place (Pallot et al. 2022; Ryan et al. 2022) (box 3.9).

In introducing these changes, the Minister identified ECEC as one sector that stood to be affected.

The bill will rename and remove barriers to access the existing low-paid bargaining stream, with the intention of closing the gender pay gap and improving wages and conditions in sectors such as community services, cleaning, and early childhood education and care, which have not been able to successfully bargain at the enterprise level. (Burke 2022)

#### **Box 3.9 – What is the supported bargaining stream?**

The supported bargaining stream is one way multi-employer agreements can be struck under the Fair Work Act.

The supported bargaining stream is designed to assist and encourage employees and employers to bargain who may find it difficult to do so at a single enterprise level. It replaced the previous 'low-paid' bargaining arrangements set out in the Act.

Supported bargaining must be authorised by the Fair Work Commission. The Fair Work Commission must provide this authorisation if an application has been made to undertake supported bargaining and the Fair Work Commission is satisfied that it is appropriate for the employers and employees that will be

### **Box 3.9 – What is the supported bargaining stream?**

covered by the agreement to bargain together. In making this decision, the Fair Work Commission will take into account:

- *pay and conditions* – what the prevailing pay and conditions in the relevant industry or sector are, including whether low rates of pay are prevalent
- *common interests* – whether the employers have clearly identifiable common interests, such as a geographic location, the nature of the enterprises and the existing terms and conditions of employment, or being substantially funded by government
- *bargaining representation* – whether the likely number of bargaining representatives will be manageable
- *other matters* that the Fair Work Commission considers appropriate.

The Fair Work Commission must also be satisfied that at least some of the employees are represented by a union. Further, authorisation cannot occur if an employee specified in an application is covered by a single-enterprise agreement that has not passed its nominal expiry date.

Once an application is authorised, supported bargaining can commence. In some cases, third parties may be directed to attend bargaining conferences if the Fair Work Commission 'is satisfied that the party exercises such a degree of control over the terms and conditions of the employees who will be covered by the agreement that their participation is necessary for the agreement to be made'.

It is possible for additional employers and employees to be included in an agreement reached as a result of supported bargaining even after the agreement is made. This can be done by agreement between the additional employers and employees. But it can also be done without employer agreement, if a majority of additional employees wish to be covered and if the Fair Work Commission determines that this is appropriate, taking into account the views of the employer, the views of unions covered by the agreement, and other factors.

In addition to the supported bargaining stream, there are two additional streams through which multi-employer bargaining can take place.

- The *single interest employer* stream, which allows two or more employers (that are certain franchisees or with common interests) to be covered by the same agreement. Bargaining under this stream also requires authorisation from the Fair Work Commission. The main difference between the supported and single interest employer bargaining streams is that the Fair Work Commission has additional powers to assist parties in the supported bargaining stream to come to an agreement (including third-party arbitration).
- The *cooperative agreement* stream, which allows employers who have agreed to bargain together – and have not been included in a supported bargaining or single interest bargaining authorisation – to make an agreement.

Source: Fair Work Commission (2023f, 2023h, 2023g, 2023a, 2023b); PC (2023a, p. 123).

On 6 June 2023, three unions<sup>11</sup> representing workers in the ECEC sector applied to the Fair Work Commission for a supported bargaining authorisation (Fair Work Commission 2023d). In the application – which is confined to CBDC – the unions sought to engage in supported bargaining with a group of 64 employers, with all but one

<sup>11</sup> These unions were the United Workers Union, the Australian Education Union – Victorian Branch, and the Independent Education Union of Australia.

represented by either the Australian Childcare Alliance, the Community Childcare Association or Community Early Learning Australia (all of which support the application (ACA 2023a; Fair Work Commission 2023j, 2024a, pp. 46–47)). G8 Education is also listed in the application and is represented by itself (Fair Work Commission 2023j). It has been estimated that about 12,000 employees (across all states and territories) are covered by the application (Lucas 2023). On 27 September 2023, the Fair Work Commission authorised the application, allowing supported bargaining to commence (Fair Work Commission 2023e, 2023i). At the time this inquiry was finalised, bargaining between the parties was underway, with the Australian Government – as a major funder of the sector – also participating in negotiations.

Any agreement struck through this process (and approved by the Fair Work Commission), has the potential to be very consequential for the sector. The number of employees covered in the application is significant. And the ‘flow on’ effects of an agreement have the potential to impact a much bigger number of workers and services in the sector – either by placing a degree of competitive pressure on other employers to increase their wages, or more directly, through employers being added to the agreement because the majority of their employees wish to be covered. This latter scenario requires the Fair Work Commission to decide that including additional employers and employees is appropriate (and at the moment, there is little guidance on – and case law to inform – how the Fair Work Commission might approach this decision).

### **Steps to address ‘gender undervaluation’ in awards are also in train**

When handing down the 2022-23 Award Wage Review, the Fair Work Commission also indicated that the changes to the Fair Work Act necessitated a change in approach to addressing wages in sectors where female-dominated workforces have historically been underpaid (also referred to as gender-based undervaluation of work). This included less reliance on applications from external parties to initiate examinations of the matter.

We consider that as a result of the amendments ... any issues of unequal remuneration for work of equal or comparable value or gender undervaluation relating to modern award minimum wage rates can no longer be left to be dealt with on an application-by-application basis outside the framework of the Review process. Such issues, insofar that they may be identified, should now be dealt with in the Review process or in other Commission-initiated proceedings between Reviews. (Fair Work Commission 2023c, p. 51, paragraph 120)

As part of identifying any gender undervaluation that needs to be addressed, the Fair Work Commission completed a research project ‘to identify occupations and industries in which there is gender pay inequality and potential undervaluation of work and qualifications’ (Fair Work Commission 2023c, p. 59, paragraph 137). The project had two stages.

- The first stage identified occupations and industries affected by gender segregation (including within industries by occupation); provided supporting evidence of those occupations and industries being affected by gender-based segregation; and identified the modern awards applicable to the industries and occupations affected. This research identified 29 priority occupations that met a criteria<sup>12</sup> for being highly feminised, which included ECTs in preschools and ‘child carers’ in both preschool and childcare service settings. The relevant awards for these occupations were also identified<sup>13</sup> (Cortis et al. 2023).
- The second stage set out the history of wage fixation and work value assessments for the awards that cover the priority occupations identified in the first stage of the research, with these histories ‘intended to

<sup>12</sup> The criteria applied related to whether the occupations were large (containing over 10,000 people), very highly feminised (over 80% female) and were located within feminised industry classes (that were over 60% female).

<sup>13</sup> These were the Children Services Award 2010 and the Educational Services (Teachers) Award 2020.

aid the identification of any indicia of gender undervaluation, including the lack of a work value exercise undertaken by the [Fair Work] Commission and its predecessors, or inadequate application of gender pay principles.’ This included a detailed examination of the history of the *Children Services Award 2010* and the *Educational Services (Teachers) Award 2020* (Fair Work Commission 2024b, p. 11).

The Fair Work Commission considered the outcomes of this research in its 2023-24 Annual Wage Review and subsequent decision on award rates. While this decision did not contain any provisions for minimum award wages for ECEC-related occupations to be increased beyond the general increase applied across all awards (of 3.75%), it did identify that child carers in preschool education and childcare services covered by the *Children Services Award 2010* merited ‘priority attention in [the Fair Work Commission’s] consideration of the elimination of gender undervaluation’, along with a number of other feminised occupations (Fair Work Commission 2023c, p. 48, paragraph 112). As part of this, the Fair Work Commission determined that, for the priority occupations identified (including child carers), it would ‘immediately after the conclusion of the [Annual Wage Review] initiate proceedings pursuant to s. 157 of the [Fair Work Act] to consider whether the minimum wage rates for the relevant classifications in identified awards should be increased on work value grounds in order to remedy potential gender undervaluation’ (Fair Work Commission 2023c, p. 65, paragraph 171).

In reaching this decision, the Fair Work Commission emphasised two matters.

First, it emphasised that these proceedings would not go forward ‘as if they are a blank slate’ but rather progressed on the gender undervaluation premises established in the aforementioned research, and those set out as part of recent Fair Work Commission decisions, including decisions that raised award rates for a range of aged care occupations (Fair Work Commission 2023c, p. 65, paragraph 171).

And second, the Fair Work Commission emphasised that proceedings ‘will be dealt with to completion in a time-critical manner’, with an expectation that they would be completed by the time of the next annual wage review (thereby allowing that review to move on to consider any further gender undervaluation matters) (Fair Work Commission 2023c, p. 65, paragraph 171).

### **Changes to the requirements for equal remuneration orders are relevant for the sector**

A third significant change relates to equal remuneration order arrangements. This includes a clarification that the Fair Work Commission does not require evidence of a reliable male comparator in order to find that work has been undervalued on the basis of gender (DEWR 2022, p. 1). Difficulty identifying a valid male comparator was a contributor to previous applications for equal remuneration orders for the ECEC sector being dismissed by the Fair Work Commission, so the clarification that a reliable male comparator is not required may improve the prospects of any future application succeeding (box 3.10). Further, the Fair Work Commission is now empowered to make an order off its own initiative, instead of necessarily waiting until an application for an order is made (Fair Work Ombudsman 2023a).

#### **Box 3.10 – Past equal remuneration order applications for the ECEC sector**

Under Part 2-7 of the Fair Work Act, the Fair Work Commission has the power to make an Equal Remuneration order ‘to ensure that there is equal remuneration for men and women workers for work of equal or comparable value’. The particulars of such orders, including the circumstances where such an order can be made, have changed over time.

### **Box 3.10 – Past equal remuneration order applications for the ECEC sector**

Unions – representing employees of the ECEC sector – have twice lodged applications for an Equal Remuneration Order. These applications were made under different arrangements to those in force today.

In 2013, United Voice (the then union representing ECEC educators) and the Australian Education Union (Victoria Branch) submitted an application for an equal remuneration order relating to employees working in long day care centres and preschools, and who were covered under one of three different awards. In a Decision addressing preliminary issues relating to the application, it was established that a ‘comparative exercise’ was required between the group of employers who would be covered by the order and an identified comparator group. Under this exercise, the two groups were required to: perform work of equal or comparable value; must be of the opposite gender; and must be unequally remunerated.

For the purposes of establishing a comparison group against which the case for an order could be assessed, the application contended that the Diploma- and Certificate III-levels of the *Children Services Award* applied to work that was of equal or comparable value to that performed under certain classifications in the *Manufacturing and Associated Industries and Occupations Award*. In 2018, the Fair Work Commission dismissed the application – in part because the Commission rejected the proposition put forward that the manufacturing sector provided a valid comparator industry (Fair Work Commission 2018; Martin-Guzman 2018).

Also in 2013, the Independent Education Union of Australia lodged an application for an equal remuneration order relating to early childhood teachers employed in long day care centres and preschools and who were covered under the *Educational Services (Teachers) Award*. A separate application was made by the Union to increase the minimum wages for teachers covered by the Award on work value grounds (which essentially argued that there had been significant changes in the work value of teachers – including early childhood teachers – that were not taken into account in the setting of minimum award wage rates). Rulings on both applications were handed down in 2021. The application for an equal remuneration order was dismissed on the grounds that the comparator occupations – male teachers employed in primary schools in New South Wales and male professional engineers – did not meet the necessary requirements to permit an order. But the Fair Work Commission did find that the work value of teachers had changed and, consequently, that the minimum wage rates set under the Award should increase. It was reported that this decision resulted in pay rises of up to 10% for some early childhood teachers (Fair Work Commission 2021; Matthews 2021).

### **While these processes are likely to result in a pay increase for the sector, there are still unknowns**

It is likely the processes that are underway as a result of the changes to the Fair Work Act will lead to some level of wage increase for ECEC workers. Both the multi-employer bargaining process, and the examination of modern awards to identify and address gender undervaluation (including the proceedings flagged by the Fair Work Commission to determine whether award wages in the *Children Services Award 2010* should increase on work value grounds) – are significant in nature and sufficiently far reaching to impact a large proportion of ECEC employers and employees.

The industrial relations system – and the structures and processes that exist under it, like the awards system and bargaining processes – is the appropriate avenue through which the level of wages for ECEC employees should be considered. It means that the wages and conditions of the ECEC workforce can be

considered in the context of the pay and conditions of workers in other occupations (including in occupations that may 'compete' with ECEC for workers), and take into account developments in the labour market (and the economy) as a whole. It also means that the pay and conditions of ECEC workers are considered through statutorily defined processes that are generally open to all workers facing similar circumstances. Alternative approaches, such as governments committing to a sector-specific pay increase independent of any industrial relations processes are less desirable.

That said, there are still some unknowns associated with how the processes underway will play out. As flagged above, the changes to the industrial relations environment are relatively new and the ECEC sector will be a test case for how they are applied. Even if wages were to increase as a result of these changes – be this through a multi-employer agreement or amendment of ECEC-related awards (or both) – it is unclear how substantial any increase might be. Unions have argued for a 25% pay increase (Lucas 2023, United Workers Union, sub. 147, p. 7). Others have pointed to a 15% wage increase, based on increases to several awards relating to aged care (for example, Bermagui Preschool, sub. 49, p. 4, Children First Alliance, sub. 140, p. 9; Emma Cross and Matthew Sinclair (Curtin University), sub. 175, p. 2). The size of any pay increase arising from these new arrangements (and their timing) will likely not be known for some time.

Another source of uncertainty is the extent to which wage increases will induce an increase in the number of workers entering – or remaining in – the sector, particularly when the broader labour market is tight. It is possible that, at least in the short term and depending on developments in the labour markets of other sectors, the effects of a wage increase on the supply of ECEC workers could be relatively small.

While not directly comparable, the National Skills Commission previously modelled the impacts of a 10% wage increase for key occupations in the care workforce (not including ECEC) relative to other sectors.<sup>14</sup> This was estimated to have a significant effect on the supply of workers in the longer term (it was estimated that, under the increase, there would be about 418,000 FTEs in the care sector in 30 years' time, compared with about 320,000 FTEs under the baseline scenario), but the effect in the first few years was relatively small (National Skills Commission 2021, pp. 347–349). A similar pattern might be expected in the wake of any wage increases in the ECEC sector – that is, relatively muted impacts on labour supply in the short term, as factors such as qualification requirements restrict the ability of new workers to move into the sector immediately. This is not to say that there will be no short-term impacts however – some workers with existing qualifications might seek to rejoin the sector, and services may find it easier to retain workers because more existing staff elect to stay in the sector because of higher wage rates.

As another indicative example, modelling by the Australian Government Treasury to estimate the impact of a 25% wage increase in the aged care sector found that labour in the sector increased by 5-10% in the long run (compared to a scenario without this increase), but the economy-wide labour supply remained the same, meaning most of this increase was caused by workers shifting to the aged care sector from other sectors or industries of the economy (Australian Government 2022a, p. 5).

And further, there is uncertainty about the extent that these processes will moderate existing disparities in the pay of staff across the sector. As flagged earlier, large discrepancies in the pay rates of like-qualified workers across the sector can create challenges in the form of unequal access and quality as staff seek employment in the higher paid (typically government-run) sections of the sector.

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<sup>14</sup> These occupations were: aged and disabled carers, nursing support and personal care workers, and welfare support workers. The wage increase modelled was a permanent 10% increase relative to other occupations. The impacts are smaller if this 10% increase in relative wages is not held constant (for example, if other sectors also increased their wages to attract and retain staff).



Both the supported bargaining process and the review of the *Children's Services Award 2010* are focussed on improving the pay of those towards the lower end of the earning spectrum in the sector, and as such, once resolved, could reduce the gap between what educators and teachers get paid in (relatively high earning) government-run services *vis a vis* the remainder of the sector. However, given the potential adverse impacts that wide pay disparities in the sector can have on access and quality, this is something that needs to be monitored by governments. (The ECEC Commission should also consider the size and impacts of wage disparities across the sector as part of its reporting on the ECEC workforce, as described in section 3.9).

### Who pays for wage increases?

Another key unknown is how any increase in wages would be funded. The two largest funders of the sector are governments and families. It is possible that some providers might be able to fund at least part of any wage increase by reducing costs elsewhere, or by reducing profits or surpluses. But cuts could affect quality, while lower profits or surpluses could have repercussions for service viability and expansion. Moreover, the fact that wage costs make up most of provider costs, and that the ACCC found profits in the sector are 'highly variable' (ACCC 2023b, p. 17), suggests that the scope for many providers to fund wage increases without raising prices is probably limited.

With likely limited scope for many services to absorb permanently higher labour costs, wage increases would need to be funded predominately by higher prices for families, a greater fiscal contribution from governments or a combination of both. There are significant impacts that need to be considered, irrespective of whether it is families or taxpayers who primarily fund a wage increase.

A downside of substantially funding wage increases through higher prices for families is that this would lead to a contraction in demand for ECEC services – some families would not be willing or able to pay higher prices and would either remove their children from ECEC or reduce the number of hours of ECEC they use. This, in turn, deprives some families of the benefits that arise from ECEC and runs counter to policy intentions to build greater accessibility into the system. While these demand impacts could be moderated to some extent if price rises were very tightly targeted at families who were the least price sensitive – most likely higher-income households – they are unlikely to be eliminated entirely (and making ECEC more expensive for higher-income households would also undo some of the impact of the Australian Government's Cheaper Childcare reforms, which extended eligibility for the Child Care Subsidy further along the income spectrum).

Many inquiry participants called for wage increases to be funded from government budgets not higher fees for families. Some suggested that government funding for a wage increase would send a signal to the ECEC workforce that their work is valued and appreciated by the community (for example, the Centre for Policy Development, sub. 156, p. 40). Others pointed to the Australian Government's decision to effectively fund a wage increase for certain aged care staff as an example of where similar action has already been undertaken (box 3.11).

But taxpayer funding for wage increases has costs too. This includes an opportunity cost – the funding that governments spend on supporting a wage increase could be spent on other goods or services and will increase the demands placed on taxpayers to fund the system each year. Raising additional taxes (which predominately apply to incomes) can be expected to lead to lower economic activity more broadly and reduced labour force participation.

Ultimately, it is a policy decision for governments about whether funding a wage increase for ECEC workers is a priority use of public funds, and in the 2024-25 Budget, the Australian Government announced an intention to contribute funding towards higher wages for ECEC workers.

The Government is committed to provide funding towards a wage increase for early childhood education and care workers to recognise the value of the workforce and support the Government's ambition of universal access to affordable, quality early childhood education and care. (Australian Government 2024a, p. 39)

The details of this funding will be finalised 'following the Fair Work Commission processes currently underway'. The Budget also included a commitment of \$30 million over two years for IT and payment services as part of delivering this support for a wage increase (Australian Government 2024b, p. 86).

### **Box 3.11 – Government funding for wage increases in the aged care industry**

In late-2020 and mid-2021, three unions lodged applications with the Fair Work Commission to vary three awards to increase the wages paid to aged care workers. These applications followed a recommendation from the Aged Care Royal Commission relating to increasing award wages.

Employee organisations entitled to represent the industrial interests of aged care employees covered by the *Aged Care Award 2010*, the *Social, Community, Home Care and Disability Services Industry Award 2010* and the *Nurses Award 2010* should collaborate with the Australian Government and employers and apply to vary wage rates in those awards to:

- reflect the work value of aged care employees in accordance with section 158 of the *Fair Work Act 2009* (Cth), and/or
- seek to ensure equal remuneration for men and women workers for work of equal or comparable value in accordance with section 302 of the *Fair Work Act 2009* (Cth). (p. 263)

At the centre of the applications was a contention that an increase to award wages was 'justified by work value reasons'. The applicant unions sought a 25% increase in the award wages for all aged care employees covered by the three awards in question.

In a submission to the Fair Work Commission, the Australian Government expressed its support for an award wage increase for aged care workers and stated that '[the] Commonwealth will provide funding to support any increases to award wages made by the Commission in this matter and that will help deliver a higher standard of care for older Australians' (p. 2).

In November 2022, the Fair Work Commission handed down an 'interim decision' in favour of providing an increase in award wages of 15% for direct care classifications in the three awards. The increase took effect from 30 June 2023.

In the 2023-24 Federal Budget, the Australian Government 'invest[ed] \$11.3 billion to fund the Fair Work Commission's interim decision for a 15% pay increase', implemented through a mix of increased subsidies and grant funding. The Government has indicated that it expects all providers to pass on the additional funding in higher wages to relevant employees, even if they are already paying above the award, and providers will be required to report expenditure on direct labour costs as part of their quarterly financial reporting.

### **Box 3.11 – Government funding for wage increases in the aged care industry**

In March 2024, the Fair Work Commission further considered wages in the aged care industry and concluded that for direct care employees covered by certain awards:

... there are ‘work value reasons’ ... for the minimum award rates of pay for such employees to be increased substantially beyond the 15 per cent interim wage increase determined in the Stage 1 decision’. (p. 3)

As a result, it was determined that the wages of direct care workers would further increase (with the minimum pay rates for some award classifications increasing by as much as 28.5% in total across both Fair Work Commission decisions). In its March 2024 decision, the Fair Work Commission also determined increases for indirect care workers as well, although these were less significant compared with those received by direct care workers.

In a submission in response to this further increase, the Australian Government indicated that it is ‘committed to funding the increases for the relevant direct and indirect aged care workers, including on-costs incurred by aged care providers as a result of those wage increases in all Commonwealth-funded aged care’ (p. 1).

Source: Butler (2023); Australian Government (2022b, 2024d); DHAC (2023); Fair Work Commission (2022, 2024c, p. 3); Sutton et al. (2023).

Another key question that governments face relates to how they should fund a wage increase. Indexation of the rate cap has been the main approach governments have used to support the ECEC sector to meet higher wage (and other) costs in the past, and it should remain an option for supporting the sector with any future wage increases, particularly where these are incremental. However, depending on the nature of wage increases, other options could be considered – for example, if a relatively large, ad-hoc and quickly applied wage increase were implemented for the sector (which could possibly arise through the review of the *Children’s Services Award 2010* outlined above for example), governments *may* wish to consider other approaches to funding increases, particularly if there is a focus on limiting the potential for fee increases for families.

There are several approaches governments could use to support the sector to fund wage increases, each with advantages and disadvantages.

One option is directly subsidising wages. This is done in British Columbia for example, where the provincial government provides a C\$6 an hour ‘wage enhancement’ for educators (appendix B). This approach has the advantage of ensuring that any government support for wage increases directly results in higher wages for ECEC staff. However, such an approach also has downsides (particularly if it is overly prescriptive about how wage increases should be delivered and to whom) and, once implemented, it can be difficult to unwind when labour market conditions change. Further, governments may face consistent lobbying or pressure to increase the subsidy from providers, workers and unions, leading to higher expenditures than anticipated. (In the case of British Columbia, the wage enhancement was initially introduced at C\$1 an hour in 2019 but has since been increased three times to its current C\$6 rate (BC Gov News 2018, 2022, 2023)).

A second option is to provide additional funding to services that meet set requirements about the wages they pay their employees. Governments could, for example, provide a payment or grant to a service if a certain share of their employees are paid above award rates. New Zealand operates a scheme along these lines, where services that commit to paying their teachers at least a predetermined rate can receive additional funding from the New Zealand Government (New Zealand Ministry of Education (Te Tāhuhu o te

Mātauranga) 2023). This approach too, can help to ensure that there is a clear relationship between government support for wage increases and the wages that staff receive, and can minimise the ‘leakage’ of public funding to providers who do not commit to paying higher wages. However, such an approach is complex – it imposes compliance costs on services to demonstrate that they have met the necessary conditions to receive the additional funding, and imposes costs on governments to administer and enforce.

A third option is to increase resourcing for the sector as a whole – for example by raising hourly rate caps – to give services more capacity to pay higher wages to their staff.

This approach is less administratively complex than other approaches and provides the greatest flexibility to services to allocate these extra resources to where they best meet their needs.

However, the risk is that with this flexibility, providers may use this extra funding for purposes other than raising staff wages (which might include higher profits or surpluses). This risk is minimised, however, when all employers in the sector are required to pay higher wages, as would happen if there is an increase in award rates. It would also happen if a multi-employer agreement were reached that covered a significant majority of services, either of their own volition or because they were incorporated under ‘rope in’ provisions. And competitive pressure would work to minimise this risk too – where there is significant competition for ECEC staff (as there is now), it will be increasingly difficult for providers to attract and retain staff if they elect not to pay higher wages when other services do.

One consequence of funding wage increases through a higher hourly rate cap is that – absent any other changes to the Child Care Subsidy – some families will be required to fund part of the increase. This is because a family’s hourly subsidy is set as a proportion of the hourly rate cap (or the fee that they are charged if this is lower than the cap). As the rate cap increased to fund the wage rise, so too would out-of-pocket expenses for families entitled to less than 100% of the cap (as is the case for most families) if their service raised their fees.<sup>15</sup> There could also be variation in how much different services would have to increase their fees in the wake of a wage increase, with services where wages constitute a higher proportion of their costs potentially having to raise fees by more (Goodstart Early Learning, sub. 277, attachment, p. 2).



### 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.

<sup>15</sup> For example, consider a family receiving a subsidy of 80% of the hourly rate cap who is attending a service with hourly fees equal to the cap. If the cap was initially \$10, the family would have out-of-pocket expenses of \$2 per hour. If the cap was increased to \$11, and the service increased fees to that level, the family’s out-of-pocket expenses would rise to \$2.20 an hour.



### 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.

## Working conditions in ECEC can be challenging

In addition to presenting concerns about pay, inquiry participants – including many who work in the ECEC sector – drew the Commission's attention to issues around the conditions in the sector. Participants, for example, told the Commission that:

- there can be a need to complete important and mandatory activities – such as programming, documentation and staff meetings – in personal time, in part because there is too little 'off-floor' time to complete these during work hours (Brief comments 44; 178; 203; 256; Australian Education Union, trans. 7 March 2024, p. 46; Cheyanne Carter, sub. 177, p. 2)
- ECEC workers can be expected to fulfill multiple roles or complete many tasks in a day with too little time to do them all effectively (Brief comments 213; 230)
- there can be difficulty accessing breaks because of staffing challenges (Brief comments 213; 179; 241)
- it can be difficult to take time off work or be funded to access relevant training or undertake study (Brief comments 187; 203; 213; 234; 255).

Some of these experiences accord with findings from academic research. Several studies, for example, have found that unpaid hours were prevalent in the sector (for example, Thorpe et al. (2024, p. 330); Corr, Dixon and Burgess (2017, pp. 55–56); Cumming et al (2021, p. 61)).

Other inquiry participants commented on how the conditions in ECEC compare unfavourably with other sectors – such as schools, where teachers (in addition to generally receiving better pay) typically receive more holiday leave, shorter working hours and more planning time than an ECT receives working in a CBDC setting (Community Connections Solutions Australia, sub. 105, p. 14; NSW Small Business Commissioner, sub. 128, attachment, p. 20). ECTs can also be expected to hold a level of individual responsibility in their services – including with respect to pedagogical leadership, family interactions, and sometimes management responsibilities – that is often not required of school teachers.

Similar to pay, the conditions received by most workers in the ECEC sector are determined in two main ways. Minimum conditions are set out in the relevant awards for the sector. These 'baseline' conditions can then be built upon and enhanced through agreements developed through bargaining. This means that the ongoing multi-employer bargaining process – discussed above – could result in more generous conditions

for those covered by an agreement arising out of this process, if improvements are agreed to. And the 'rope-in' provisions that allow employers to be added to the agreement even after it has been struck, could mean that any improvements in conditions agreed to as part of the multi-employer bargaining process would expand to other employees if they and their employers enter the agreement (either as a result of their employer choosing to do so, or because they are 'roped in' to the agreement).

Another important determinant – along with pay and conditions – that can influence the recruitment, retention and job satisfaction of the ECEC workforce is the extent to which they feel well-supported and empowered to do their job effectively. Box 3.12 outlines some considerations about what a supportive workplace looks like in the context of ECEC.

### **Box 3.12 – What does a supportive ECEC workplace look like?**

Several studies have explored the factors that contribute to early childhood educators, teachers and leaders feeling supported to undertake their role well.

In a study focusing on 'exemplary educators' (working in services rated as 'Exceeding the National Quality Standard'), Gibson et al. (2023) identified a range of factors through which exemplary educators were supported in their work. This included through:

- *leadership*, including that educators felt supported by centre directors and that there was a strong focus on building relationships and giving people a go
- *clear communication and expectations*, including constructive feedback, collaborative dialogue and expectations that were communicated clearly
- *physical environments that were inviting for both children and adults*, including aesthetic buildings and grounds, adult sized furniture, private spaces for educators and well put together environments
- *effective organisational systems*, which allowed educators to engage in their work fully and effectively
- *space for reflection and thoughtful pedagogy*, including non-contact time and employing staff above ratios for parts of the day
- *wages*, with some services examined offering above award rates
- *teamwork*, including purposely created teams with attention to mentoring and guiding professional practice
- *community connectedness and strong philosophical orientation*, including that services were anchored in their communities, had a clear sense of purpose that informed decision-making and provided networking opportunities for staff and families.

Jones et al. (2019) found that workplaces that featured a 'sense of belonging' (including positive and considerate relationships with colleagues), workplace equity (including less hierarchical decision-making and opportunities for educators to utilise their individual strengths) and workplace flow (including stability of educators, recognition of strengths, clear roles and responsibilities and congruent teaching philosophies) were important contributors to educator wellbeing.

In a study on the predictors and professional wellbeing of the ECEC workforce, Thorpe et al. (2020) found that supportive workplaces increased staff intentions to stay with a service, with staff morale, recognition, participative decision making, professional interaction and supportive leadership cited as factors (p. 642).

**Box 3.12 – What does a supportive ECEC workplace look like?**

In a study focused on how Educational Leaders – a specific and important role required as part of the National Quality Framework<sup>a</sup> – work in a particular high-performing centre, Zhou and Fenech (2022) identified that enabling factors that allowed them to perform this role well included: having a supportive, effective and cohesive team; a clear, whole-of-centre valuing of the Educational Leader’s role, including providing dedicated time for the Educational Leader to carry out their functions; scope for Educational Leaders to exercise professional autonomy; and providing Educational Leaders with resources for their role – including network opportunities, regular meetings with key staff and access to professional development.

In advice to service providers, the Queensland Government noted that steps to support Educational Leaders include providing them with capability building opportunities, Educational Leader empowerment (that is, providing Leaders with the autonomy and professional influence to do the role well) and providing resourcing (including a clearly defined role, dedicated time, and networking and collegial support opportunities) (Queensland Government 2023c).

a. Under the Education and Care Services National Regulations, services are required to designate an Educational Leader. Educational Leaders have a variety of important roles, including – but not limited to – providing curriculum direction and guidance, supporting educators to implement the cycle of planning to enhance programs and practices, leading the development and implementation of an effective educational program in a service and ensuring children’s learning and development are guided by the learning outcomes of the approved learning frameworks (ACECQA 2018).

## 3.6 Qualification and career pathways to support the ECEC workforce

### Educator qualifications

#### Educators are generally required to hold VET-level qualifications

To work in a centre-based or FDC service that provides ECEC to children who are preschool age or under, educators need to hold (or in some cases, at least be working towards) a qualification that has been approved by ACECQA. Requirements vary by ECEC type and sometimes by jurisdiction (appendix C), but broadly speaking:

- in centre-based services with children under preschool age (which include long day care services and preschools and kindergartens in most states and territories), at least 50% of educators must hold an approved Diploma-level qualification or higher and all other educators must hold an approved Certificate III qualification. Services also need to have access to an ECT (with the nature of this access varying depending on the number of children in attendance) (ACECQA 2023e)
- in FDC, educators must hold an approved Certificate III qualification or higher, and FDC coordinators must have an approved Diploma-level qualification (ACECQA 2023f).

In OSHC, there are varying jurisdiction-specific requirements, with some jurisdictions not setting mandatory minimum qualifications for educators at all (ACECQA 2023b).

ACECQA maintains a list of Certificate III- and Diploma-level qualifications that have been approved for the NQF (as well as a list of approved OSHC qualifications in jurisdictions that have requirements) (ACECQA 2023b). Most significantly (in terms of 2022 enrolments), the list includes:

- a Certificate III in Early Childhood Education and Care (CHC30121) provided by any Australian Registered Training Organisation (RTO). In 2022, there were over 35,000 enrolments in this program
- a Diploma of Early Childhood Education and Care (CHC50121) provided by any Australian RTO. In 2022, there were about 9,000 enrolments in this program (NCVER 2023a).<sup>16</sup>

Both these courses consist of competencies and skill sets that are specified in a national training package and are a form of nationally recognised training, meaning these courses must be delivered by a (regulated) RTO.

These courses are relatively new – only taking effect in 2021. They replaced the existing ECEC Certificate III and Diploma qualifications and included changes to the core and elective units ‘to reflect sector requirements’ (Australian Government 2023f, 2023g). And significantly, for the Diploma of Early Childhood Education and Care, students are now required to hold a Certificate III in Early Childhood Education and Care in order to undertake the qualification. This requirement was introduced with the aim of improving the quality of qualifications in the sector.

The CHC30121 Certificate III in Early Childhood Education and Care has been made an entry requirement for the CHC50121 Diploma of Early Childhood Education and Care to address the sector’s concerns with the inconsistency in quality and consistency of graduates and concerns with unduly short courses. The Certificate III provides the foundations deemed necessary by the sector for ongoing personal development and career success which have been reportedly lacking with a qualification structure with direct entry to the Diploma qualification. (SkillsIQ 2022, p. 32)

Many governments have a range of initiatives in place to assist people to gain the necessary qualifications to work as an educator in the sector, including access to free or very low cost Certificate- and Diploma-level courses (including through the Fee-Free TAFE program (Australian Government 2023b)) and scholarship programs (for example, the NSW Government offers scholarships of up to \$5,000 to assist ECEC educators studying a relevant Diploma in ECEC or School Age Education and Care, and \$3,000 for students studying a Certificate III in ECEC or OSHC) (NSW Government 2023b).

## **The Commission heard some concerns about the quality and work readiness of VET graduates**

In its draft report, the Commission noted that there had been concerns about the training quality received by students undertaking Certificate III and Diploma-level ECEC courses for some time. The Commission noted that a key finding of its 2011 report on the Early Childhood Development Workforce was that – while there were examples of excellence – ECEC training quality at that time was highly variable and concerns about poor quality training were widespread.

And in 2014, the Commission noted similar concerns.

There are widespread concerns in the sector about the quality of some training received by graduates who have undertaken an ECEC qualification, particularly at the Certificate III and diploma level. (PC 2014, p. 309)

In pre-draft submissions to this inquiry, a relatively small number of participants raised concerns about the quality of the skills of recently graduated educators and their readiness to work in the sector (Tasmanian

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<sup>16</sup> In 2022, there were also about 30,000 enrolments in the previous iteration of this diploma program (CHC50113).



Government (Department for Education, Children and Young People), sub. 159, pp. 13–14, RARE sub. 45, p. 1, Waverly Council sub. 132, p. 9, B4 Early Years Coalition Tasmania sub. 55, p. 7). This led the Commission to note that, on the whole, concerns about the quality of VET graduates had been less prominent in this inquiry than they were in the Commission’s past reviews into the ECEC sector. The Commission suggested that one reason why this might be the case was because there had been significant reforms to the VET sector since the Commission’s previous inquiries.

Notwithstanding these changes, the Commission sought further views from inquiry participants on the quality of ECEC-related VET in order to get a more complete picture of the extent to which there are quality issues affecting the sector that need to be addressed.

Feedback to this request for more information was mixed. Some participants painted a broadly positive picture of the quality of VET graduates since changes to the ECEC training packages were implemented. For example, while encouraging ongoing vigilance, Goodstart Early Learning submitted:

since the overhaul of ECEC training packages (which took effect in 2021), Goodstart has generally been satisfied with the improved quality of VET training packages. The increased observation and practical hours component, implemented with the new training packages, has addressed some of the quality concerns. (sub. 277, p. 86)

The Australian Childcare Alliance also indicated that they’ve experienced ‘general improvement’ in ECEC VET over the last five years as poorer quality RTOs exited the sector, but still felt there were opportunities for improvement (sub, 255, p. 72).

Other inquiry participants were less positive. For example, Gowrie Australia said:

there are serious concerns about the quality of graduates of some private RTOs who lack relationships with services for placements and where graduates seem to qualify with mostly only online learning experiences and little real world experience. (sub. 294, pp, 3-4)

Swallow Street Child Care Association also indicated that some training providers placed an onus on services to fill gaps in their students’ training that should be fulfilled by the providers themselves.

We have also experienced quite a few Training Providers not taking on their training responsibilities of marking off competencies, assisting students with assignments and monitoring students on placement but rather putting all of these responsibilities onto staff at our centre. Some Training Providers have not even visited the students once during their placement. (sub. 300, pp. 8–9)

Family Day Care Australia noted that new requirements that educators working in FDC hold (as opposed to be ‘actively working towards’) a Certificate III level qualification – which took effect from 1 July 2023 for new FDC educators and will take effect from 1 July 2024 for existing educators – meant that there is now a heightened need to ensure that training packages are suitable for FDC workers.

Given the requirement for a family day care educator to hold a minimum Certificate III level qualification is now in force, more attention must be given to how well the Certificate III in ECEC qualification is operating in terms of supporting family day care educators into the sector, including (but not limited to) ensuring the practicum placement system works appropriately and is nationally consistent for potential family day care educators undertaking placements. (sub. 240, pp. 19–20)

In their submission, the Y Australia reported that while some of their services indicated that quality had not improved – or had possibly waned – since VET reforms were undertaken, others indicated that it was still ‘too early to tell’ whether the changes would have an effect (sub. 253, p. 9).

The Commission also heard some concerns about the content of ECEC qualifications. For example, Child Care College submitted that problems remained in Certificate III qualifications, including repetition, unnecessarily complex knowledge (for the qualification level) and excessive performance criteria, and emphasised that the focus of this qualification should be on essential (rather than 'nice-to-have') skills (sub. 265, p. 5, 7).

Another way to assess how well VET is working for the sector is to look at the outcomes of graduates. Data collected by the National Centre for Vocational Education and Research point to these being broadly positive. In a survey of graduates who completed their VET qualifications in 2022, over 92% of respondents who had completed the current Certificate III training package (CHC30121) indicated that they were satisfied with their training and the employment status<sup>17</sup> of more than three quarters of students improved after training was completed. Both these metrics were higher than the median outcomes across all VET courses. And while outcomes from the current Diploma course are not yet captured in the survey (most likely due to the fact that there would be relatively few graduates of the new package at the time the survey was undertaken), outcomes for its previous iteration (CHC50113) were equally as positive, with about 92% of graduates satisfied with their training and 84% experiencing improved employment outcomes (NCVER 2023c).

In sum, it is difficult to gain a clear picture about whether there are systematic issues around the quality and appropriateness of VET training for the sector. While it is clear that some service providers are still encountering graduates that do not meet their needs and who are not job ready, others have pointed to good and/or improving graduate quality, and data on student outcomes point to relatively high levels of satisfaction and good employment outcomes among those completing ECEC VET courses.

The fact that the training packages in force for ECEC VET programs are relatively new also complicates an assessment about course quality and the job readiness of graduates. Given the new training packages were introduced in 2021, and a Diploma course can take up to two years to complete, so far, a relatively small cohort of students have completed qualifications under the new training packages. It may take more time for the impacts of the new training packages on graduate quality and job readiness to become apparent.

However, much hinges on getting ECEC VET right – both in terms of ensuring there is enough new educators entering the sector, and ensuring that they are entering the sector with the right skills and experiences to deliver high-quality ECEC. Reflecting this, once a sufficiently large number of students have completed their VET qualifications under the new training packages to facilitate a more complete assessment of the quality and content of courses, the Commission considers that a formal evaluation of the ECEC VET training packages would be prudent. This should happen in 2025 – by then, there should be enough students who have completed courses under the new training packages – and they should have been in the ECEC workforce for long enough – to facilitate informed assessments about whether ECEC VET courses are resulting in graduates who are job ready and well equipped to succeed working in the sector.

In the draft report, the Commission identified that – to the extent that there was a need to improve the quality of ECEC VET courses – one option would be to make greater use of independent assessment, meaning students' competencies are assessed by an assessor that is independent to those delivering the training. This reflected a recommendation in the Commission's Review of the National Agreement for Skills and Workforce Development that called for governments to undertake phased implementation of independent assessment, noting that 'it would be particularly valuable to explore the use of [independent assessment] in areas where minimum training standards contribute to public benefit ...' (PC 2020, p. 249, recommendation 7.6). ECEC training standards fit

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<sup>17</sup> NCVER derives this variable based on a range of characteristics, including changes in employment, skill level and job-related benefits (NCVER 2023b).

this criterion, and if the evaluation finds there are quality concerns, requiring more independent assessment should be strongly considered as part of an approach to address them.



### 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.

One issue with the new ECEC VET qualifications – raised by inquiry participants – is that only the current Certificate III qualification (CHC30121) and its immediate predecessor (CHC30113) meet the prerequisites for entry into the new Diploma-level course (CHC50121). As the Early Learning and Care Council of Australia (ELACCA) said:

the setting of a prerequisite for the Diploma qualification supports high-quality training and is a positive step. However, this does create problems for candidates who hold Early Childhood Certificate III qualification prior to 2013, and have been working in the sector continuously since gaining their qualification. These candidates must complete another Certificate III in early learning and care before gaining enrolment into Diploma (sub. 299, p. 24).

The Australian Childcare Alliance noted that the lack of recognition of older Certificate III qualifications acts as a disincentive for relatively experienced ECEC-workers (who might have over ten years of work experience since completing their studies) from upskilling to a Diploma qualification (sub. 255, p. 72).

Barriers that unduly discourage existing staff from upskilling their qualifications (if they so choose) are problematic, particularly given the ambition – as set out in recommendation 3.1 – that ECEC staff have access to pathways that facilitate their career advancement in the sector.

To minimise these barriers, ELACCA suggested that the prerequisite requirements for entry into the Diploma course be expanded to encompass candidates who hold a recognised Certificate III qualification (even if this was awarded prior to 2013) and who can demonstrate continuous or substantial service in ECEC since they completed their qualification (sub. 299, p. 24). ELACCA also commended the approach to recognising prior learning implemented in New South Wales (p. 25), which includes a government funded 'Recognition of Prior Learning upgrade initiative.' This initiative assists educators with older qualifications to achieve the newest Certificate III qualification, and, in the process, meet the entry requirements for the Diploma course through the use of an online assessment tool to 'streamline the evidence collection process for students and their employers whilst assisting providers to facilitate the RPL process' (NSW Department of Education 2024, p. 1).

As a matter of priority, HumanAbility should review the prerequisites for entry into the CHC50121 Diploma of Early Education and Care, with a view to better opening the program to holders of older Certificate III-level qualifications in ECEC. Without wishing to be overly prescriptive about the outcomes of any review, the Commission's view is that this should, in the first instance, involve re-examining the case for excluding older Certificate III ECEC qualifications from meeting the prerequisites. If, after this re-examination, the exclusion is deemed to still be necessary, then priority should be given to recognising the (extensive) prior knowledge and experience that many Certificate III holders have by developing streamlined pathways that allow them to easily and expediently 'convert' their older qualification into the contemporary CHC30121 qualification, and thereby allow entry into the Diploma-level course.



### Recommendation 3.3

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

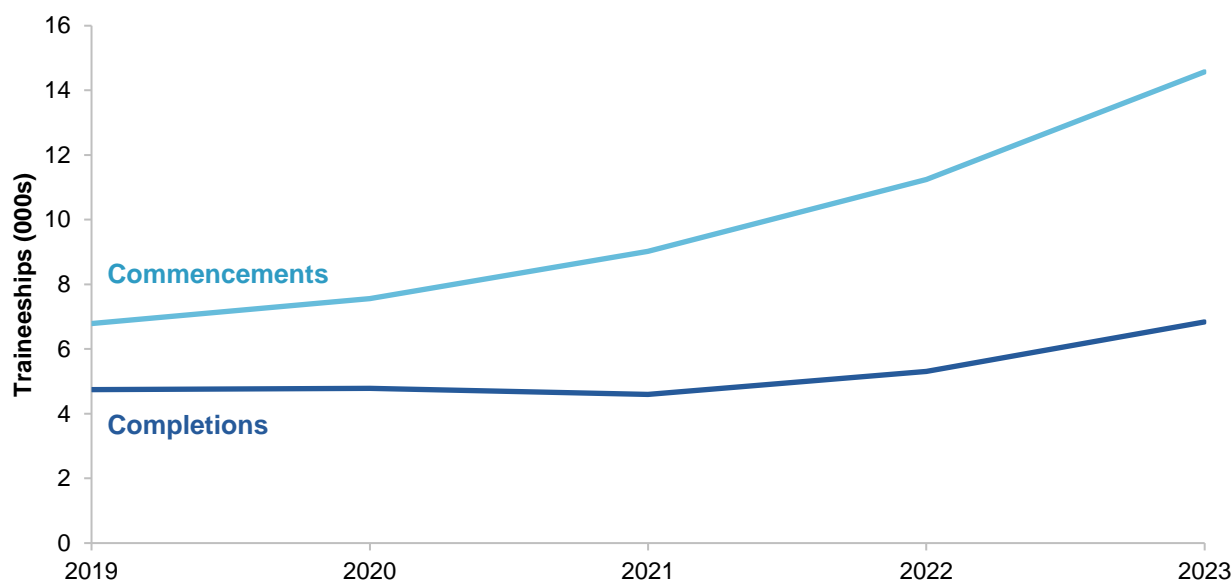
As a matter of priority, HumanAbility should review the prerequisites for entry into the CHC50121 Diploma of Early Childhood Education and Care, with a view to making enrolment more accessible for holders of older Certificate III-level qualifications in Early Childhood Education and Care that are not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

## Use of traineeships has increased in recent years

Traineeships are a form of vocational training that combines workplace learning with formal qualifications studied through an RTO. Traineeships typically take one to two years to complete, during which the trainee is paid and receives access to workplace entitlements such as leave. While open to workers of all ages, traineeships are often particularly attractive to recent school leavers, and in some cases, can be commenced while a student is still at school (Apprenticeship Careers Australia 2023).

The use of traineeships as a means to gain ECEC qualifications has increased in recent years (figure 3.17). Traineeships can have advantages over other types of training models. For example, traineeships provide more practical experience, which provides trainees with faster pathways to develop their skills and may suit some students who prefer a 'hands on' way to obtain qualifications (which some students may prefer over classroom-style learning). And traineeships may help with retention – for example, in 2011, the Commission found those who obtained a Certificate III in children's services via a traineeship were significantly more likely to be employed in the sector one year later than those who obtained the same Certificate through different channels (PC 2011, p. 241).

Given the growing prevalence of traineeships as a pathway for obtaining ECEC qualifications, the Commission sought views from inquiry participants on the effectiveness of traineeship arrangements in its draft report, and the extent there was scope for these to be improved.

**Figure 3.17 – Traineeships have increased in recent years<sup>a</sup>****Number of commencements and completions in ECEC traineeships, 2019–2023**

a. Commencements and completions counts are for the 12 months ending 31 March in each of the years specified for Certificate III (course codes CHC30113 and CHC30121) and Diploma (course codes CHC50113 and CHC50121) courses in Early Childhood Education and Care.

Source: NCVET (2023a).

Participants – in the main – reported positive experiences. For example, the Australian Childcare Alliance said that ‘traineeships serve as an excellent career pathway for individuals new to the ECEC sector’ and provided more than half a dozen case studies from services and educators attesting to the benefits they have experienced from traineeships (sub. 255, p. 77). The Creche and Kindergarten Association submitted:

a survey of C&K Directors indicated they value trainees and apprentices as opportunities to mentor and grow employees within the culture of the centre. They also saw the nurturing of a new member into the profession as a benefit for existing staff. Directors with trainees and apprentices reported that there was some additional work with trainees and apprentices, including administration, but in most cases, this was outweighed by the benefits. (sub. 306, p. 15)

The Outside School Hours Council of Australia pointed to positive experiences in the OSHC sector.

Most, if not all OSHCA providers are utilising traineeship arrangements in their services and overwhelmingly they are a beneficial addition. Over the past few years, OSHC services have faced two key issues as a result of the significant workforce issues that exist across the sector. The first was an outright lack of staff required to run services, the second was that due to the large numbers of people who left the sector during Covid, the workforce lacked the depth and experience it had benefitted from in the prior years. Traineeships have emerged as a pivotal strategy in addressing these issues, particularly by facilitating the upskilling of existing staff. This approach has not only contributed significantly to replenishing the workforce’s depth but also enhanced the collective skill set, thereby fortifying the sector’s resilience and capability (sub. 232, p. 13).

This is not to say that all experiences were positive, and a small number of inquiry participants did report examples of poor outcomes from traineeships (Brief comment 110, Waverly Council, sub. 132, p. 8).

While it appears that traineeship arrangements are – in the broad – working well, participants suggested options for improvement.

The most common call from inquiry participants was for more resourcing for traineeship programs and more financial support for trainees and their employers (for example, Outside School Hours Council of Australia, sub. 232, p. 13; Australian Childcare Alliance, sub. 255, p. 78; Community Industry Group and Early Childhood Education Services and Training, sub. 285, p. 12; and the Creche and Kindergarten Association, sub. 306, p. 14).

Certificate III and Diploma qualifications in Early Childhood Education and Care, and Certificate IV and Diploma qualifications related to working in outside school hours care, are listed on the Australian Apprenticeships Priority List (DEWR 2023). As such, trainees in these programs qualify for the Australian Apprentice Training Support Payment, which involves regular payments over two years (up to a total of \$5,000) (Australian Government 2023c). Additionally, employers of trainees in these programs are entitled to claim the Australian Government's 'priority wage subsidy', which provides employers with a subsidy of up to 10% of wages paid to trainees for the first 24 months (up to \$1,500 per quarter) and 5% of wages for the third 12-month period (up to \$750 per quarter) (Australian Government 2023d).<sup>18</sup>

The payment of incentives – to both employers and trainees – to encourage the use of traineeships is not unique to ECEC. Rather they are tied to much broader policy goals for both the education and training system and the Australian labour market, and many industries and occupations are eligible for incentives. Notwithstanding the arguments put forward by inquiry participants that they consider there would be benefits in having access to more financial support to take on trainees, it is the view of the Commission that the scope, generosity and effectiveness of traineeship incentives is best considered on an economy-wide level, rather than on the experiences of single sectors or industries.

Community Connections Solutions Australia argued that traineeship incentives encourage employers to 'churn' through trainees to ensure they have continued access to subsidies.

Trainee schemes encourage employers to not retain a trainee as they can then continue to access government employment incentives on a continual basis for subsequent trainees. The scheme can be used as a strategy for income generation or to limit wages expenditure rather than a commitment to training new staff who will become valuable full-time employees. (sub. 105, p. 13)

This is a risk, but not one that is restricted to the ECEC sector. And specifically for the sector, this is a risk that is unlikely to be material when workforce challenges are as widespread and acute as they are at the moment. Even if trainees leave their training employer, so long as the training they received is of good quality, many will find employment elsewhere in ECEC.

Family Day Care Australia submitted that traineeships 'are not currently effective for the family day care model' and that 'there is a need for tailored traineeship pathways for family day care' (sub. 240, p. 20). Family Day Care Australia pointed to a 'student educator' model as an approach that could be developed to open up traineeship pathways within the FDC sector (box 3.13).

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<sup>18</sup> Changes to apprenticeship support arrangements from 1 July 2024 will see priority occupation employers receiving a Priority Hiring Incentive of up to \$5000 and priority occupation apprentices receiving an Australian Apprenticeship Support Payment of up to \$5000. Those with financial assistance approved prior to 30 June 2024 will be grandfathered (Australian Government 2024c).

### **Box 3.13 – FDCA’s ‘student educator’ model for traineeships in family day care**

In their submission to this inquiry, Family Day Care Australia suggested a ‘student educator’ model of traineeship in family day care, which would include the following features:

- a ‘student educator’ would be employed by an approved FDC service under a dedicated, funded and centrally administered program. The student educator would be working towards their Certificate III qualification
- the student educator would be paired with an existing FDC educator, and would work with this educator while studying part time in an accelerated Certificate III qualification
- while paired, the capacity of the premises where the FDC educator provides ECEC would be allowed to increase (Family Day Care Australia proposed that, under prescribed circumstances, the pair would be allowed to provide ECEC for up to six children under school age, as opposed to the four allowed under ‘standard’ arrangements)
- once the student educator has completed their program, they would transition to becoming an independently contracted FDC educator in their own right.

Source: Family Day Care Australia, sub. 240, pp. 14–15.

The Commission agrees that tailored traineeship pathways for FDC – which better recognise and incorporate the unique features of providing ECEC in family day care settings – would be beneficial. Improved traineeship pathways will support the growth of the FDC workforce, which, in turn, will improve the availability of FDC for children and families. This could be especially important for particular types of families, such as those living in ‘thin markets’ (where FDC may be the only ECEC type that is viable or available, paper 5), or for Culturally and Linguistically Diverse families who are proportionately more likely to use FDC over other ECEC types (ACCC 2023a, p. 31).

Further, the importance of developing effective traineeship pathways for FDC is heightened given that the qualification requirements for FDC educators have recently been strengthened (with FDC educators now required to hold – as opposed to be working towards – an approved Certificate III level qualification). With these tighter requirements (from governments) comes a responsibility (on governments) to ensure that there are not undue barriers that make it unnecessarily harder for services to meet them. The lack of viable traineeship pathways for FDC is one such barrier.

There are unique features of FDC that may require additional consideration when developing traineeship pathways. One, for example, relates to supervision. In a CBDC or OSHC setting, trainees may be effectively supervised by several staff members, while in FDC, supervision would largely lie with a single educator. But there are ways to manage the risks and challenges this poses, including by potentially restricting traineeships to FDC services that have consistently been assessed as high-quality, and pairing trainees with educators who are highly experienced in the sector.



### 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.

## Pathways for early childhood teachers

### ECTs must hold an ACECQA approved early childhood teaching qualification and may need to be registered with their state teaching authority

As noted above, under the NQF, centre-based services with children under preschool age are required to have access to an ECT, and ECTs are required to hold an ACECQA-approved early childhood teaching qualification in order to work as a teacher in the sector. ACECQA maintains a list of early childhood teaching qualifications it has approved, which include:

- many three- or four-year undergraduate degrees in teaching and education from Australian or New Zealand universities
- some Master's courses (which are typically – but not always – two years in duration)
- some Graduate Diplomas and Certificates (which can be as short as half a year) (ACECQA 2023b).

Some qualifications from non-university higher education providers are also approved, including certain bachelor's degrees from TAFE New South Wales and Melbourne Polytechnic.

Individuals with qualifications that are not on ACECQA's approved list can also apply to ACECQA to have their qualifications approved (ACECQA 2023d).

Additionally, as transitional measures:

- teachers who are registered by state-based teacher registration bodies, who have a primary and secondary teaching qualification and who have an ACECQA-approved Certificate III-level qualification or higher, are considered to meet ECT requirements. This measure is scheduled to cease at the end of 2024, although individuals who have obtained this combination of qualifications before then will continue to be recognised (ACECQA 2023g)
- in some jurisdictions, and in some circumstances, a person may be 'taken to be an early childhood teacher' if they are enrolled in an approved early childhood teaching qualification and have presented their provider with documentary evidence (from the course provider) that they: have started the course; are making satisfactory progress towards completing the course; are meeting enrolment requirements; and hold an approved Diploma-level educator qualification or have completed at least 50% of the course. This provision is also scheduled to expire at the end of 2024 (ACECQA 2023a).

While meeting ACECQA requirements is a necessary condition to practicing as an ECT in ECEC settings, in some jurisdictions, this by itself is insufficient, and ECTs must also be registered with their relevant state or territory teaching authority. There is no consistent approach to teacher registration requirements for ECTs, with each jurisdiction having their own (and often vastly different) arrangements – something that is explored further below.



Depending on the nature of their qualification, ECTs may also be required to pass the Literacy and Numeracy Test for Initial Teacher Education Students (LANTITE) prior to graduating in order to ensure that their literacy and numeracy skills meet a minimum standard.

### **Pathways for educators to ‘upskill’ to ECTs are important**

Throughout this inquiry, the Commission heard that there is a strong interest among many educators working in the sector to upskill their qualifications to become ECTs. Survey data also points to this interest – for example, a survey of 400 educators found that more than 80% had considered upskilling to become an ECT (Future Tracks 2019, p. 2).

Actual rates of upskilling are much lower. In 2021, about 7% of the ECEC workforce was undertaking study towards bachelor’s-level (or higher) teaching qualifications. Rates were highest<sup>19</sup> in OSHC settings, where about 13% of the workforce were studying teaching degrees (although it is likely that many – if not most – of those studying in OSHC were younger students who were working in OSHC on a casual or part-time basis while completing a teaching degree). If only CBDC staff are examined, about 5% were studying teaching degrees, with more than two-thirds upskilling from Diploma-level qualifications.<sup>20</sup>

Educators face a range of barriers to upskilling. Survey data suggests that some of these barriers relate to mixed views and low awareness among educators about the value and opportunities that arise from an ECT role, and a lack of support from workplaces for staff to upskill. But there are also significant concerns with the upskilling *process*, including that:

- educators face challenges balancing study with their work and family commitments
- educators have concerns about attending university, including the cost, application processes, the academic support they will receive and uncertainty about how their prior VET qualifications and experience will be recognised (Future Tracks 2019, pp. 11–13).

Addressing these barriers is important for two key reasons.

First, it will help increase the supply of ECTs by allowing more educators already in the sector to upskill. This is important given the expected increase in demand for ECTs as state and territories expand their preschool programs and the vital role that ECTs play in providing educational leadership in ECEC settings.

Second, the presence of clear, established and accessible pathways for educators to upskill to ECTs provides a visible career path for those working in the sector. This is something that the sector largely lacks, with career structures being described as ‘flat’, which encourages high performing educators to look beyond the ECEC sector (such as to schools) in order to build a career (Jackson 2020, p. 31).

It is likely that there are many educators who greatly enjoy or value working in the sector, and who have a range of skills and experiences that would help them be effective ECTs, but for whom a lack of a viable career pathway (that duly recognises their prior qualifications and experience) means that they would find it difficult to become an ECT even if they wished to do so. And it is not just existing educators who would benefit from more visible career pathways – clearer pathways would also make the sector more attractive to school leavers and workers in other industries who might be interested in working in ECEC, but who are discouraged to do so because of a lack of progression opportunities.

<sup>19</sup> Excluding vacation care.

<sup>20</sup> Productivity Commission estimates based on 2021 National Workforce Census data (SRC 2022).

## Making better use of accelerated early childhood teaching qualifications and recognition of prior learning for ECEC educators

In order to minimise the barriers that educators face when upskilling to ECTs, it is important to ensure that the university pathways through which educators can earn a teaching qualification are efficient, not onerously long, and duly recognise both educators' prior VET learning and the skills and experiences they have gained from working in the sector. In effect, there is a balance that needs to be struck – while early childhood teaching qualifications that are too short pose a risk that educators who are studying will not be exposed to important content in the depth required to be an effective ECT, on the other hand, protracted programs risk being unviable for educators, especially for those who may find it difficult to balance work, study and family commitments over extended timeframes. Longer courses also mean educators face higher costs to upskill and have less time to recoup these costs through higher wages.

In some jurisdictions, governments, universities and representatives from the ECEC sector have come together to develop qualifications specially designed to upskill Diploma-qualified educators. These include:

- the *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* program offered by the Australian Catholic University. This is a one-and-a-half year program – delivered in partnership with the Victorian Government – open to educators working in an ECEC setting and who have a Diploma in Early Childhood Education and Care. The course is delivered primarily online, supplemented with two-day intensive symposiums each term and 80 placement days (ACU 2024a; Victorian Government 2024)
- the *Accelerated Early Childhood Education* program offered by Deakin University. This is a one-and-a-half year program open to eligible educators who hold a Diploma of Early Childhood Education and Care (or equivalent) and who are employed in a service that delivers (or intends to deliver) a funded kindergarten program in Victoria (Victorian Government 2024)
- the Bachelor of Education – The *Early Years (Accelerated Pathway Program)* offered by the University of Wollongong and developed in partnership with the University, the Early Learning and Care Council of Australia and the NSW Government. The program is two years long and is open to educators who hold a Diploma in Early Childhood Education and Care (or equivalent) and with at least two years' experience (or equivalent) in an ECEC setting (UoW 2024).

Some universities also offer their own programs that aim to facilitate Diploma-qualified educators to upskill – seemingly developed independently of government – that are also ACECQA-approved. One example is the *Bachelor of Education (Early Childhood Education and Care)* offered by the University of New England, where entry is based on completion of an ACECQA-approved Diploma or Early Childhood Degree, along with relevant work experience (UNE 2024). The program can be completed in one or two years if undertaken full time. Several universities also offer Graduate Diploma courses that are open to Diploma-qualified educators which allow them to access an ACECQA-approved early childhood teaching qualification in a single year, including:

- the *Graduate Diploma in Early Childhood Teaching* offered by the University of Melbourne, which is open to educators who hold a Diploma and have five years of documented, relevant work experience in a leadership position (subject to an interview and a selection test). The program can be completed in one year if undertaken full-time (University of Melbourne 2024)
- the *Graduate Diploma in Early Childhood Teaching* offered by Swinburne University of Technology, which is open to students with a graded Diploma of Early Childhood Education and Care and a minimum of five years' work experience in an ECEC setting with leadership responsibilities. The program can be completed in one year if undertaken full time (Swinburne University of Technology 2024).

Many participants in this inquiry indicated support for the use of accelerated ECT programs for educators seeking to upskill (for example, the Australian Childcare Alliance, sub. 150, p. 86; Paul Ramsay Foundation, sub. 148, p. 8; ELACCA, sub. 299, p. 27). The Front Project said:

accelerated degree programs designed in collaboration with universities and the ECEC sector offer a pragmatic solution to upskill diploma-qualified educators efficiently. Such initiatives not only address the need for more qualified ECTs but also recognise the invaluable experience and skills that educators bring from their prior qualifications and professional practice ... (sub. 227, p. 15)

Goodstart Early Learning also reported that it had positive experiences with accelerated ECT programs (sub. 277, p. 84).

But some participants were critical of these programs. Most of these criticisms centred on the idea that accelerated programs would reduce teacher quality (for example, Northern Rivers Preschool Alliance, sub. 195, p. 4; Independent Education Union of Australia, sub. 243, p. 5). Teachers in Early Education Chief Investigators submitted that their early research using the Teacher in Early Education longitudinal data set found that students who had experience as paid ECEC employees and those enrolled in one-year ECT programs reported lower self-assessed teaching efficacy scores than other students. They also noted that while the diversity of initial teacher education programs was expanding, they considered that this occurred 'in the absence of an evidence base that shows what program features best support graduate quality' (sub. 212, pp. 1–2).

Universities face significant incentives to ensure that their accelerated programs are high-quality and produce graduates who are equipped with the skills and experiences needed to succeed as ECTs.

One incentive relates to universities' reputations. The reputation of any university that consistently produces ECTs who are not job ready or who lack necessary skills will be damaged in the eyes of employers and potential students. If this translates into lower enrolments, this has the potential to threaten the viability of their accelerated programs.

But potentially more significantly, universities have an incentive to ensure their programs are high quality because of the role ACECQA plays in approving qualifications for recognition under the NQF. For a qualification to be recognised under the NQF, it must be assessed and approved by ACECQA – a process that occurs every five years under current arrangements (with reassessment required earlier if significant changes are enacted that affect the program or student outcomes). This is a powerful regulatory lever, given any course that is not approved by ACECQA would, in effect, mean that its graduates are not recognised as ECTs under the NQF and, as such, the qualification would have little value.

Just how strong this incentive is hinges on how rigorous ACECQA's assessment and approvals processes are. The Commission's examination of the process used by ACECQA suggests that it is reasonably comprehensive – as part of the process, universities are required to provide a wide range of material, including curriculum mapping, course outlines, handbooks, course resources, assessment materials, information on entry requirements, evidence from course evaluations and information on the backgrounds of key staff involved in course development and delivery. ACECQA then uses these materials to assess the program's curriculum across six teaching domains.<sup>21</sup> Additionally, ACECQA considers the degree to which programs include content and supervised professional experience that is specifically relevant to the age groups covered in ECEC settings (ACECQA 2019a).

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<sup>21</sup> These domains are: psychology and child development; teaching pedagogies; early childhood professional practice; history and philosophy of early childhood; family and community contexts; and education and curriculum studies. Each domain has several subcomponents (ACECQA 2019a).

ACECQA indicated to the Commission that it works closely with universities to ensure their programs meet these requirements – including by flagging where applications need to be improved.

ACECQA works with applicants to ensure all approved programs meet ACECQA's requirements. This may either occur prior to the formal submission of an application (where an institution is looking to clarify whether aspects of its proposed program meet all the assessment guidelines), or following formal submission, where ACECQA, upon initial assessment, will contact the institution to discuss areas where the program may not be meeting the guidelines and further work needs to be undertaken by the institution. (pers. comm., ACECQA, 26 April 2024)

The Commission also heard relatively few concerns from participants about ACECQA's approval processes and the quality of ECT graduates. This lack of comment further suggests that ACECQA's approach to assessing and approving early childhood teaching qualifications is broadly effective.

There is also a need to ensure the best available evidence informs the content of ECT programs, including those that are accelerated for educators already working in the sector. Some inquiry participants cautioned against accelerated programs because there is a paucity of evidence on what teaching models deliver the best outcomes for children. Others called for restrictions on other features of ECT programs, such as on the age range taught (for example, the merits of 0-5 focussed programs over 0-8 or 0-12 focussed programs), or the length of degrees, but the Commission's survey of the evidence suggests that there is limited information to date on what attributes make for an effective teaching program or what matters most for determining teacher quality.

The Teacher in Early Education data set is a longitudinal data set that will examine a range of aspects of ECTs students in the first or final year of ECT education programs, including their efficacy. This data collection will help build this evidence base, and will grow more powerful as more waves of students are captured in the data (which is scheduled to be collected from 2024–2027) (Teachers in Early Childhood Education Chief Investigators, sub. 212). The preschool outcome measure, which will be trialled in 2025 (DoE 2024b), will also conceivably provide an indication of any variation in outcomes for children taught by ECTs who undertook differently structured degree programs.

However, in the absence of conclusive evidence that accelerated programs fail to develop teachers who deliver good outcomes for children, the Commission considers that they are a valuable and practical pathway for Diploma-qualified educators to upskill, so long as they meet the minimum requirements around content, practical experience and quality (as set and assessed by ACECQA). Accelerated programs help to address some of the barriers educators face when upskilling their qualifications by ensuring that their prior qualifications duly translate into reduced study time, and by reducing the financial and time commitments that educators face in order to undertake further study. And to the extent that concerns about the quality of these programs materialise, the Commission is confident they can be managed through ACECQA's qualification assessment and approval processes.

The Commission's does not envisage a proliferation of accelerated ECT programs that are open to all students, and the promotion of accelerated programs should not be viewed as an attempt to 'water down' or reduce the standards that ECT programs must meet. Accelerated programs should be an option for educators, who are already Diploma qualified and who have experience working in the sector, to 'upskill' their qualification and take the next steps in their career – with the intention of recognising the extensive learning and experience these educators have. These programs should be exclusively early education-focused (as opposed to broader teaching programs that seek to include primary school teaching as part of their curriculum), in recognition that it is in ECEC where these educators' previous qualifications and experience lay.

While accelerated programs are part of the solution, there is also the question of the role government should play in developing and funding them. As outlined above, some programs were designed in concert with state and territory governments, while others seem to have emerged independently. This suggests that government involvement in the design of accelerated programs might not be necessary in all cases, but at the same time, there is little harm in governments continuing to be involved in the design, development and promotion of accelerated programs if universities believe their contribution is value-adding.

State and territory funding of these programs risks being more problematic. For at least one of the programs mentioned above – the *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* program offered by the Australian Catholic University – the Victorian Government funds all course fees (except a Students Amenities Fee) (ACU 2024b). This risks giving this program a competitive advantage over other similar programs and diverting students into this program when other programs may better suit their needs or aspirations.

To the extent that governments wish to financially support educators to upskill to teachers, measures that do not discriminate against programs are preferable. This could include scholarships for eligible educators – something that some jurisdictions offer now – which educators can put towards their course fees if they so choose (box 3.14).

### **Box 3.14 – Scholarships for educators to upskill**

Some jurisdictions offer (publicly funded) scholarships to support educators in the sector to upskill. For example:

- the ACT Government offers scholarships of up to \$25,000 for educators working at non-government and non-school approved early childhood education and care (ECEC) services in the Territory to gain an approved early childhood degree qualification
- the Victorian Government offers scholarships to support people to become an ECT which includes (but is not limited to) people already working in the sector. The value of support ranges from up to \$12,000 to undertake a Graduate Diploma, up to \$18,000 to undertake a master's and up to \$25,000 to undertake a bachelor's degree
- The NSW Government offers scholarships of up to \$25,000 for ECEC teachers studying a bachelor's or master's degree in teaching with an early childhood education specification, and up to \$15,000 for people undertaking a relevant Graduate Certificate or Graduate Diploma.

Source: ACT Government (2024); NSW Government (2023b); Victorian Government (2023a).

Finally, the Commission is mindful that accelerated programs are not the only way for educators to obtain the qualifications needed to become an ECT – some, for example, may prefer to undertake a three- or four-year teaching degree, particularly if they wish to leave open the option of teaching in a primary school. However, while some universities are explicit about the extent to which educators' prior qualifications will be recognised as part of these longer programs,<sup>22</sup> for many programs, the extent that prior ECEC qualifications will be recognised (in the form of course credits or reduced study time) is opaque. This is something that the Tertiary Education Quality and Standards Agency has also noted (not only in relation to ECEC but across universities in general).

<sup>22</sup> For example, the Queensland University of Technology allows holders of an early childhood diploma who have an appropriate level of work experience to complete their four year Bachelor of Education (Early Childhood) program in two-and-a-half years (QUT 2024).

TEQSA has identified a range of issues which can indicate potential problems in a provider's approach to granting [recognition of prior learning] and credit. These include either poor or no information being provided to students about how to apply for credit, or their eligibility for credit with a provider, which can impact on a student's decision making when comparing providers. (TEQSA 2023, p. 4)

To assist potential students to make informed choices that meet their needs and set them up for the greatest chance of success in their tertiary study, there would be benefits in universities publishing an indicative estimate of how prior ECEC qualifications will be recognised in their programs. This could take the form of a median or average amount of credit students with ECEC qualifications have received in the past.



#### **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.

### **Educators' upskilling should be better supported**

Providing pathways for Diploma-qualified educators to upskill to ECTs is of limited value if many educators do not feel comfortable or confident using them. For many educators, the prospect of completing a university program is likely to be daunting, particularly if it has been a long time since they last studied. University-level ECEC qualifications also traditionally feature different teaching and assessment approaches to what educators might be more familiar with from their previous VET studies, with a greater focus on independent learning and academic literacy (Aitchison et al. 2006; Whittington et al. 2009). This unfamiliarity can translate not only into educators not taking up qualifications to become ECTs, but can also contribute to educators 'dropping out' of qualifications because of difficulty or frustration navigating the university environment.

It is difficult to be definitive about the extent to which educators drop out of university programs, or their reasons for doing so. There is data to suggest that, while completion rates for international students have remained relatively steady, domestic students' completion rates for early education teaching programs have been falling. For example:

- 66% of domestic students who commenced a bachelor's-level degree in early childhood teaching in 2005 had completed their degree within six years, compared with 44% of domestic students who commenced in 2016
- 72% of domestic students who commenced a post-graduate degree in early childhood teaching in 2005 had completed their degree within four years, compared with just 56% of domestic students who commenced in 2018
- across both undergraduate and post-graduate courses, 67% of domestic students who commenced an early childhood teaching degree in 2005 had completed it within six years, but in 2016, this was down to just 48% (DoE 2023a).

While the data is not granular enough to examine whether it is increases in drop out rates of educators who are upskilling that is driving this trend, the additional barriers faced by educators means it is likely that they constitute at least a reasonable proportion of those who do not complete their studies.

In the draft report, the Commission sought views on what might be contributing to the decline in completion rates of early childhood teaching qualifications. Participants suggested a range of reasons. A commonly cited factor related to the pressures associated with studying, including – but not limited to – the costs of degrees, requirements to undertake unpaid placements, and difficulties balancing work, study and life commitments (ELACCA, sub. 299, p. 28; Victoria University, sub. 284, p. 3; Australian Childcare Alliance, sub. 255, pp. 87–88; the Smith Family, sub. 197, p. 5). A lack of support and mentoring for students while undertaking their studies was also identified as a significant factor (ELACCA, sub. 299, p. 28; Goodstart Early Learning, sub. 277, p. 85, Early Childhood Australia, sub. 302, p. 34). Some participants also identified that employment conditions in the sector – such as relatively low pay – and/or a lack of recognition of the value of ECEC work within the wider community acts as a disincentive for some students to complete their studies (Early Childhood Australia, sub. 302, p. 34; La Trobe University, sub. 298, p. 5; Australian Childcare Alliance, sub. 255, p. 87).

Data provided to the Commission by the Australian Government Department of Education (sourced from the Quality Indicators for Learning and Teaching Student Experience Survey) also provide insights. The Survey asks existing students if they have seriously considered leaving their institution, and if so, the reasons for considering leaving their current provider.

Caution is advised when making generalisations based on these results as the Survey: does not survey exiting students; seeks reasons students consider leaving their institution (not degree); and the sample size each year is very small.

Nevertheless, this data may, by proxy, shed some light on the experience of students enrolled in ECT degree programs and why some ECT graduates seriously considered leaving their institution. The data showed:

- in 2022, the top five reasons ECT students had seriously considered leaving their institution were because of: health or stress reasons (55%), challenges maintaining study/life balance (41%), workload difficulties (37%), need to do paid work (34%) and paid work responsibilities (30%)
- on average over the past six years, compared to other students who were considering leaving their institutions, higher proportions of ECT students reported family responsibilities, work responsibilities, health and stress, and workload difficulties as a reason for considering leaving (pers. comm. Australian Government Department of Education, 4 June 2024).

In short, there appears to be a range of reasons for falling completion rates of ECT programs, and some of these reasons (such as those relating to work/life balance or work commitments) fall beyond the immediate scope of governments or universities to address. Others though, such as a lack of support and mentoring and issues meeting administrative requirements can at least partially be overcome through actions of governments and universities. In particular, the provision of wrap around supports – that assist educators who are studying to become ECTs to navigate their studies and to maximise their chances of completing their qualifications – is important. This was echoed by many inquiry participants (including the Front Project, sub. 227, p. 16; Victoria University, sub. 284 p. 3, La Trobe University, sub. 298, pp. 4–5). Ideally, many of these supports will be provided by universities themselves, and some accelerated programs do have tailored supports attached to them. For example, as part of the *Early Years (Accelerated Pathway Program)* offered by the University of Wollongong, students are connected with a mentor from the sector to support them throughout their studies (UoW 2024).

However, these supports can be further augmented by programs delivered outside the university system. One example of this is the Front Project's Upskill Program, which has been operating since 2019, and provides resources and mentoring to assist educators to navigate university (box 3.15) (The Front Project 2023).

### **Box 3.15 – The Front Project’s *Upskill* Program**

The Front Project’s *Upskill* Program aims to support educators who want to undertake a Bachelor of Early Childhood Education in order to become ECTs. Through the program, educators have access to a range of ‘wrap around’ supports to help them undertake university study. These may include: support with enrolment; live webinars (including on topics such as transitioning to university, time management and assessment and referencing); group mentoring by an experienced ECT; access to online communities; and access to a resource library.

The Victorian Government has partnered with The Front Project to deliver free access to the program for up to 100 eligible Diploma-qualified educators. To be eligible, educators must be employed in a service that delivers (or intends to deliver) a funded kindergarten program in Victoria, and must intend to complete an approved bachelor’s degree in Early Childhood Education and work as an ECT in Victoria. Participants of certain innovative accelerated programs are not eligible for a Victorian Government supported place in the program.

Source: The Front Project (nd, nd); Victorian Government (2024).

The Commission sees some merit in initiatives such as the Upskill program. Such programs directly target and alleviate some of the barriers that educators face when seeking to upskill to ECTs, meaning they are more likely to complete their studies and go on to become a qualified teacher.

At least in the near term, when demand for ECTs is set to remain strong – in part because of policy decisions by governments to expand preschool access – and many services are unable to find ECTs to meet this demand, governments should make expanded use of programs that provide wrap around supports for educators seeking to upskill to ECTs. This could include supports to assist students to navigate enrolment processes and build basic academic literacy skills, providing resources for students, and most significantly, offering regular mentoring opportunities so that students can discuss their progress and receive guidance on any obstacles that may impede their studies. Such supports would augment other approaches governments are using to assist educators to upskill – such as scholarships – and allow governments to get a bigger return from these investments.

Any actions by governments to develop or fund programs that provide wrap-around supports need to be underpinned by arrangements to monitor and evaluate these programs’ effectiveness. At a minimum, such arrangements should ensure any resources that governments provide are used prudently and productively towards program goals. But monitoring and evaluation is also important because it provides an opportunity to understand what supports work and why, and what (if anything) can be done to improve the support provided to educators who are studying going forward.





### 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.

### Arrangements for students undertaking supervised professional experience should be improved

Supervised professional experience – also referred to as practicums or placements – is a mandatory part of most early childhood teaching qualifications and involves students learning or gaining experience from within an ECEC (or school) setting.

The Australian Institute for Teaching and School Leadership (AITSL) described the purpose of supervised professional experience as providing:

structured opportunities for pre-service teachers to consider and undertake in practice the work of teaching, to relate the practice to knowledge and understanding they are developing in their program, and to demonstrate a positive impact on student learning. It is above all else a period of workplace-based learning. (AITSL 2015, p. 2)

AITSL has also described placements as ‘opportunities for pre-service teachers to develop, practise, demonstrate and understand the impact of their teaching skills in a range of settings with a range of learners’ (AITSL 2015, p. 3).

ACECQA requires at least 80 days of supervised experience for undergraduate and 60 days for postgraduate early childhood teaching qualifications (ACECQA 2023d, p. 4). Supervised professional experience has generally been undertaken on an unpaid basis.

Inquiry participants identified the requirement for educators to undertake unpaid professional experience as part of their university qualifications to be a particularly significant barrier for educators seeking to become ECTs. For example, Early Childhood Australia said that the requirement for unpaid professional experience was problematic because:

many early childhood educators are working to support their own family while engaging in qualification attainment and cannot afford to have no income while completing placements. (sub. 154, p. 65)

Early Childhood Australia also noted that in regional and remote areas, the need for upskilling educators to often travel long distances and stay away from home to complete their supervised professional experience imposes additional challenges (sub. 154, p. 65).

As part of their review of Australia's higher education system, the University Accords Panel also noted the impacts of unpaid placements.

Many students have to forego paid work to undertake unpaid placements and relocate away from home, leading to 'placement poverty'. This results in poor experiences in the workplace and negative perceptions of employment in the relevant industries, many of which are industries with long standing skills shortages. (Australian Government 2023a, p. 100)

Inquiry participants also identified the impact of placements on providers, including the challenges of backfilling staff who were attending placements. The NSW Small Business Commissioner heard similar concerns as part of their stakeholder engagement with the sector.

Mandatory unpaid professional experience requirements of universities were criticised as deterring upskilling, as staff cannot afford to work unpaid for three months while forcing the original centre to hire casuals during work experience periods. Further concerns were raised about the potential for other centres to poach staff. (sub. 128, attachment, p. 20)

The Commission agrees that requirements to undertake unpaid professional experience are a significant barrier for many educators seeking to upskill. Requirements are likely to be especially prohibitive for educators who are unable to take weeks of unpaid leave from work to complete a practicum because they are an income-earner for their family or have pre-existing financial commitments that they must meet.

There are initiatives underway to address some of the barriers to upskilling that are posed by supervised professional experience requirements. For example, in the 2023-24 Budget, the Australian Government allocated nearly \$33 million (over four years) to help services provide paid leave to educators who were undertaking a practicum as part of an early childhood teaching qualification (DoE 2023d, p. 7). This funding is expected to support up to 2,500 educators to complete their studies (DoE 2023d, p. 6). The Australian Government is also in the early stages of developing a broader 'Commonwealth Prac Payment' that will be open to students undertaking higher education courses in teaching along with certain other fields of study (Australian Government Department of Education 2024). At the time this inquiry was finalised, the guidelines for this program were still being developed.

Paid placement initiatives exist at a state and territory level as well. For example, under the Australian Catholic University's (ACU) *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* – designed in partnership with the Victorian Government – employers whose students are on placement receive payment to backfill their role, so that students can continue to receive their wage without needing to take leave (ACU 2024b).

While it is too early to assess the effectiveness of these initiatives in depth, the fact that they allow educators to complete their professional experience requirements without having to forgo their earnings mean they do target one of the more significant barriers that educators face when upskilling to ECTs. There is value in such programs continuing, particularly in the context of ongoing workforce challenges and policy initiatives from governments to expand preschool access (both of which are discussed above), again on the condition that they are complemented by monitoring and evaluation arrangements that allow for their longer-term effectiveness to be assessed.

A further development is the potential for educators to undertake some of their professional experience in the services in which they work. For example, students studying the *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* at ACU can complete 30 out of their required 80 placement days at their current workplace (ACU 2024b).

The Commission considers this too to be a useful initiative that assists with lowering the barriers associated with undertaking placements. Allowing educators who are upskilling to ECTs to undertake part of their professional experience in their existing workplace is consistent with the fundamental purpose of professional

experience outlined above – that is, it still allows students to undertake workplace learning and to practice what they have learned in an applied setting, and so long as there remains a requirement to complete some of the remainder of their professional experience in other settings, will still expose students to a range of teaching environments. But allowing students to complete part of their ECT professional experience in their own workplace has the advantage of being less disruptive for educators, and if done early in their studies, provides them with the opportunity to ease into the practical components of their qualification program. ACECQA should examine the supervised professional experience that is required for early childhood teaching qualifications to be approved for the purposes of the National Quality Framework, with a view to extending the degree to which this experience can be fulfilled by students in their existing workplaces.



### **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.

## **Innovative Initial Teacher Education teaching models for ECTs should be encouraged**

The 'traditional' approach to training ECTs requires students to enrol and attend a university and complete their studies in a largely academic environment (notwithstanding professional placement requirements). This approach is well established and suits a wide range of students. But this need not be the only way to gain an early childhood teaching qualification. The Commission considers that there is merit in universities exploring other, more innovative approaches for training ECTs that, while still upholding the high standards expected of ECTs, provide alternate pathways to qualification that may better meet the needs of some students or some services. This case for exploring innovative teaching models is especially strong at the moment, when demand for ECTs is high and when increasing the supply of ECTs is essential if the policy commitments of governments are to be implemented effectively.

The Front Project – among others – pointed to the potential benefits of employing innovative teacher models, while noting that it is important that the integrity of initial teacher education programs remain.

Supporting universities to trial innovative approaches in Initial Teacher Education could be beneficial to test different delivery methods that could suit students at different ages and stages of their life, and to attract more diverse candidates to become early childhood teachers. (sub. 227, p. 17)

However, there are barriers to adopting innovative and novel approaches to teaching ECTs.

One barrier is that implementing new and novel approaches unavoidably involves a degree of risk. For example, in testing new models, it can be difficult for universities to gauge *ex ante* the level of interest from students in the new approach and the costs and challenges associated with delivering it. These unknowns act as a source of inertia, encouraging universities to stick with their established (and less risky) approaches.

One way to overcome this inertia is to share risk across parties. When it comes to universities trialling innovative teaching models for ECTs, the Commission considers that there is a reasonable case that some of the risk should be shared with governments, given governments' policies and initiatives have a large impact on the demand for ECTs.

The report of the Teacher Education Expert Panel identified that 'modest financial incentives for higher education providers making genuine and successful efforts to improve the quality of their [Initial Teacher Education] programs is a low risk-option to encourage improved quality' and recommended that Education Ministers invest in these (Australian Government 2023h, pp. 52–53). The Commission too, has previously pointed to the value of financial incentives in encouraging universities to undertake more teacher-focussed research (PC 2023b, p. 113).

The Commission considers that supporting universities to trial innovative teaching models for ECTs is another instance where a proportionate financial contribution from governments would be beneficial. Even if unsuccessful, trials would build knowledge on what does and does not work.

A second barrier to implementing innovative teaching models for ECTs is the need for any early childhood teaching qualification to be approved by ACECQA in order to be recognised under the NQF. ACECQA's existing approach for approving qualifications – which is largely centred around assessing the content of academic programs – may be less suitable for assessing and approving more novel approaches which do not follow this structure. This points to a need for governments and universities to work with ACECQA to ensure that there are clear approval pathways for early childhood teaching qualifications that employ innovative teaching approaches, enabling graduates to work as ECTs.

Importantly, while recommending that innovative models be trialled, the Commission does not consider that this should be a pathway for lowering the standard of initial teacher education programs. Indeed, when

evaluating the efficacy of such trials, a key question that needs to be considered is whether graduates from these programs have skills, knowledge and job-readiness that is at least commensurate to – if not greater – than graduates from more conventional initial teacher education degrees. Trials of teaching approaches that do not meet this benchmark should not be further pursued.

Without wishing to limit the range of teaching models that could be considered, the Commission is of the view that there are two approaches that particularly warrant further exploration. These are:

- models that make greater use of *in situ* or on-site teaching, where relatively more teaching or assessment is done in ECEC settings and relatively less done in real or virtual classrooms in academic environments. For example, this could involve a teacher travelling to an ECEC service to teach or assess a small group of students on-site, which some students might find more familiar and less confronting than if teaching or assessment was done completely in an academic setting
- degree apprenticeship models that combine work and study. Such models, for example, are common in the United Kingdom where apprentices spend most of their week at work (earning pay and holding the same rights as other employees), but also spend at least 20% of their time in off-the job study or training (Hubble and Bolton 2019; Office for Students (UK) 2018). This approach might be particularly attractive to students (including school leavers) who have a desire to earn and learn at the same time.



### 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.

## Teacher registration arrangements for ECTs can be improved

In some jurisdictions, in addition to holding an ACECQA-approved qualification, ECTs are required to be registered with their relevant state or territory teaching regulatory authority in order to teach. Depending on the approach used by jurisdictions, ECTs may be included in the same register as primary and secondary teachers or be registered under a separate division (ESA 2018, p. 24).

Teacher registration requirements serve several functions, including building and upholding the professional standards and standing of teachers (box 3.16). Registration can also place obligations on teachers. For example, in Victoria, where ECTs are required to be registered, ECTs who hold full registration are required to complete an annual registration process and, as part of this, are obliged to undertake at least 20 days of professional practice and 20 hours of professional learning per year (VIT 2023b, 2023c, 2023a).

### **Box 3.16 – The purposes of teacher registration**

A review of professional teacher registration in 2018 identified three main purposes of teacher registration.

The first related to teacher professionalism. The review said:

teacher registration provides certainty to employers and the community that every teacher has undertaken a prescribed level of training and professional learning, creates an obligation in the teaching profession to uphold the standards of their profession ... [and] contributes to the integrity of the profession by conferring a moral weight and a sense of common purpose that governs the behaviour of individuals who identify as a teacher.

The second related to teacher quality. The review said:

teacher registration is a unifying mechanism to ensure a certain level of quality is consistently met by all teachers across the course of their career, in collaboration with their peers and employer.

And the third reason related to children's safety. The review said:

teacher regulatory authorities ensure the safety of teachers they register by enforcing suitability and character standards ... Once registered and throughout the duration of their career, teacher regulatory authorities can impose sanctions or withdraw a teacher's registration if they do not meet the required standards of personal and professional behaviour.

Source: ESA (2018, pp. 2–3).

There have been calls for ECTs to be incorporated into teacher registration arrangements for some time. In 2011, for example, the Commission recommended that 'governments should support teachers working in ECEC settings to obtain professional registration on the same basis of those working in primary schools' (PC 2011, recommendation 10.9). More recently, in 2018, a review into teacher registration requirements also recommended that all ECTs should be required to register with teaching authorities, noting that:

including all early childhood teachers in registration requirements will support the continued professionalisation of the early childhood teacher workforce, particularly through engagement with the Teacher Standards. It will also support recognition of the early childhood sector as an integral part of the Australian education landscape (ESA 2018, p. 27).

Progress, however, has been mixed, and at present, there is significant variation across jurisdictions concerning the circumstances in which ECTs are required to be registered and the types of qualifications permissible for teacher registration (table 3.1).

**Table 3.1 – ECT registration requirements across jurisdictions**

	<b>ECEC settings requiring registration</b>	<b>Qualifications that meet requirements for registration</b>
<b>NSW</b>	All ECTs in school and non-school nationally approved settings require registration	All ACECQA-approved qualifications
<b>Vic</b>	All ECTs in school and non-school nationally approved settings require registration	All ACECQA-approved qualifications
<b>Qld</b>	Under review – currently only ECTs working in schools require registration. Voluntary registration is available in some non-school settings	Four-year teaching qualifications (does not include ACECQA approved 0-5 qualifications)
<b>WA</b>	All ECTs in school and non-school nationally approved settings require registration	All ACECQA-approved qualifications
<b>SA</b>	All ECTs in school and non-school nationally approved settings require registration	All ACECQA-approved qualifications, except Graduate Diplomas and Graduate Certificates
<b>Tas</b>	Under review – currently only ECTs working in schools require registration	Four-year teaching qualifications (does not include ACECQA approved 0-5 qualifications)
<b>NT</b>	Under review – currently only ECTs working in schools require registration. Voluntary registration available in some non-school settings	Four-year teaching qualifications (does not include ACECQA approved 0-5 qualifications)
<b>ACT</b>	Currently only ECTs working in schools require registration. Voluntary registration for ECTs in non-school settings	All ACECQA-approved qualifications

Source: Adapted from Northern Territory Government (2024); Teachers Registration Board of South Australia (2024).

A range of inquiry participants pointed to the value of teacher registration to improve the recognition of ECTs and their connection to their profession (for example, the Creche & Kindergarten Association (sub. 155, p. 12); AITSL (sub. 86, pp. 2–3); G8 Education (sub. 68, p. 5); and the WA Not for Profit Consortium (sub. 250, p. 6). The Front Project noted that teacher registration represents ‘a significant step towards recognising the expertise and qualifications of ECTs and improving their status’ (sub. 227, p. 18).

There is considerable benefit in establishing mandatory teacher registration requirements for all ECTs, regardless of the early childhood setting in which they work. As articulated by inquiry participants, teacher registration is a means to promote the professional recognition of the sector. But it has other benefits too – it can also be a way for ECTs to access development opportunities and connect them to peers and mentors. And critically, teacher registration can also help to cement career paths for ECTs, given that it is through registration frameworks that teachers can seek to be certified as highly accomplished and lead teachers (HALT) in jurisdictions that maintain the classification. HALT certification serves three functions:

- it recognises and promotes quality teaching
- it provides an opportunity for teachers to reflect on their practice
- it provides a reliable indication of quality teaching that can be used to identify, recognise and/or reward Highly Accomplished and Lead Teachers (AITSL 2017).

While the Commission has previously noted that the number of completed HALT certifications is relatively low (PC 2022, p. 184), ensuring that it is a viable option for ECTs to pursue (should they want to, and should they meet the requirements) would improve the attractiveness of the sector to work in. It would also eliminate one of

the disparities between the ECEC sector and the schools sector that may be prompting teachers to seek a career in the latter rather than the former. Ensuring ECTs are effectively incorporated into teacher registration arrangements is the first step in facilitating greater access for ECTs to HALT certification. Inconsistency in the early childhood teaching qualifications that teacher registration bodies are willing to accept is a barrier to making better use of teacher registration arrangements. Under current arrangements, registration is only available to teachers with a four-year qualification in some jurisdictions, while in others, a qualification that has been assessed and approved by ACECQA is sufficient for teacher registration. This includes many three-year programs that have a specific focus on teaching younger (0-5 year old) children.

Several jurisdictions are in the process of reviewing their teacher registration requirements (table 3.1, above), which may lead to greater access for ECTs to teacher registration. This would be a positive development. However, it would be problematic if jurisdictions move to implement ECT registration requirements, but maintain requirements that four-year teaching degrees be a prerequisite for registration. This could lead to a situation where ECTs who move to these jurisdictions may be unable to teach, even if they have a qualification that has been accredited by ACECQA and have worked as ECTs (and been registered as teachers) in other jurisdictions.

Until recently, this was the situation in South Australia, and some South Australian participants reported that this was leading to some ECTs in South Australia being unable to teach because their qualifications did not meet registration requirements (even though they met requirements in other states) (Flinders University, sub. 99, p. 4). In June 2024, the South Australian Government implemented changes to its teacher registration regulations so that teachers with an ACECQA-approved qualification are able to be registered, although approved Graduate Diplomas and Graduate Certificates are still not be accepted (Teachers Registration Board of South Australia 2024).



### 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.

The Commission is of the view that holding any ECT-level qualification that has been approved by ACECQA for the purposes of meeting the requirements of the National Quality Framework should be sufficient to warrant registration as a teacher in all jurisdictions. It is difficult to comprehend why an ECT degree program offered by a university, and scrutinised by ACECQA and deemed to be of sufficient quality for graduates to teach children in ECEC settings, could be deemed to be unsuitable for teacher registration because it fails to meet pre-set prescriptive requirements. It is equally difficult to comprehend why an ECT from one jurisdiction with a degree that ACECQA has approved, has existing teacher registration and potentially has many years of practice as an ECT, could be denied registration if they were to move to another jurisdiction.

When making a similar recommendation to amend teacher registration arrangements in South Australia (which has since been adopted), the South Australian Royal Commission into Early Childhood Education and Care noted there were concerns among some sector stakeholders that allowing shorter degrees to



qualify for teacher registration could erode the professional standing of ECTs. The Royal Commission's view was that:

the length of the degree is not a determinative factor in the professional standing [of ECTs], in the public's eyes, or pay and conditions. (SA Government 2023, p. 150)

The Commission agrees with this assessment. It is also worth noting that employers would remain free to choose ECTs with qualifications that suit their needs and values – for example, a service could still aim to employ only teachers with a four-year teaching degree if it considered it essential or desirable to have a teacher with that qualification.

In sum, the Commission recommends that state and territory governments ensure that, under their teacher registration arrangements:

- ECTs working in NQF-approved ECEC settings are required to be registered with the teacher registration body in their jurisdiction
- any ECT-level degree that has been approved by ACECQA to be recognised under the NQF is sufficient to meet qualification requirements associated with teacher registration.

In implementing this recommendation, the Commission also considers two complementary actions are necessary.

First, state and territory governments should review their teacher registration arrangements to ensure that there is an accessible pathway for ECTs with an ACECQA-approved qualification to teach in primary school (after they undertake any additional study deemed necessary that focusses on the pedagogy and curriculum relevant to primary school teaching) if they so choose. This will provide a degree of flexibility for ECTs to move between the ECEC and schools sectors as their circumstances change.

Second, state and territory governments should review their arrangements concerning HALT certification (if maintained in their jurisdiction) and act on opportunities to make it more accessible for ECTs. As part of reviewing these arrangements, governments should issue guidance on the eligibility of ECTs for HALT certification, the process through which ECTs can seek certification (including in non-government operated ECEC settings), and the implications for ECTs if certification is achieved.

AITSL noted that a practical barrier restricting many ECTs' access to HALT certification is that they do not have access to a certifying authority.

At present, certifying authorities comprise [Teacher Regulatory Authorities] and state-based education systems and employer organisations from the government, Catholic and independent sectors. This means in some jurisdictions, ECTs are only able to apply for HALT certification if they are employed in early childhood settings that are government-operated and/or attached to schools. Many ECTs who may be demonstrating teaching expertise and practise at the Highly Accomplished or Lead career stages are unable to apply for HALT certification, including those employed in local government or non-government organisations, as they are not represented by a certifying authority. (sub. 198, p. 7)

When reviewing their arrangements, governments should ensure that all ECTs have access to a HALT certification authority.



### 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.

In response to the Commission's draft report, AITSL noted that work is also underway to update the *Framework for Teacher Registration in Australia*, which aims to provide a nationally consistent framework to underpin teaching registration arrangements across jurisdictions.

AITSL, in consultation with [Teaching Regulatory Authorities] and key stakeholders, has undertaken work to consider changes to the Framework, with proposed updates to include language changes that are inclusive of early childhood settings ... (sub. 198, p. 7)

This approach is consistent with recommendation 3.7 above. If teacher registration is to become a requirement for ECTs across all jurisdictions, it is essential to ensure that the frameworks that guide governments' approaches to teacher registration fully accommodate ECTs and the ECEC sector more broadly, including by recognising where and how teaching in ECEC settings is similar to – and different from – teaching in schools.

## More can be done to better support and mentor new ECTs

The importance of ensuring ECTs – and especially relatively new ECTs – have access to effective support and mentoring networks is difficult to overstate. When examining mentoring arrangements for teachers in primary and secondary schools, the Commission recently observed:

once teachers graduate and enter the classroom, induction and mentoring is key, particularly during the first three to five years of their career. Access to these supports can improve teaching quality and help new teachers to stay in the workforce. (PC 2022, p. 178)

The importance of support and mentoring arrangements is arguably even more heightened for teachers working in ECEC settings. Unlike in schools – where a newly graduated teacher might have access to a formal induction program and work closely with many experienced teachers – ECTs working in ECEC may potentially be the only degree-qualified person within their service. They may be expected to work independently and show leadership on complicated educational or management matters from very early in

their careers, often with limited direct assistance. As was observed in the National Children’s Education and Care Workforce Strategy (*Shaping our Future*):

there are often high expectations from service providers for newly graduated early childhood teachers to ‘hit the ground running’. This is in contrast to the far more structured and supported program of induction and mentoring often available in the school sector. Newly graduated early childhood teachers can also often find themselves in senior positions within a long day care service, planning and developing curriculum for large numbers of children, and dealing with families around complex service management issues, sometimes without sufficient support. (ESA 2021, p. 33)

The importance of effective mentoring and support networks was also highlighted by inquiry participants. For example, the Australian Education Research Organisation (AERO) said:

evidence suggests that supports such as mentoring and induction can improve practice and enhance collaboration and connection across the sector. Ensuring that educators and teachers have access to mentoring and induction – especially at key transition points in their career – may help to improve issues related to retention, professional identity and career progression. (sub. 137, p. 2)

And the Front Project submitted:

[mentoring and support] programs are critical in nurturing and empowering new educators as they embark on their careers and is an important retention measure to strengthen workforce supply. Structured mentoring and support programs play a pivotal role in fostering a supportive environment for new ECTs, aiding in their transition into the workforce and promoting their ongoing development. Such programs not only support the professional growth of new ECTs but also contribute to the overall enhancement of early childhood pedagogy and practice. (sub. 227, p. 20)

Ensuring ECTs receive sufficient mentoring and support is particularly important because it is often ECTs who provide educational, pedagogical and sometimes management leadership for others employed in a service. This means that providing ECTs with good quality mentoring and support can provide a solid foundation for ECTs to support others in the service, which can help to maintain or improve ECEC quality and support staff retention more broadly. Better mentoring and support arrangements in schools is also a ‘pull factor’ that might persuade some new teachers to choose to work in schools over ECEC settings.

While some ECTs working for large providers – who may employ many ECTs across their services – may have access to ‘in-house’ mentoring and support offered by their employer, access is much less likely for those working in smaller, independent or regional services (and it is often ECTs working in these types of services who are the most isolated and have the greatest need for support). Resourcing can be a significant barrier for mentoring programs, be these resources to recruit ECTs dedicated to mentoring others, or resourcing more experienced ECTs to have time off the floor to mentor more junior colleagues, in addition to their teaching duties.

There is some evidence to suggest that governments recognise the value and importance of providing mentoring and support for new ECTs. Enhancing mentoring and induction support for new teachers is one of the action items outlined in the National Children’s Education and Care Workforce Strategy (*Shaping our Future*) (action FA1-3). As a first step towards this action, AERO has been tasked with undertaking a review of existing supports and their relative effectiveness, as well as completing a literature review of mentoring and induction support (ESA 2022b, p. 16). And some governments already have initiatives underway. For example:

- the Victorian Government provides funding (of just over \$2,800 per teacher) to services to support ECTs to move from provisional to full registration. Among other things, this funding can be used to provide paid time release for an ECT and mentor to work with each other (Victorian Government 2023c). The Victorian

Government funds a range of supports for ECTs in their first five years of practice, including individualised coaching for ECTs and communities of practice for ECTs in their second to fifth year of teaching (Victorian Government 2023e)

- South Australia offers an Early Career Teacher Development program, which provides graduate teachers with a site-based mentor to support them to make the transition from a graduate to a proficient teacher (as set out by the Australian Professional Standards for Teachers) (ESA 2022a, p. 4).

A mentoring program for new ECTs has also operated in New South Wales in the past (Centre for Research in Early Childhood Education, sub. 21, p. 15, NSW Government (2021)).

While the Commission has not evaluated the efficacy of these individual programs, in the broad, the Commission considers the determination by some governments to develop and maintain mentoring programs for new ECTs to be commendable. Jurisdictions that do not offer mentoring and support programs for new ECTs should do so, drawing on the research on the effectiveness of existing support programs that AERO is undertaking.



### 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.

## Aboriginal and Torres Strait Islander people should be better supported to obtain ECEC qualifications – and their cultural knowledge recognised

Aboriginal and Torres Strait Islander educators and teachers are a vital part of the ECEC workforce. In 2021, about 3% of the ECEC workforce were Aboriginal or Torres Strait Islander people, but this varied markedly by location – in remote and very remote areas, Aboriginal and Torres Strait Islander educators and teachers made up more than a quarter of all ECEC staff (SRC 2022, p. 34).

In addition to comprising an important share of the ECEC workforce, Aboriginal and Torres Strait Islander educators and teachers bring their own cultural experiences, perspectives, knowledges, languages and ways of teaching and learning to the sector. These are valuable assets that enrich the ECEC workforce and the education and care the sector provides.

Inquiry participants identified a wide range of benefits that Aboriginal and Torres Strait Islander staff bring to the sector, including improved cultural safety and responsiveness in services (cultural safety is discussed more in paper 2) and greater ECEC participation by Indigenous families in services with Aboriginal and Torres Strait Islander staff. Participants also noted that services with Aboriginal and Torres Strait Islander staff often have better relationships with Aboriginal and Torres Strait Islander families and a better understanding of their particular circumstances (Community Connections Solutions Australia, sub. 105, p. 18; SNAICC sub. 133, p. 10; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 11; National Indigenous Australians Agency, sub. 152, p. 6).

Drawing on academic studies (Locke 2022; Webb 2022), SNAICC also identified the important role that Aboriginal and Torres Strait Islander educators and teachers play in fostering cultural identity and strength in Aboriginal and Torres Strait Islander children.

The presence of Aboriginal and Torres Strait Islander educators and staff who share a cultural schema (i.e. a framework for making sense of their world) with children, fosters relatedness and supports the development of [identity] and cultural pride in Aboriginal children (Webb, 2022). To that end, Aboriginal and Torres Strait Islander educators and staff must be recognised and employed to promote the inclusion of their knowledge and perspectives in both Western-based and [Aboriginal Community Controlled Organisation] led ECEC (Locke, 2022). The combined impact of this is increased engagement in ECEC services by the entire family and ultimately Aboriginal and Torres Strait Islander children who are resilient and strong in their culture. (sub. 133, p. 7)

The NSW Aboriginal Education Consultative Group made a similar point.

The employment of Aboriginal educators is instrumental in ensuring Aboriginal children and families have a culturally responsive educational environment as it creates a sense of belonging and connection, which is essential for their overall well-being and educational success. It also strengthens cultural identity and fosters positive relationships between educators, children and families. (sub. 217, pp. 14–15)

Some inquiry participants noted that the benefits of attracting more Aboriginal and Torres Strait Islander educators and teachers were magnified in regional and remote communities – where a disproportionately large share of local families may identify as Aboriginal and Torres Strait Islander and where services might otherwise find it difficult to find staff. It was also noted that the ECEC sector might provide Aboriginal and Torres Strait Islander people living in regional and remote areas with an opportunity to work in their community and/or on Country (which can be especially valuable if there are relatively few other employment options available).

Over the course of the inquiry, the Commission has heard that many Aboriginal and Torres Strait Islander people have a strong interest in working in the sector. However, there are a range of barriers that limit Aboriginal and Torres Strait Islander peoples' participation in the ECEC workforce. Some of these barriers are common to the ECEC workforce as a whole, such as relatively low pay. But some barriers more specifically impact on Aboriginal and Torres Strait Islander people. In particular, participants highlighted barriers accessing the training and qualifications needed to work in the sector, including:

- a lack of local VET or university providers – particularly for Aboriginal and Torres Strait Islander people living in regional or remote areas – and a lack of willingness or capacity on behalf of training providers to teach on Country or in Indigenous communities. Consequently, Aboriginal and Torres Strait Islander people are often expected to travel to a training provider and spend significant time away from their home in order to obtain their qualification. This can involve long periods of travel and be expensive. And even when there are training options relatively nearby, they can be under-resourced or under-staffed (Binarri-binyja yarrowoo Aboriginal Corporation, sub. 85 pp. 8–9; Northern Territory Government, sub. 157, attachment, p. 12; National Aboriginal Community Controlled Health Organisation, sub. 151, pp. 11–12)
- a lack of training options that are culturally safe or appropriate for Aboriginal and Torres Strait Islander students. Training providers might also lack flexibility around how content is taught and how assessment is undertaken (including the language in which teaching and assessment occurs), which reduces accessibility for Aboriginal and Torres Strait Islander people (SNAICC; sub. 133, p. 10; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 11). Training providers may also be unwilling or unable to accommodate the cultural needs of Aboriginal and Torres Strait Islander people – such as the need for (potentially prolonged) time away from study to meet family or ceremonial commitments

- an unwillingness or inability of training providers to recognise the existing – and often extensive – cultural knowledge and experience that many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children (Northern Territory Government, sub. 157, attachment, p. 10).

As part of the National Agreement on Closing the Gap, the Coalition of Aboriginal and Torres Strait Islander Peak Organisations, the Australian Government, state and territory governments and the Australian Local Government Association have agreed to develop a series of Sector Strengthening Plans. These plans aim to identify sets of measures to build the Aboriginal and Torres Strait Islander community-controlled sector across a range of policy areas. In December 2021, a Sector Strengthening Plan for the Early Childhood Care and Development sector was agreed to.

Among other objectives, the Plan aims to:

- increase the Aboriginal and Torres Strait Islander ECEC workforce
- increase relevant qualifications and skills of the Aboriginal and Torres Strait Islander workforce, alongside professional recognition of cultural knowledge, skills and relationships.

The Plan also identifies some key actions ‘for further consideration and development’ that aim to grow the Aboriginal and Torres Strait Islander workforce, including by improving access to ECEC training. Box 3.17 contains a subset of these actions.

In its recent report on the *Review of the National Agreement on Closing the Gap*, the Commission examined Sector Strengthening Plans across all sectors where they are in place, and observed that key information, including on resourcing, timelines and accountability, was often lacking.

Many actions are defined only at a high level, often without concrete timeframes, responsibilities, and resourcing. Very few of the actions across the four existing [Sector Strengthening Plans] specify who is accountable for the actions beyond listing ‘all jurisdictions’. Similarly, few actions specify either resources or timeframes for completion. Without clarity about what needs to be done by whom and when, it is difficult to track progress and maintain accountability for the implementation of actions. (PC 2024, volume 2, p. 99)

These observations ring true for the actions aimed at growing the Aboriginal and Torres Strait Islander ECEC workforce outlined in the Early Childhood Care and Development Sector Strengthening Plan. For most of these actions, responsibility has been broadly allocated to ‘all governments and sector representatives’, and the resourcing to undertake the actions deemed to be ‘existing or to be determined by the parties’. Consequently, while the Plan does identify a range of actions to grow the ECEC workforce, there remains ambiguity about how they will be implemented, by whom, and how they will be held to account to ensure the actions are implemented effectively. Chapter 3 of the Commission’s *Review of the National Agreement on Closing the Gap* provides guidance on improving the usefulness of Sector Strengthening Plans (PC 2024).

### **Box 3.17 – Selected key actions of the Early Childhood Care and Development Sector Strengthening Plan**

#### **Action A2 – Support Aboriginal and Torres Strait Islander career development through secondary school career engagement, preparation of the workforce, on the job staff development, mentoring, career development and progression**

Support career development through secondary school career engagement, preparation of the workforce, on the job staff development, mentoring, career development and progression. This could include:

- scholarships for the Aboriginal and Torres Strait Islander ECEC workforce to undertake further study, including tertiary and graduate studies
- enabling access to professional development programs or on-the-job training for Aboriginal and Torres Strait Islander ECEC staff focused on realising the potential of individuals
- building leadership skills – access to initiatives which actively identify Aboriginal and Torres Strait Islander staff to build leadership skills and progress into leadership positions
- leveraging existing government schooling and tertiary support programs, scholarships and subsidies
- increasing completion rates.

#### **Action A3 – Support for tertiary qualification pathway programs for Aboriginal and Torres Strait Islander early educators in line with promising practice**

This could involve strategic partnerships between the community-controlled sector, universities and/or training providers to support Aboriginal and Torres Strait Islander students to enter and progress through tertiary education. Could also include support for rural and remote locations. Initiatives to consider and reflect the broad identified features of promising and successful programs, which include:

- strengths-based approach
- the combination of on-country, online, and on-campus tuition
- residential programs
- support to meet entry requirements
- local mentors and/or study groups
- face-to-face visits from lecturers/trainers
- financial support for study costs, including food, accommodation, and transport
- close involvement of academic staff specialising in Aboriginal and Torres Strait Islander education.

#### **Action A5 – Support, develop and resource community-based workforce development initiatives led by Aboriginal and Torres Strait Islander early childhood education and care services**

There are a range of promising local programs led by community-controlled services to mentor and support career progression and higher-level qualifications for local Aboriginal and Torres Strait Islander community members working in early childhood centres. Limited government programs and resources are available to support community-based workforce development initiatives like these. Consideration of resource needs could include backfill for educators to devote time to mentoring and developing staff, backfill for staff participating in higher education programs, and on-site technology for staff engaging in remote learning.

Source: Joint Council on Closing the Gap (2021).

The Commission recognises that governments have already taken some actions (seemingly consistent with the Sector Strengthening Plan) to grow the Aboriginal and Torres Strait Islander workforce. For example, most jurisdictions have scholarship programs in place that provide financial support to Aboriginal and Torres Strait Islander people to undertake initial teacher education (although relatively few of these scholarships are targeted at ECEC-specific qualifications).<sup>23</sup> And at least one jurisdiction (Victoria), offers scholarships for Aboriginal and Torres Strait Islander people to undertake VET-level ECEC qualifications too (Victorian Government 2023a). There are initiatives that go beyond financial support as well – for example, the Northern Territory Government has initiatives underway to provide targeted support in some communities (such as Tennant Creek and Galiwin'ku) to assist local Aboriginal women and students to obtain a Certificate III in Early Childhood Education and Care (ESA 2022a, p. 7).

But the Commission is of the view that more can be done to assist Aboriginal and Torres Strait Islander people to get the necessary qualifications to work in ECEC.

In particular, recognising the benefits that would arise from having more Aboriginal and Torres Strait Islander ECEC workers, and the substantial barriers many Aboriginal and Torres Strait Islander people face accessing ECEC training, governments should trial bespoke pathways for Aboriginal and Torres Strait Islander people to complete ECEC-relevant qualifications. These pathways should be designed in collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, and as such, the Commission does not want to be too prescriptive about the forms they should take. Nevertheless, the Commission is of the view that, in forming these pathways, a central aim should be to recognise the existing cultural knowledge that many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children. In designing these approaches, governments should particularly consider ways to change how prior learning is recognised, how teaching and assessment is undertaken, and how learning supports are provided in order to address some of the barriers Aboriginal and Torres Strait Islander people face when completing ECEC qualifications.

SNAICC pointed out that it can be difficult for students to undertake their required placements in services operating under 'Minister's Rules' (paper 8), which can include some services that focus on delivering ECEC primarily to Aboriginal and Torres Strait Islander children and families. SNAICC indicated that this meant that:

... Aboriginal and Torres Strait Islander educators may have to leave their community and their current service to undertake unpaid practicum / work placement in a service that is legislated under the National Quality Framework. Not only is this impractical, it creates additional workforce shortages both over the short and long term (sub. 290, p. 14).

Based on information provided by Australian Government agencies, the Commission understands there is not an explicit exclusion for services operating under Minister's Rules to facilitate placements. However, the Commission understands there can be requirements around placements that are likely to be very difficult for some Aboriginal and Torres Strait Islander ECEC services to meet. For example, in ECEC VET courses, some skills need to be assessed in regulated children's ECEC services, and as part of this, assessments may be required 'to ensure access to' the NQF and National Quality Standard. (As discussed in paper 8, some Aboriginal and Torres Strait Islander ECEC services that were formerly funded through Budget Based Funding or as part of the Indigenous Advancement Strategy operate outside the scope of the NQF).

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<sup>23</sup> For example, Aboriginal and Torres Strait Islander Early Childhood Education Scholarships in New South Wales, Early Childhood Aboriginal Pathway Scholarships in Victoria, Aboriginal Teacher Education Scholarships in the Northern Territory, Pearl Duncan Teaching Scholarships in Queensland, and Amy Levai Aboriginal Teaching Scholarships in South Australia (Department for Education (SA) 2023; Northern Territory Government 2023; NSW Government 2023a, 2023d; Queensland Government 2023b; Victorian Government 2023b).



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There would be benefit in widening the extent that placements and competency assessments can take place in Aboriginal and Torres Strait Islander ECEC services. Such services are likely to be capable of providing enriching and valuable practical experience for people undertaking ECEC qualifications (both for students who are Aboriginal and Torres Strait Islander people and students who are not), and may provide experiences different to those available in 'mainstream' services, given that many operate in relatively remote areas and have a greater emphasis on teaching Aboriginal and Torres Strait Islander children. ACECQA and HumanAbility, as organisations who set requirements with respect to placements in ECEC, should review restrictions in their requirements that limit the extent that placements are able to take place in Aboriginal and Torres Strait Islander ECEC services and, once completed, provide advice to training providers on the circumstances in which placements can be undertaken in these services. This work should be undertaken in concert with SNAICC, as a member of the Coalition of Peaks and a national peak body for Aboriginal community-controlled ECEC services.

Increasing the number of Aboriginal and Torres Strait Islander people with ECEC-relevant qualifications alone may not be enough to increase their participation in the ECEC workforce – Aboriginal and Torres Strait Islander educators and teachers with relevant qualifications may still not wish to work in the sector if they feel it is unable to meet their cultural needs or that it is not culturally safe. For example, Binarri-binyja yarrowoo Aboriginal Corporation said:

workplaces need to [be] mindful of staff's cultural needs as well. If staff do not feel supported in practicing their culture, or that they are excluded because of their culture, they may choose to leave. One example is that in Aboriginal culture, family and cultural commitments are taken very seriously. It is not uncommon for people to unexpectedly be unavailable for long periods of time due to family commitments, which can leave a centre unexpectedly short staffed. (sub. 85, p. 9)

Another challenge that Aboriginal and Torres Strait Islander teachers and educators may face is an expectation that they single-handedly carry the responsibility of ensuring a service is culturally competent, safe and responsive, when in fact this responsibility should be shared across all staff (PC 2022, p. 224).

Just as services should provide an environment that is culturally safe and responsive for Aboriginal and Torres Strait Islander children and families (paper 2), so should services ensure a safe, supportive and responsive working environment for their Aboriginal and Torres Strait Islander staff as well.



### 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.

## 3.7 Professional development arrangements to support the ECEC workforce

Professional development helps to ensure that ECEC staff remain up-to-date with the latest research about how children learn, grow and develop and provides them with opportunities to maintain, improve or broaden their skills and knowledge. As Siraj et al. stated:

continuing [professional development] fills the gaps in knowledge and skills that are often apparent in practice after initial training, and it keeps educators up-to-date with research into best practice. This is particularly important in ECEC, where there is a growing body of research into 'what works' and still some unresolved debates. (2016, p. 20)

Access to professional development for the ECEC workforce is important on several levels. It helps the workforce provide high-quality and stimulating education and care for children that reflects the latest pedagogy – something that families are likely to value. Professional development is also valued by workers,

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who might view a willingness from their employer to invest in their professional development as a signal that their work is valued, and who benefit from the role that professional development can play in solidifying career pathways. Staff are also likely to value opportunities to develop their own knowledge and skills and incorporate these into their practice. And services can benefit from professional development as well, to the extent that it helps them to offer high-quality ECEC to families or leads to reduced employee turnover.

But there are also likely public benefits that arise from the ECEC workforce's professional development. Professional development that leads to a higher quality service, or that allows services to provide more inclusive ECEC to more children, can be expected to further unlock the community benefits – including improved developmental outcomes in children – that can arise through ECEC.

The 2021 ECEC Workforce Census indicates that most ECEC workers have access to at least some professional development opportunities, with three-quarters of paid contact staff participating in some form of professional development in the 12 months prior to the ECEC Workforce Census being undertaken. This professional development focussed on a variety of topics, including on strengthening pedagogy or practice and promoting inclusion (figure 3.18).

However, it is difficult to be definitive about the nature of much of the professional development that the ECEC workforce has undertaken, given that, by far, the largest category of professional development captured in the ECEC Workforce Census related to 'other relevant training courses'. It is possible that some of the responses in this category relate to mandatory training (such as training related to first aid or child protection), which – while essential – are focussed more on meeting safety requirements rather than professional development per se.

While the ECEC Workforce Census results suggest the take-up of professional development opportunities is relatively widespread, the Commission has heard that the ECEC workforce still faces several significant barriers to accessing professional development, namely difficulty getting time off work and the cost of professional development activities (Connect.Ed Trauma-Informed Education and Care, sub. 104, p. 15; B4 Early Years Coalition Tasmania, sub. 55 p. 6; the Salvation Army, sub. 56, p. 24; The Front Project, sub. 227, p. 23). These experiences are also supported by academic research – for example, a 2021 evaluation of the Inclusion Support Program found that educators 'largely [had] to allocate their own time and resources' to purchase and undertake inclusion training. (Bray et al. 2021, p. 168).

**Figure 3.18 – The ECEC workforce undertakes a range of personal development training**  
**Share of paid contact ECEC staff who have undertaken personal development in the 12 months prior to the 2021 ECEC Workforce Census, by topic of training**



Source: SRC (2022).



**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.

Since July 2023, the Australian Government has funded a Professional Development Subsidy to assist ECEC staff to undertake ‘mandatory or highly recommended training’ (box 3.18). Some states and territories have also developed (or are in the process of developing) their own initiatives – for example, the NSW Government has flagged that it will create a \$10 million Professional Development Fund that is ‘expected to provide free, high-quality, universally accessible professional development opportunities to teachers and educators in ECEC, regardless of their qualification’ (NSW Government 2023c), while in Queensland,

services that receive funding through the 'Kindy uplift' program are able to put this towards backfill to enable educators to undertake certain professional development activities (Queensland Government 2023a).<sup>24</sup>

As discussed above, there are likely to be public benefits arising from ECEC staff undertaking professional development activities. This suggests that a degree of public support for the ongoing professional development of the ECEC workforce is appropriate.

In supporting professional development, governments should target their contributions towards activities that have the largest potential public benefits. This includes professional development to make ECEC practices more inclusive. This is discussed in paper 2, where the Commission proposes that professional development that improves the capability of staff and services to provide more culturally safe and inclusive ECEC should be one of the options that services can fund as part of their (needs-based) allocation under the ECEC Inclusion Fund (recommendation 2.3).

But promoting inclusion is only one area where the professional development of ECEC staff should be supported. There are at least two other areas where government funding should be provided to assist the ECEC workforce to undertake professional development.

### **Box 3.18 – The Professional Development Subsidy**

The Professional Development Subsidy is an initiative of the Australian Government to improve early childhood education and care (ECEC) staff's access to professional development. The program aims to improve the skills and training of ECEC staff and upskill the ECEC workforce by building its supply and capacity through professional development training opportunities. Under the initiative, the Australian Government provides services with a subsidy that can be used to:

- supplement the cost of backfilling while staff engage in mandatory or highly-recommended training
- pay staff a supplement for training undertaken outside of work hours.

The subsidy covers two days of training. Examples of training that the subsidy can be used for include: first aid; centre and complaints management; child protection and mandatory reporting requirements; adult-child relationship development and management; and other safety-related training. The subsidy can also be used to participate in a mentoring or leadership program delivered by a registered training organisation.

Over four years, \$34 million has been allocated to the program; \$13 million has been allocated for 2023-24. In 2023-24, only services and staff in regional, remote and very remote locations, and First Nations services and educators have access to the subsidy, although access will be expanded in future years. The program is demand driven, meaning funding may be exhausted before applications formally close.

Source: DoE (2023d).

The first is professional development to assist educators and teachers to remain up to date with the latest pedagogical research and to assist them to incorporate this research into their ECEC practices. As

<sup>24</sup> The Kindy Uplift program funds programs, resources, supports and professional development for eligible kindergartens (including community kindergartens and long day care services). Eligible kindergartens have been pre-selected by the Queensland Government 'based on characteristics predictive of educational need and where additional funding can provide the greatest opportunity to improve learning and development outcomes for children' (Queensland Government 2023a).

established in paper 1, while there is much that is known about how ECEC can affect children's outcomes, there are still areas where a more robust evidence base is needed. As efforts are made to fill this evidence base, it is likely that lessons for ECEC programs will emerge, and professional development will be a key way to disseminate these lessons and integrate them into the everyday practices of ECEC services.

The second is professional development that assists educators and teachers to understand and apply the National Quality Standard and the nationally approved learning frameworks. Both the NQS and the learning frameworks are key instruments that aim to embed quality in the ECEC system, drive continuous improvement and ultimately ensure that the ECEC delivered to children is of high-quality and is beneficial. Reflecting this importance, professional development that deepens ECEC staff's capability to apply these frameworks is valuable and should be supported.



### 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.

## 3.8 Migration settings to support the ECEC workforce

### There were more migrants working in ECEC in 2021 than in 2016

Migrants are an important part of the ECEC workforce. The number of migrant ECEC workers increased from about 37,000 to about 57,500 between 2016 and 2021, increasing migrants' share of the ECEC workforce from about 21% to 28%. And migrants were more prevalent in some service types – nearly half of FDC workers and 31% of CBDC workers were migrants in 2021.<sup>25</sup> While the overall number of migrants increased, 75% of all migrants working in ECEC were permanently in Australia in both 2016 and 2021.

<sup>25</sup> Productivity Commission estimates based on ABS (2021, 2016) Microdata: Australian Census and Migrants Integrated Dataset, Australian Census and Temporary Entrants Integrated Dataset, accessed 30 October 2023. The results of these studies are based, in part, on data supplied to the ABS under the Taxation Administration Act 1953, A New Tax System (Australian Business Number) Act 1999, Australian Border Force Act 2015, Social Security (Administration) Act 1999, A New Tax System (Family Assistance) (Administration) Act 1999, Paid Parental Leave Act 2010 and/or the Student Assistance Act 1973. Such data may only be used for the purpose of administering the Census and Statistics Act 1905 or performance of functions of the ABS as set out in section 6 of the Australian Bureau of Statistics Act 1975. No individual information collected under the Census and Statistics Act 1905 is provided back to custodians for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes and is not related to the ability of the data to support the Australian Taxation Office, Australian Business

Many migrants in the ECEC workforce in 2021 were previously employed in another industry or were out of the workforce entirely. Despite the 55% increase in migrants working in ECEC between 2016 and 2021, 83% of the migrants working in ECEC in 2021 were in Australia before 2016. As such, it was not so much new migrants who contributed to the growth in migrants working in the sector between 2016 to 2021, but migrants who had already been in Australia for quite some time (with the low rates of migration during the COVID-19 pandemic contributing to this).

The visa arrangements of migrants working in the sector vary. About half of permanent migrants working in the sector were skilled visa holders, with most (about 40%) of the remaining permanent migrants holding a family visa. More than half of temporary migrant ECEC workers were either New Zealand citizens allowed to stay indefinitely in Australia, or were on a bridging visa waiting for their substantive visa to be granted or renewed. Of the remaining temporary migrants working in the sector, about 27% were student visa holders, and about 14% were on skilled temporary migration visas.

## Migration reform has – and will continue to – impact on the ECEC workforce

### Some reforms have already taken effect ...

Based on feedback from inquiry participants, in its draft report, the Commission noted that two key changes implemented over the past year were highly consequential for the extent that ECEC employers could draw on migration to supplement the ECEC workforce. These reforms related to changes to the Temporary Skilled Migration Income Threshold (TSMIT) and changes to the maximum number of hours that migrants on student visas are able to work.

### Changes to the Temporary Skilled Migration Income Threshold

To nominate migrants for some skilled visas, employers are required to offer them an income that is above a particular income threshold. Where this applies, this income threshold is either the annual market salary rate (AMSR) or the Temporary Skilled Migration Income Threshold (TSMIT) – whichever value is higher. The aim of this requirement is to ensure that employers pay overseas workers no less than an Australian worker doing the same job in the same location (which is what is captured through the AMSR), and to ensure visa programs are not used to undercut the Australian market (Australian Government Department of Home Affairs 2023b).

While the AMSR is calculated based on a range of considerations (set out in Australian Government Department of Home Affairs (2023b)), the TSMIT is a specified amount. For applications lodged after 1 July 2023, the TSMIT is set at \$70,000 (per year). Prior to this date, the TSMIT was set at \$53,900 (Australian Government Department of Home Affairs 2023b).

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Register, Department of Social Services and/or Department of Home Affairs' core operational requirements. Legislative requirements to ensure privacy and secrecy of these data have been followed. For access to MADIP and/or BLADE data under Section 16A of the ABS Act 1975 or enabled by section 15 of the Census and Statistics (Information Release and Access) Determination 2018, source data are de-identified and so data about specific individuals has not been viewed in conducting this analysis. In accordance with the Census and Statistics Act 1905, results have been treated where necessary to ensure that they are not likely to enable identification of a particular person or organisation. The number of migrants is likely understated because the Australian Census and Migrant Integrated Dataset does not have data for migrants that arrived prior to 1 January 2000. These figures underestimate the total proportion of migrants in ECEC because the migrant data excludes nannies while the population data includes them. But the difference is immaterial – the data is available for the 2021 Census, and excluding nannies from ECEC staff in the population increases the proportion of migrants in the ECEC workforce from 28% to 29%.

This increase in the TSMIT came after a comprehensive review of Australia's migration system, which suggested increasing the TSMIT because it had not been increased since 2013, and was failing to 'protect migrant workers from underpayment or protect lower paid local workers from international competition' (Parkinson et al. 2023, p. 78).

Several inquiry participants submitted that this would affect the sector's ability to draw on migrants to supplement the ECEC workforce. For example, the Northern Territory Government said the increase will:

... have a significant effect on ECEC workforce shortages as the cost of employing migrants under the terms of TSMIT will be unsustainable, particularly in regional and remote locations where skilled migration is heavily relied upon to meet workforce needs. (sub. 157, attachment, p. 11)

While Goodstart Early Learning indicated the changes would have a significant impact on their educator workforce.

The change to the Temporary Skilled Migration Income Thresholds (TSMIT) to \$70,000 means that the only occupations that exceed the TSMIT in ECEC are centre directors and early childhood teachers. This means educators currently on employer sponsored visas (visa classes 186, 187, 457, 482, 494, 249 and 120) will not be able to renew their visas and will have to return to their home countries. That will impact on hundreds of current valued Goodstart educators and potentially thousands across the sector over coming years. (sub. 277, p. 88)

The Commission's draft report noted that there were frameworks in place in the form of Designated Area Migration Agreements (DAMAs) and Industry Labour Agreements (box 3.19) through which more tailored arrangements for the TSMIT could be considered for the ECEC sector, noting that in the case of both sets of agreements, negotiations between affected parties were required and an agreement could not be entered into unilaterally by government. However, the Commission notes that since the draft, the Australian Government has indicated it is not accepting requests for new DAMAs in anticipation of further reform of migration arrangements, and also flagged that '... the Government will evaluate existing labour agreements for below-TSMIT migration and will rewrite guidelines for future labour agreements to provide stronger workplace protections.' (Australian Government 2023e, p. 52; Australian Government Department of Home Affairs 2024a). These undertakings were made in concert with other proposed reforms – including commitments to develop new migration pathways (discussed below) – that have the potential to impact on the extent that the ECEC sector is affected by the change in the TSMIT.

### **Box 3.19 – What are Designated Area Migration Agreements and Industry Labour Agreements?**

Designated Area Migration Agreements (DAMAs) and Industry Labour Agreements are two types of agreements that can be entered into under Australia's current migration arrangements.

DAMAs are agreements between the Australian Government and relevant regional, state or territory bodies that can alter some migration settings for particular locations to provide more access to overseas workers than what otherwise would be the case. DAMAs aim to tailor migration arrangements to the unique economic circumstances and workforce challenges faced by the regions they apply to, and can include alterations to the Temporary Skilled Migration Income Threshold (TSMIT) and concessions for age and English language requirements for particular occupations, among other changes. There are 12 DAMAs in place, including for the Northern Territory, Adelaide City, Townsville and the Pilbara region.



### **Box 3.19 – What are Designated Area Migration Agreements and Industry Labour Agreements?**

Industry labour agreements are agreements for specific industries with ongoing labour shortages. These may also contain concessions to standard migration conditions, including conditions relating to the TSMIT and age, skill and English-language requirements. There are ten industry labour agreements in place, including an agreement for the aged care industry.

Source: Australian Government Department of Home Affairs (2023a, 2024a); Parkinson, Howe and Azarias (2023).

### **Changes to the maximum work hours for student visa holders**

A second change to migration arrangements identified in the draft report as impacting the sector was changes to the maximum hours that student visa holders (which the Commission has estimated to be about 27% of temporary migrant workers in the sector) are able to work.

Prior to the COVID-19 pandemic, student visa holders were permitted to work a maximum of 40 hours per fortnight while their courses were in session. However, during the pandemic, conditions were relaxed, and in January 2022, limits on the amount of work student visa holders could undertake were completely removed (with the rationale being that this would assist with addressing workforce shortages that were particularly acute at that time). However, as of 1 July 2023, the Australian Government again capped the maximum hours that student visa holders can work while their course is in session, this time at 48 hours per fortnight (Australian Government Department of Home Affairs 2024c).

A small number of inquiry participants (including Goodstart Early Learning, sub. 125, p. 44 and ELACCA, sub. 153, p. 17) suggested that the limit on the number of hours student visa holders can work should be relaxed for the sector. The Commission, however, notes that given the exemption was a temporary measure implemented at a time when there was significant economic uncertainty and challenge (that is, during and in the immediate aftermath of the COVID-19 pandemic), and given that international student visa holders' primary purpose for migrating to Australia is for study and not work, the case for this is not particularly strong. (It is also worth noting that current arrangements – where students can work 48 hours per fortnight when courses are in session – are more generous than the settings that were in place before the pandemic, when maximum work hours were capped at 40 per fortnight when courses were in session).

### **... and more reform has been flagged**

In December 2023, after the release of the Commission's draft report, the Australian Government released a new Migration Strategy that outlined 'a new vision for Australia's migration system' and set out a series of new policy commitments and areas of future reform for Australia's migration arrangements (Australian Government Department of Home Affairs 2024b).

Two of the reforms flagged in the strategy loom as particularly consequential for the ECEC sector.

First, the strategy flagged the creation of a 'Core Skills' migration pathway, which, while retaining several elements of the previous skilled migration arrangements, will likely be a key pathway through which the sector can recruit international staff. This pathway will be open to applicants whose occupation is listed on a new 'Core Skills Occupation List' and who will be paid a salary at or above the TSMIT (or the relevant average market salary where this is above the TSMIT). The Core Skills Occupation List is still being developed, with Jobs and Skills Australia undertaking labour market analysis and stakeholder engagement to provide advice to the Australian Government on what the composition of the List should be. To aid with its engagement, Jobs and Skills Australia has released a draft List that classifies occupations into one of three categories based on

their modelling – occupations that their model is ‘confident’ should be on the list, occupations that their modelling suggests should not be on the List, and occupations where targeted feedback is sought.

At the time this report was finalised, Early Childhood (Pre-primary School) Teachers were included in this first category (confident of being on the List), which – if agreed to by the Australian Government – would make them eligible to be recruited through the Core Skills pathway so long as the TSMIT was met (Jobs and Skills Australia 2024a). And it would be likely that many ECTs would earn above the TSMIT (currently \$70,000), given that under the relevant award, the minimum earnings for a Level 2 teacher working full-time in a long day care setting is about \$76,000 per annum.<sup>26</sup> Child Care Workers and Outside School Hours Care Workers are flagged for targeted consultation, but even if these occupations were placed on the final Core Skills Occupation List, satisfying the TSMIT will be much more difficult for these occupations given their typical earnings (Jobs and Skills Australia 2024a).

Second, the strategy flagged the development of an Essential Skills migration pathway that will provide ‘a more regulated pathway for lower paid workers with essential skills’ that will be developed in consultation with state and territory governments, unions, businesses and migrant workers (Australian Government Department of Home Affairs 2024b, p. 51).

While there is limited detail on the nature of the pathway – reflecting that it is still being developed – the information that is available suggests that some of the key features of the pathway are likely to include that:

- the pathway will primarily be considered ‘in the context of the care and support economy’ and may give consideration to sectors and occupations where persistent skills shortages exist and where improvements in wages and conditions – where they have occurred – have not proven sufficient to meet labour shortages in the short term
- arrangements would be sector-specific and capped
- the pathway would provide an opportunity for temporary migration for migrants who, upon employment in Australia, would be paid less than the TSMIT (Australian Government Department of Home Affairs 2024b, pp. 51–52; Gunning-Stevenson et al. 2023).

As part of the care and support economy on which the Essential Skills pathway is to focus, and as a sector that has experienced labour challenges for some time, on face value, the Essential Skills pathway represents an opportunity to reconsider the migration settings for the ECEC sector. The fact that any arrangements would be ‘sector-specific’ suggests that there will need to be a degree of negotiation between governments, employers, unions and other key sector participants on how – if at all – the Essential Skills pathway will apply to the sector. It is through such negotiations that the role of the Essential Skills pathway in the ECEC sector is best determined. That said, while temporary migration can serve a useful role in supplementing the ECEC workforce in times of significant workforce need, it should be viewed as a complement to – and by no means a substitute for – developing well-functioning pathways to grow the ECEC workforce within Australia (that draw on the recommendations of this inquiry).

### **3.9 Making the most of the National Children’s Education and Care Workforce Strategy**

As outlined in box 3.4 (above), the Australian, state and territory governments, in collaboration with key sector participants, have developed a ten-year National Children’s Education and Care Workforce Strategy

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<sup>26</sup> As per the Educational Services (Teachers) Award 2020 as at 18 May 2024. A Level 2 classification is a teacher with proficient accreditation/registration or equivalent. It is the second lowest of the five classifications set out in the Award.

(*Shaping our Future*) (the strategy) for the ECEC workforce. This strategy serves an important function – it provides a shared vision across governments and outlines a list of collective actions governments will pursue to grow and develop the ECEC workforce (at a time when government action is needed).

But a national workforce strategy is also important because different governments face different incentives to grow and develop different parts of the ECEC workforce. For example, state and territory governments – who are primarily responsible for funding (and in some jurisdictions, delivering) preschool – have strong incentives to focus on the staffing needs of preschool services within their jurisdiction, but little incentive to consider the workforce beyond those who work in preschool or workforce needs at a national level. And the different functions of governments in the ECEC sector – as the sector’s primary funder and regulator, and also a significant employer – can also give rise to complex and potentially different incentives.

Further, the policy levers available to influence the future ECEC workforce – including its size, composition and quality – are spread across multiple levels of government. For example, policy settings around migration and industrial relations are within the purview of the Australian Government, while other important policy settings – including those concerning VET qualifications and teacher registration – are largely within the control of states. And some other policy settings – such as support for professional development – can be influenced by both the Australian and state and territory governments.

If designed well and followed by governments, the strategy can be a document that unifies governments’ actions to grow and develop the ECEC workforce, even in the face of the different incentives each government faces and the different policy instruments they have at their disposal. But if the strategy is to fulfil this function, it needs to be well supported by governments and key stakeholders, it needs to remain relevant as circumstances change and it needs to be clear about who is responsible for what actions and how these actions will be implemented. And importantly, there needs to be accountability measures in place that encourage governments to follow through on the actions that they have signed up to as part of the strategy.

In its current form, the strategy has several features that are commendable. For example:

- as discussed in section 3.3, there appears to be a significant degree of buy-in from the sector for the strategy’s implementation. This may be – in part – because key sector participants were involved in the strategy’s design and will be kept up to date on implementation progress through the strategy’s reporting arrangements
- there is some transparency about how the strategy will be implemented. The strategy’s Implementation and Evaluation Plan (ESA 2022b) outlines how progress against each focus area and action in the strategy will be tracked. Further, ACECQA has been tasked with publicly reporting on the strategy’s implementation (with the first update published in July 2023) (ACECQA 2023h). With this public reporting comes an element of accountability on governments to follow through on the actions they have agreed to in the strategy
- the strategy has pre-established (biennial) review points that provide an opportunity to more formally consider how actions are progressing, whether actions remain contemporary and whether actions need to change in response to developments in the sector (ESA 2021, p. 61).

That said, the Commission considers that there is scope for the strategy to be improved.

At a high level, there would be benefit in a clearer articulation of what the strategy is aiming to achieve. While the strategy does provide an ‘overarching vision’ for the ECEC workforce, there are few clear and measurable objectives against which the strategy’s effectiveness can be assessed and measured. As outlined in recommendation 3.1, the Strategy would benefit from an agreed set of goals around the ECEC workforce that will be pursued through the strategy’s implementation. The strategy would also benefit from a clearer articulation of the future workforce needs of the sector – including projections of the number of educators and teachers the sector is expected to require in the future. Estimates already developed, such as those by Jobs and Skills Australia (2024b, forthcoming), could feed into these projections, however, there

would remain a need for any estimates of workforce demand to be regularly reviewed and revised, to ensure that they reflect the best available information and to incorporate the effects of any policy changes that will impact on the demand for ECEC staff.

The inclusion of workforce goals and projections is important – they provide targets and a yardstick to assess whether the actions set out in the strategy are sufficient to help the sector meet its future workforce needs and scale up (or down) their level of ambition accordingly.

The Commission also considers that more detail is needed on how the strategy will be resourced. At present, there is a lack of clarity about how actions underway have been funded or how funding for the strategy will continue in the future. This is problematic, given strategies can live or die by the resourcing attached to them – clarity about where funding will come from will provide a degree of certainty to stakeholders that governments are serious about the strategy's implementation (while also providing a degree of accountability on governments to ensure the strategy has enough resources to implement it effectively). As such, the strategy should be strengthened by each action having a 'dollar value' attached to it. This would ideally indicate how much in total governments intend to spend implementing the action. However, the Commission accepts that some of the actions will need to be completed in stages – where the nature of the next stage will not be known until the previous stage is completed – and in these cases, the amount of funding governments have allocated to each stage, once it is known, should be reported in the strategy.

Further, accountability can be improved. Reflecting the proposed governance arrangements for the sector, the Commission considers that responsibility for monitoring the Strategy's implementation should transfer from ACECQA to the new ECEC Commission (recommendation 10.2). While ACECQA has played an important role in overseeing the implementation of the Strategy to date, the independence and proposed remit of the ECEC Commission – including its role holding governments to account for their commitments in the sector and the outcomes produced by the system more broadly – means it will be well suited to monitor governments' implementation of the strategy and the extent to which the strategy is achieving its goals, while allowing ACECQA to return to its primary focus of supporting governments to deliver quality in the ECEC system.

To further enhance the accountability for the strategy's implementation and to better ensure the strategy drives the actions of governments to grow and develop the ECEC workforce, as part of monitoring the Strategy's implementation, the ECEC Commission should produce regular, biennial assessments of the actions that governments are taking to implement the strategy. This should include taking stock of developments and policy actions that affect the ECEC workforce – such as those with respect to pay, training, professional development and migration – and describe what their impacts have been on the supply and demand of the ECEC workforce, by drawing on relevant data and consulting with sector participants. The ECEC Commission should also describe whether these developments and actions have been consistent with the workforce strategy, and whether they bring the sector closer to delivering on the goals for the ECEC workforce, as set out in the strategy. Governments – or other decision-making bodies, such as the Fair Work Commission – could then draw on these assessments to take further action to deliver the workforce goals if they consider it is warranted.

These assessments should be public, so to maximise transparency on how the Strategy's implementation is progressing, and so that sector participants – and the community more broadly – are able to see where governments' implementation of the strategy (and the resourcing of this implementation) has and has not been effective.

Finally, the Commission is cognisant that the strategy's broader context is changing. For example, the strategy predates many major government policy initiatives, including the introduction of the Cheaper Child Care package by the Australian Government, and several state and territory government initiatives to expand families' access to preschool. Further, as discussed above, a sector strengthening plan for the Early

Childhood Care and Development Sector has been agreed to, and work is underway to develop both a National Care and Support Economy Strategy and a National Vision for Early Childhood Education and Care, which are likely to articulate additional objectives, outcomes and goals for the ECEC workforce.<sup>27</sup> The operating environment of the strategy may change again depending on the actions of governments in response to this inquiry.

The Monitoring and Evaluation Plan for the strategy suggests that the strategy will be reviewed in 2025, 2027 and 2029 (in addition to a review in mid-2023) and the actions amended 'as appropriate, particularly in response to emerging priorities' (ESA 2021, p. 61). It is important that governments seize these opportunities to update the strategy in light of changes in the policy landscape and emerging challenges and opportunities for the sector. Failure to do so risks the strategy becoming outdated or irrelevant.



### 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.

<sup>27</sup> The Australian Government has published draft versions of both documents (Department of the Prime Minister and Cabinet 2023; DoE 2023c).

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## 4. ECEC and labour force participation

### Key points

- \* **Early childhood education and care (ECEC) contributes to greater labour force participation by enabling families, particularly mothers, to balance paid work and care.**
  - Families with young children who do not use ECEC typically have lower incomes, receive income support, live in low socio-economic areas and have mothers who are not in paid work and have lower education levels.
- \* **The participation rate of mothers with a child aged under 15 increased from 68% to 80% between 2009 and 2023, mostly due to an increase for mothers with children aged 0–4. The share of mothers working full time also rose – from 40% to 50%. The participation rate of fathers was consistently high (about 95%).**
  - Mothers' preferences for paid work are shaped by many complex factors, including the affordability, accessibility and quality of ECEC. Mothers also factor in the trade-offs that come with paid work, such as spending less time with children and increased stress in balancing paid and unpaid work.
  - 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.
- \* **Parents' stated preferences for paid work suggest there is scope to increase the participation of mothers, but limited scope for fathers.**
  - Two million parents faced a barrier to work or working more hours in 2022-23. Of this group, 55% nominated 'caring for children' as their main reason for not increasing their labour supply – the majority of whom were mothers. When asked what it was about 'caring for children' that influenced their labour supply, 70% said they preferred to care for 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).
  - Overall, 6.5% of parents with children aged under 15 years, and just over 10% of mothers, nominated caring for children as their main barrier to work and attributed that situation to ECEC-related barriers.
- \* **Removing all ECEC-related barriers could see an upper-bound increase in labour supply equivalent to 143,000 full-time workers.**
  - Simply looking at parents' stated preferences suggests that, if all reported ECEC-related barriers were removed for those parents who indicate they would like a job or more hours, 98,000 people or the equivalent of 46,000 full-time workers could be added to the labour supply. These would mostly be mothers from lower income households and those with younger children (aged 0–4).

- If parents who reported *not wanting* a job or to work more hours and for whom ECEC-related barriers are the main reason for this status are *included* in the estimate, then the equivalent of 143,000 full-time equivalent workers could be added to labour supply (or increase the labour supply of 230,000 persons).
- These estimates are upper bounds. The analysis assumes that all ECEC-related issues are solved and that non-ECEC barriers do not prevent these parents' engagement in the labour force. The estimates also do not reflect the increases in subsidies that took effect from July 2023, nor do they reflect the possibility for parents to change work preferences.
- That said, it is also likely that some 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.

**\* Many policy settings interact to help shape parents' work and care choices, such that tackling only ECEC expenses might have marginal impacts on labour supply.**

- The responsiveness of mothers' labour supply to a decrease in the price of ECEC is estimated to be small on average – a 1% decrease in the price of ECEC leads to an increase in participation of between 0.02-0.29% and hours worked of between 0.02-0.65%.
- Workforce disincentive rates (WDRs) are high (sometimes in excess of 70%) for many sole parents and some secondary earners, which creates a financial disincentive to working more than part-time hours. However, the largest disincentives for these families are created by the withdrawal of transfer payments and increasing progressivity of personal income tax rather than out-of-pocket ECEC expenses.
- A group of families face both relatively high daily WDRs with a relatively high contribution from ECEC out-of-pocket expenses. These are typically secondary earners 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.

Parents make choices in the best interest of themselves, their children and their families. Some choose to care full-time for their children and not to take on activities such as paid work, study, training or volunteering. For others, choosing to engage in such activities while their children are young, and to use some form of care provided by others while doing so, is a better fit (perhaps due to financial considerations or preferences).

A well-functioning, affordable and accessible early childhood education and care (ECEC) system is integral to supporting the choices of families. Not only can the system aid in the development of children (paper 1), it can also enable families to strike a balance between the time spent caring for children and engaging in paid work and other activities. For example, centre-based day care (CBDC) can allow mothers with young children to return to work, while outside school hours care (OSHC) may enable parents to work longer hours than a regular school day or during school holidays. The ECEC system can also be a gateway to other family services (paper 7).

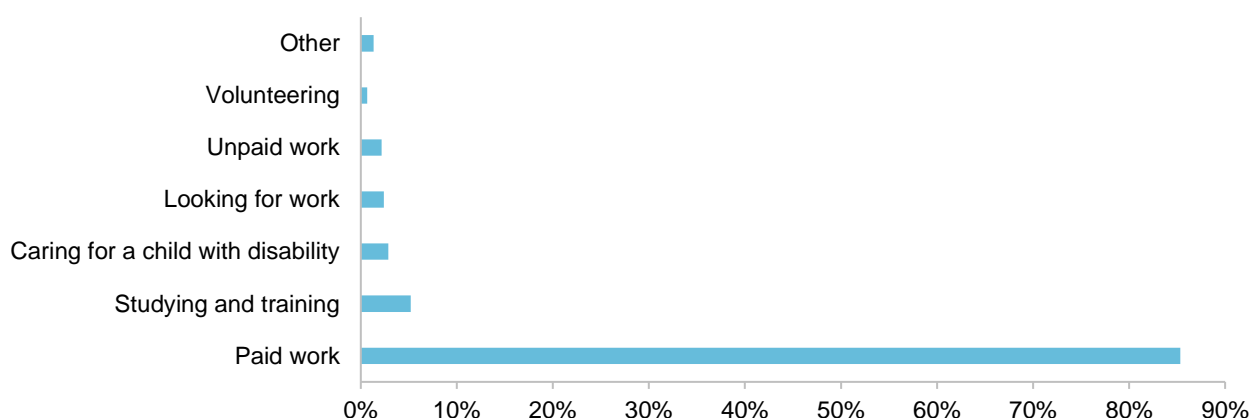
Some families want to use ECEC, or use it more, but face barriers to doing so. For example, ECEC may be considered unaffordable, inaccessible or of poor quality, or may simply be unavailable in their local area. These barriers constrain families' choices.

This paper explores how the ECEC system supports families' choices to participate in the labour force and other activities outside the home and when it does not. It begins by outlining how families make decisions about work and care, including how formal and informal care support these decisions, and considers the characteristics of families who do not use ECEC and the reasons why (section 4.1). It then examines the state of, and trends in, parental labour supply, with a focus on mothers (section 4.2). The paper then analyses the extent to which ECEC-related barriers prevent parents from working (section 4.3) and concludes by considering the scope for increased labour force participation (section 4.4).

## 4.1 ECEC enables choice for families

Most parents who use ECEC are engaging in paid work; a smaller group engage in other activities such as studying or training, volunteering, looking for work and unpaid work (including working in a family business, an unpaid internship or setting up a business) (figure 4.1). As such, this paper mainly focuses on parents' decisions to engage in paid work; secondary income earners and mothers are also a focus.

**Figure 4.1 – Most parents use ECEC to support their participation in paid work<sup>a,b</sup>**  
Main activity reported for the activity test, June 2022



**a.** Data is self-reported by parents and is provided for the activity test requirement of the Child Care Subsidy (CCS). The data is for a reference week in June 2022. Preschool attendance within CBDC is covered in the CCS activity test data, but attendance at dedicated preschool is not. **b.** Almost 20% of parents report undertaking multiple activities. Their main activity, in terms of hours, is reported in the chart. 'Other' includes unpaid leave, own disability or illness or other activity reported.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

### Many factors influence mothers' decisions to engage in paid work

Parents decide how much of their time each week to spend in paid work and how much to spend in other activities, such as caring for children, housework and leisure. But these decisions are subject to constraints – there are only so many hours that family members can work in a given week. And similarly, there are only so many hours in a week that family members can spend in other valuable activities such as caring for children, housework and leisure (Kalb and Lee 2008, p. 284).

In many two-parent households, mothers tend to adjust their work arrangements when children are present while fathers continue to work as they did before becoming a parent (Baxter et al. 2016, p. 7; Broadway and Kalb 2022, p. 182). Mothers also tend to bear a disproportionate share of the time involved in taking care of children (Craig and Mullan 2011; Gong and Breunig 2017, p. 16).

The decisions mothers make about their level of labour force participation are influenced by a complex range of factors (PC 2014, p. 200). Often, these decisions are based not only on a mother's own preferences, characteristics and situation, but also take into account the needs and preferences of other members of the household, broader policy settings and economic conditions, and societal norms (figure 4.2).

Mothers – sometimes in conjunction with partners – make decisions about participating in the labour force by weighing up the benefits and costs of doing so.

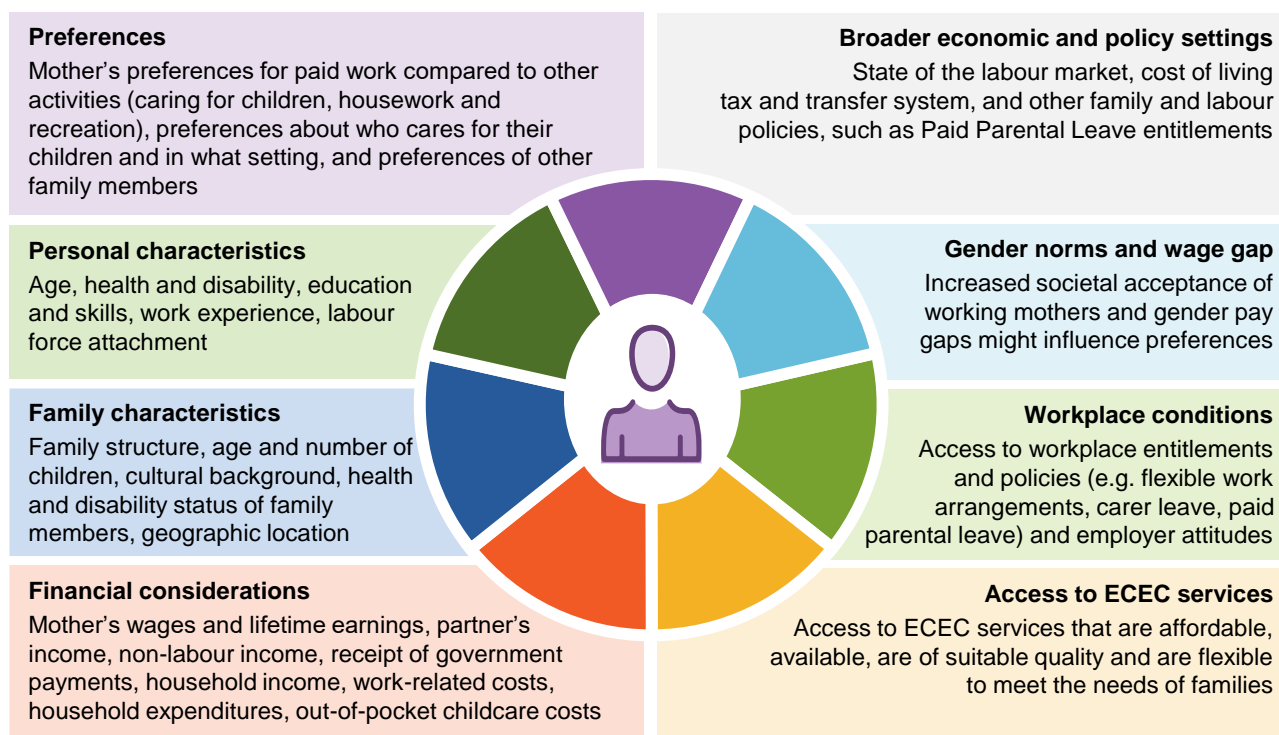
Mothers may benefit from choosing to join the labour force or working more hours. Financial benefits from wages and superannuation can contribute to a higher standard of living (for example, greater access to

quality food, housing, health services and education) and ease cost-of-living pressures. Working also offers opportunities for career progression and on-the-job training, which can increase future earnings. It also enables women to make use of any investments in education. Other work-related benefits include improved financial security and reduced reliance on income support, improved social networks through engaging with others in the community beyond the family, and the satisfaction that can come from working.

However, labour force participation comes with trade-offs for both mothers and fathers, which include reducing time spent with children. There are also:

- effects on unpaid work and other activities undertaken by mothers, and the sharing of household duties between parents (PC 2014, p. 227; Wilkins et al. 2020, pp. 88, 95; Wood et al. 2020, pp. 38–41). Increased participation for mothers can lead to reductions in unpaid work, but may increase their total workload consisting of both unpaid and paid work (Apps et al. 2016, p. 1663; PC 2014, p. 227)
- additional stresses or pressures from maintaining a work–life balance (Wood et al. 2020, p. 39)
- effects on a partner’s labour force participation (PC 2014, pp. 228–229)
- effects on the labour force participation of extended family members, such as grandparents, who may be providing informal care (PC 2014, pp. 229–231).

**Figure 4.2 – Mothers’ labour force participation decisions are shaped by many factors**



Source: Based on Baxter et al. (2016, pp. 7–10) and Productivity Commission (2014, pp. 200–202).

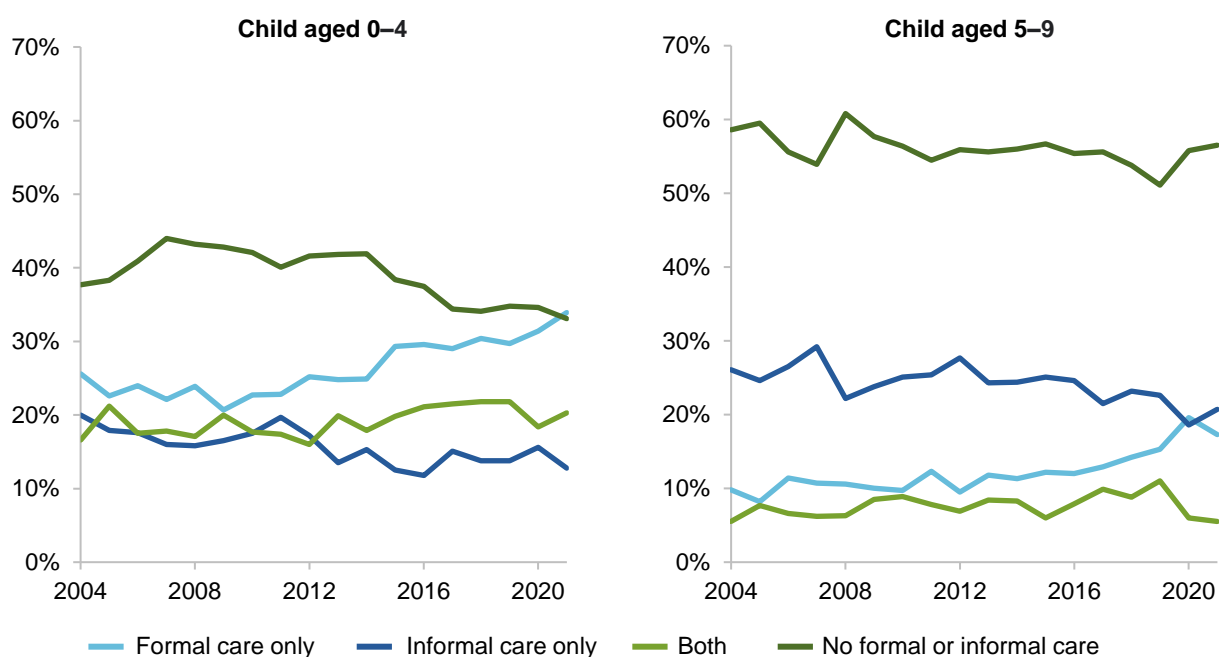
## Formal and informal care assist families to balance work and care

Formal and informal care for children play an important role in supporting the choices and wellbeing of families. Non-parental care of children helps families to function, balancing the needs of children to learn and develop and parents to work or study, shop or attend appointments, and engage in social activities.

- **Formal care** refers to regulated care and early learning services for children – that is, ECEC. These services are government regulated and most receive public funding and/or subsidies. They include, for example, CBDC, OSHC, family day care (FDC), In Home Care (IHC) and preschool.
- **Informal care** refers to non-regulated care and includes care provided by relatives, friends, neighbours, nannies, au pairs and babysitters both on a paid and unpaid basis.

Formal care is playing a much more important role in society than it used to. Since the mid to late 2000s, a growing share of families has been using only formal care – this trend is especially prevalent for children aged 0–4 for whom formal care only is now the most common arrangement (figure 4.3). In contrast, a decreasing proportion of families are using only informal care for children aged nine and under. Some families use a combination of both formal and informal care, particularly for younger children, and some do not use any formal or informal care.

**Figure 4.3 – Use of formal care has increased while use of informal care has declined<sup>a,b</sup>**  
**Percentage of families using informal and formal care, 2004–21**



a. Panel a shows the proportion of families with a child aged 0-4 that use each type of care. Panel b shows the proportion of families with a child aged 5-9 that use each type of care. b. Preschool is included in the definition of formal care to the extent that it is reported in HILDA. There are some concerns that preschool use is underreported in HILDA due to questions about it being asked within a module on 'childcare'. Therefore, the proportion of families with children aged 3-5 using ECEC is likely understated.

Source: Productivity Commission estimates based on HILDA Release 21.

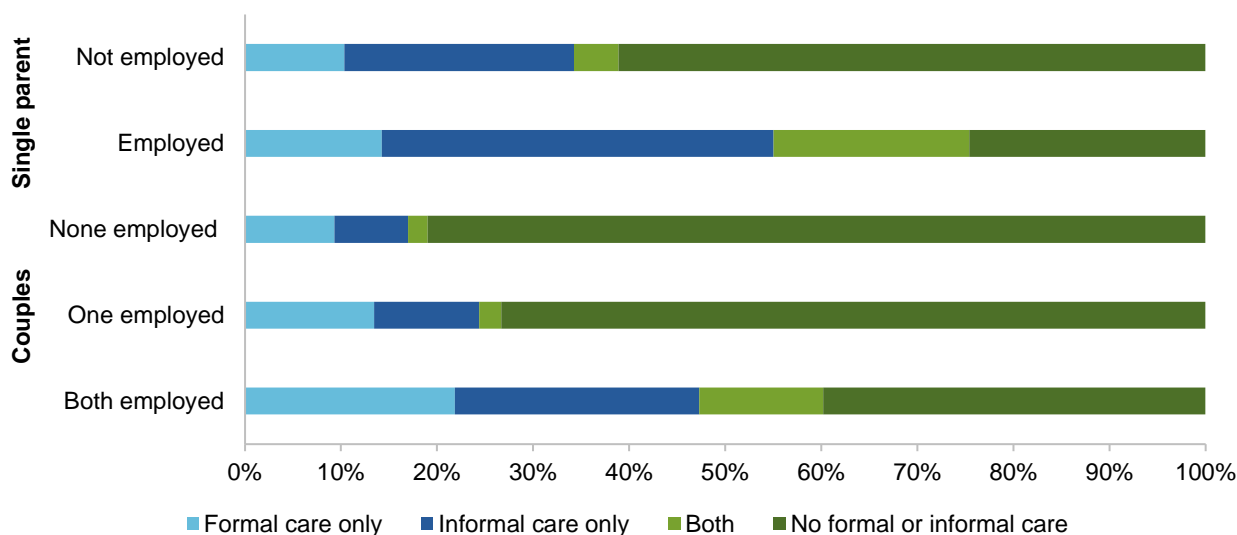
These trends have been occurring over several decades – 'in 1984, 18.9% of preschool aged children of couple families with both members employed and employed single parent families used formal care and 47.8% used informal care, by 2017 these proportions were effectively reversed' (Bray and Gray, sub. 14, p. 35).

These changes are consistent with expansions in the formal ECEC sector over this time, and with increasing rates of labour force participation among grandparents, the primary providers of informal care (as discussed below).

Looking more closely at how care types are used, formal care is more common among families who have at least one parent employed (figure 4.4). And some research has found that employed mothers work longer

hours if they use both formal and informal care; for partnered mothers this was due to an increase in hours of childcare available, and for single mothers it was due to increased flexibility (Brady and Perales 2016, p. 321).

**Figure 4.4 – ECEC is more important for families with at least one parent employed<sup>a</sup>**  
**Percentage of children aged 0–12, 2017**



a. Under the ABS definition, preschool is not counted in formal care, and is therefore not depicted in the chart.  
 Source: ABS (*Childhood Education and Care, Australia, June 2017*).

Other families with at least one employed parent may use informal care because the formal system cannot support their current work requirements. For example, parents with jobs that are characterised by short shifts, fluctuating hours, unpredictable shifts and rosters and non-standard hours (such as retail), may find it hard to access formal care within the structure that it is provided (SDA, sub. 72, p. 2). These parents could substitute towards formal care if it becomes more accessible or affordable.

While there has been a shift towards formal care over time, it is not a perfect substitute for informal care. Some parents likely have strong preferences for care provided by family and friends (for example, mothers who work shift hours may prefer if their child stays with a grandparent overnight). These parents are less likely to substitute towards formal care, even if it becomes more accessible or affordable. To the extent that substitution occurs, the effects of expanding ECEC access on increasing labour supply may be dampened. For example, Yamaguchi et al. (2018, p. 8) found that substitution effects were a key reason for the small impacts of a childcare expansion on labour supply in Japan. Similarly, in the Netherlands, an expansion of subsidised childcare for children aged 3–6 caused a small increase in maternal labour supply but a large decrease in informal care (Havnes and Mogstad 2011, p. 1456). Substitution of formal for informal care is also a factor in the relatively small labour force participation response to higher ECEC subsidies found in the Commission’s modelling (paper 6). Therefore, any policies that aim to expand ECEC access to increase labour supply need to consider the extent to which expansions might simply crowd out informal care arrangements. That said, there might be an increase in labour force participation among those who had been providing that informal care.

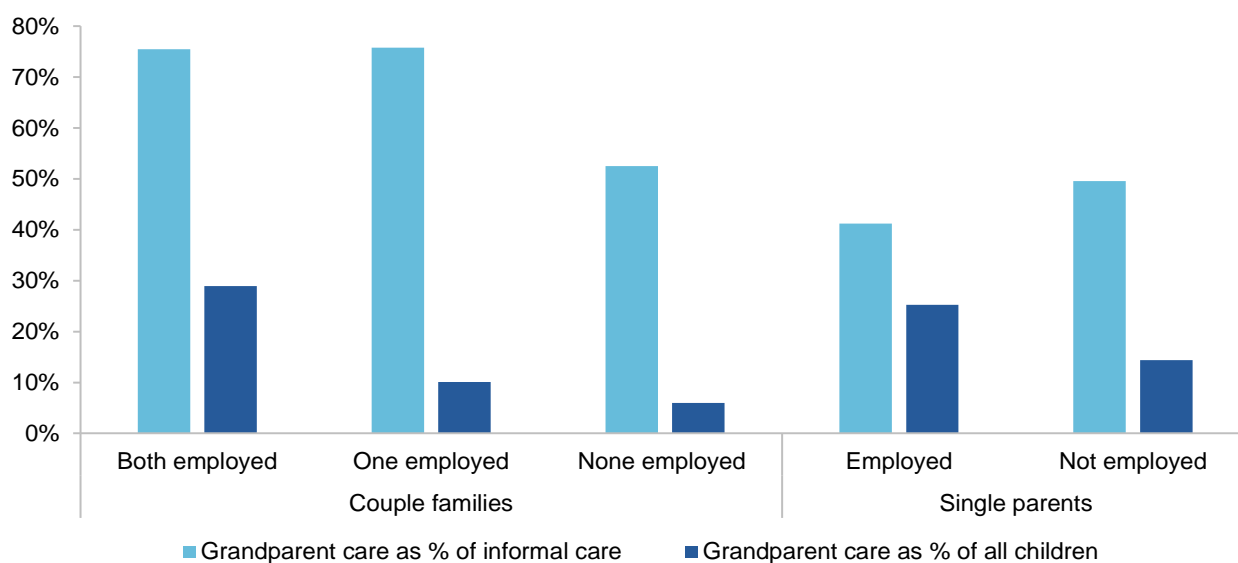
**Grandmothers are providing the bulk of informal care**

Grandparents – typically grandmothers (Craig et al. 2019, p. 151) – are performing the bulk of informal care, and they tend to provide more care if parents are employed (figure 4.5). Among couple families where at



least one parent is employed and informal care is used, over 70% are using grandparent care. The share is lower for employed single parents reflecting that non-resident parental care is included as informal care in the data underpinning the figure. Grandparents are more likely to provide care if they are not working full time and if they live close to the child (AIFS 2022, p. 15). Grandparents typically provide fewer than 10 hours of care per week, but about 6% of children are cared for by grandparents for 30 hours or more (ABS 2018, tbl. 6).

**Figure 4.5 – Grandparents do the bulk of informal care<sup>a</sup>**  
**Children usually in grandparent care as a percentage of children using informal care and all children aged 0–12, 2017**



a. Single parent estimates include non-resident parent care as informal care, which is almost as prominent as grandparent care.

Source: ABS (*Childhood Education and Care, Australia, June 2017*).

Families use grandparent care for a range of reasons. For example, grandparent care is mostly unpaid, it allows children to develop relationships with their grandparents and it helps to supplement the care provided by the formal ECEC system (Jenkins 2010, pp. 5–6). One of the key reasons grandparent care is used is because of its flexibility and responsiveness compared to other forms of care (Jenkins 2010, p. 5). For these reasons, grandparent care is often relied upon during school holidays, and on weekends and week nights, for example (Jenkins 2010, p. 5).

Most grandparents undertaking this role find it rewarding, but it can create stress. A recent survey found that 97% of grandparents (mostly female) enjoyed caring for their grandchildren (AIFS 2022, p. 1). And although some grandparents found that childcare was tiring, some found it energising (AIFS 2022, p. 27). Research has also found that lack of choice over childcare responsibilities or long or nonstandard hours can have a negative effect on grandparents' wellbeing (Hamilton and Jenkins 2015, p. 5).

Caring for grandchildren may also become a barrier to work for grandparents or result in them reducing their hours worked to be able to provide care.

Many grandparents were 'working around care', balancing work and care responsibilities and making significant adjustments to their work as a result. Among those surveyed, 70% altered the days or shifts they worked, 55% reduced their working hours, and 18% had even changed their job because of their caring commitment. (Hamilton and Jenkins 2015, p. iii)

In the United States, becoming a grandmother has been found to reduce hours worked by 30% (with the effect largest for those grandmothers working few hours prior to the birth) (Rupert and Zanella 2018, p. 89), while in Austria the birth of the first grandchild increases the chances that a grandmother leaves work by 9% (Frimmel et al. 2022, p. 1645). These results suggest that efforts to expand the use of the formal care sector may strengthen the labour market attachment of grandmothers.

## Families who do not use ECEC tend to have low incomes

Not all families access the ECEC system. In 2021, 88% of children aged four were enrolled in a preschool program and 57% of children aged 0–5 and 22% of children aged 6–13 attended a CCS-approved service at some point during the year (Productivity Commission estimates based on DoE administrative data and ABS Preschools data).<sup>1</sup> As children age, they are more likely to care for themselves after school hours and not use the formal system.

From a policy perspective it is important to understand the characteristics of families who do not use ECEC and the reasons why that is the case.

Families living in lower socio-economic areas are less likely to be using CCS-approved services than children from higher socio-economic areas (figure 4.6). The pattern is less pronounced for preschool programs, but still exists.

Consistent with this, mothers in couple families and single parents who are not using ECEC tend to have lower family incomes (paper 6) and characteristics that are often associated with lower incomes – such as lower education levels, receipt of income support and not to be in the labour force (figure 4.7). Children from these types of families tend to be the ones who can benefit the most from ECEC participation (paper 1).

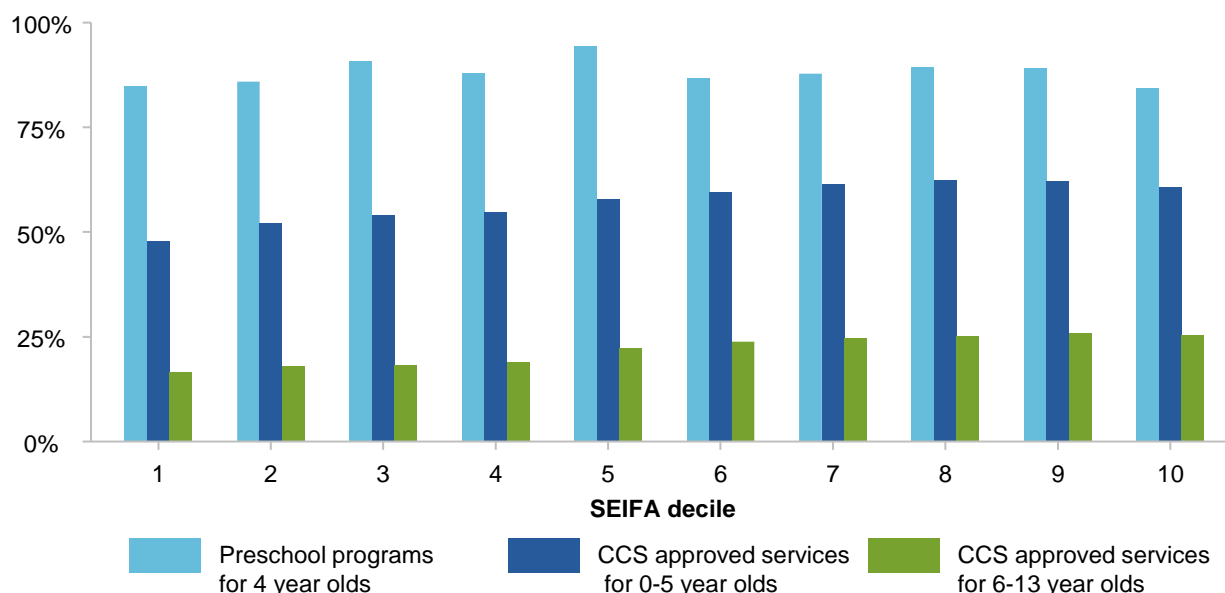
Many families who do not use formal ECEC have a parent available to care for children or an available friend or relative (figure 4.8). Families also reported not using ECEC because they wanted to develop stronger bonds with their children – some non-users have a preference to care for their own children. Non-users are more likely to have traditional views about parental roles and women's labour force participation (figure 4.9), to prefer home-based care, to have younger children and to have a child with a major health issue (NSW PC 2023, p. 13).

Some non-users also reported ECEC-related barriers that prevented them from using ECEC (figure 4.8). Cost was the most frequently reported barrier. Concerns around flexibility, accessibility and the quality of ECEC appear to be less significant barriers. Findings from qualitative studies have indicated that these non-price factors are generally not absolute barriers on their own, but they can 'tip the balance' for families not using ECEC when combined with other factors (The Front Project 2021, p. 25).

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<sup>1</sup> These estimates refer to any use of ECEC across the year. As some children move in and out of ECEC across the year, point-in-time estimates are typically lower, for example, in the 2021 December quarter, 48% of children aged 0–5 years used ECEC (DoE 2023a). Many of the children in the DoE administrative data are enrolled in preschools within a CBDC. There is no way to distinguish this type of preschool use from only CBDC use in this data.

**Figure 4.6 – Children in low socio-economic areas are less likely to use ECEC<sup>a,b,c,d</sup>**  
**Proportion of children in relevant age group attending ECEC, 2021**



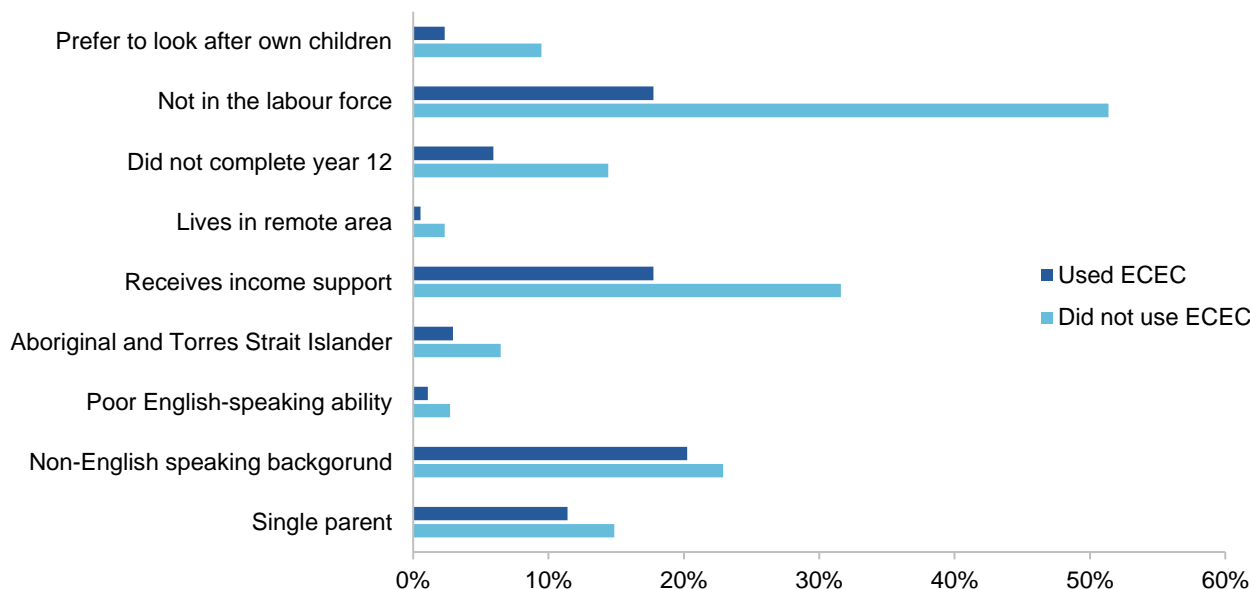
**a.** DoE administrative data is used to identify the number of children who *attended* CCS-approved ECEC services (CBDC, FDC, OSHC and IHC) at any time in 2021 by Statistical Area 2 (SA2). Age is calculated as at 1 July 2021. ABS 2021 preschool data is used to identify the population of children *enrolled* in preschool by SA2. **b.** Preschool and ECEC counts overlap for children aged four. Many children in the DoE administrative data are enrolled in preschool programs within a CBDC, but there is no way to distinguish the use of preschool programs in CBDC and CBDC use only. Similarly, the ABS preschools data assume that children attending CBDC of the appropriate age are receiving a preschool program. **c.** Socio-Economic Indexes for Areas (SEIFA): 1 denotes the most disadvantaged area; 10 the most advantaged area. SEIFA is based on SA2s. **d.** A similar trend for preschool is observed if the age is expanded to include children aged three and five.

Source: Productivity Commission estimates based on ABS (*Tablebuilder, Census of Population and Housing, 2021*; *Tablebuilder, Preschool Education, Australia, 2021*); DoE administrative data (unpublished).

Whilst families may report not using formal care due to preferences or to ECEC-related barriers, there is often overlap between the different factors that influence families not to use ECEC. For example, a family might find that ECEC is unaffordable and as a consequence a parent remains at home to care for children. These families may report that they do not use ECEC because a parent is at home in figure 4.8, but the underlying reason for this is ECEC being unaffordable. Disentangling whether preferences or ECEC-related barriers are the reason for families not using ECEC is difficult.

Detailed discussion of the relationship between barriers to ECEC use and parental employment is presented in section 4.3.

**Figure 4.7 – Many characteristics of non-users are correlated with lower income<sup>a</sup>**  
**Shares of mothers in couple families and single parents with a child aged 0–4, by use of ECEC, 2018–21**

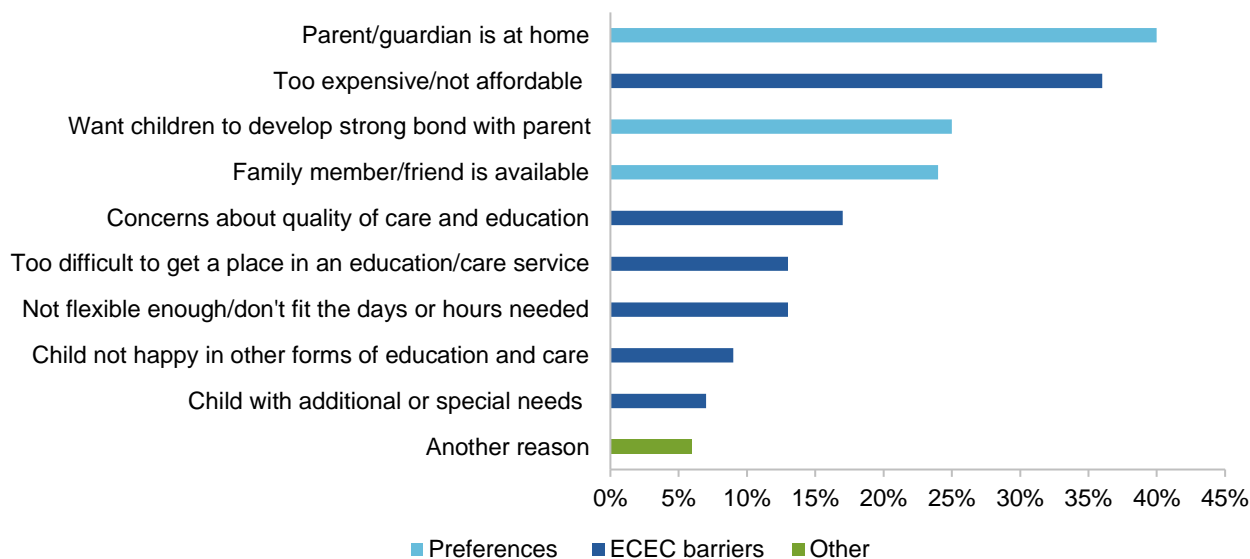


a. The preference to look after own children is only asked of people who are not in the labour force. All differences are statistically significant at the 5% level. Respondents are mothers in couple families with a child aged 0–4 and all single parents (the majority of whom are mothers) with a child aged 0–4.

Source: Productivity Commission estimates based on HILDA Release 21.

**Figure 4.8 – Having a parent at home was the most commonly reported reason for not using ECEC<sup>a,b</sup>**

**Responses from parents of children aged 0–5, Feb–Mar 2021**

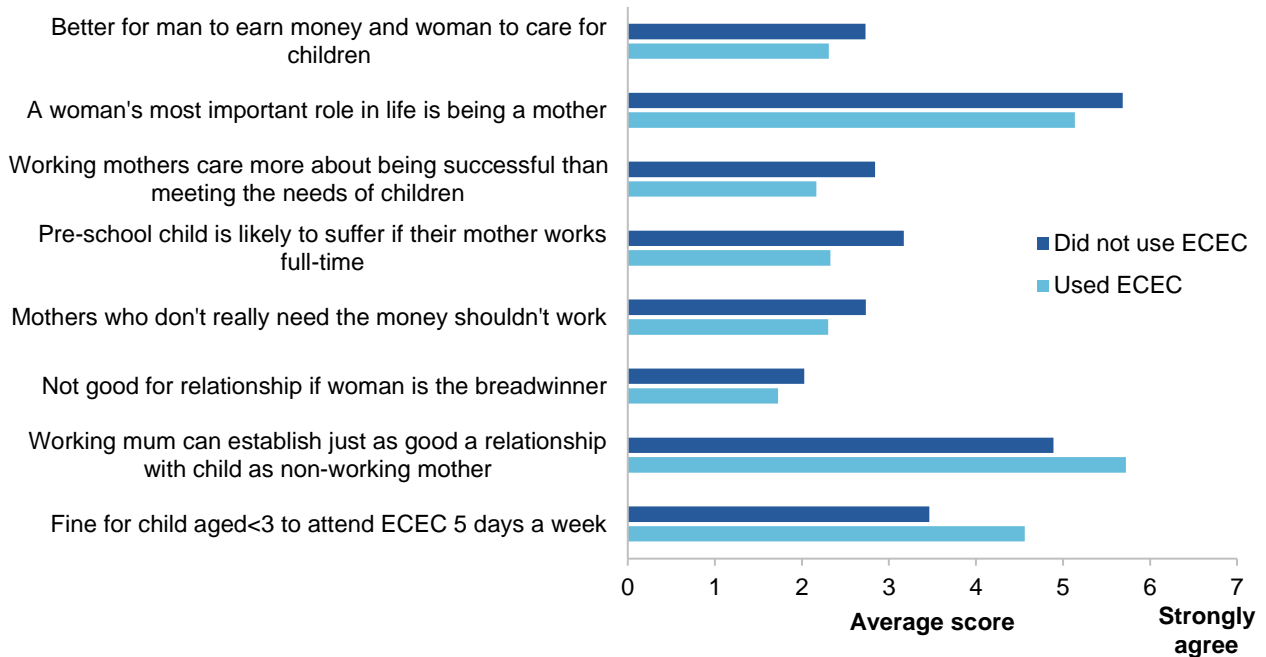


a. Results are based on a quantitative survey (1,695 parent respondents), and qualitative research (bulletin board, narrative interviews and a co-creation session) with 26 users and non-users of ECEC. Respondents were allowed to choose multiple responses. b. Responses are divided into those that may more likely reflect preferences and those that represent ECEC-related barriers to use.

Source: The Front Project (2021, p. 25).

**Figure 4.9 – Users and non-users with young children have slightly different attitudes towards ECEC and women’s labour force participation<sup>a</sup>**

**Attitudes among mothers in couple families and single parents with a child aged 0–4, by using and not using ECEC, 2018–21**



a. Responses are given on a 7-point Likert scale, where one is strongly disagree and seven is strongly agree. The chart shows the average responses of users and non-users. All differences are statistically significant at the 5% level.

Source: Productivity Commission estimates based on HILDA Release 21.



**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.

## 4.2 Parental labour supply

The terms of reference for the inquiry describe the ECEC sector as ‘integral to Australia’s economic prosperity as a powerful lever for increasing workforce participation’. And the draft National Vision for ECEC recognised:

an affordable and accessible ECEC system supports parents to work and study, especially women. This in turn supports the Australian economy to grow and prosper. (DoE 2023b)

Links between labour force participation and economic growth are outlined in box 4.1. Growth in labour force participation is one contributor to stronger economic growth.

### **Box 4.1 – The potential community-wide benefits of increasing labour force participation**

Labour force participation is one of the three key factors that affect economic growth, often referred to as the three P’s: population, participation and productivity. The higher the number of people participating in the labour force or the more hours worked then the higher the potential level of measured economic output produced (Abhayaratna and Lattimore 2007, p. 2).

There are other potential community-wide benefits of increasing participation. For example, some of the benefits of higher participation include reduced poverty and inequality, greater social harmony and reduced crime, smaller burdens on the charitable sector and social welfare budgets, and higher tax receipts to support the provision of government services like education and health (PC 2008, pp. 2–3).

There are also trade-offs to increasing participation in the labour market (PC 2008, p. 10) including:

- decreases in non-market activities – such as unpaid childcare, home production and volunteering. These are not counted towards measures such as GDP meaning any decrease will not be captured
- the economic costs of achieving higher participation – government spending (and ultimately increased taxes) may be required to support increases in participation (such as through changes to ECEC policy to enable mothers to increase paid work). Higher taxation reduces economic activity.

Although higher participation will increase measured economic activity and aggregate income, the relationship between increasing participation and productivity is more complex. Productivity growth occurs when more output is generated per unit of input and, therefore, simply increasing the quantity of inputs will not necessarily raise productivity.

Whether productivity growth occurs depends on what happens to the average quality of the labour force after an increase in participation. If highly productive workers are not in the labour market or are working in a lower capacity than their skills and expertise would allow, then removing any barriers to their increased participation would contribute to productivity growth (PC 2022, p. 2). But, at higher levels of labour participation, new entrants on average likely have fewer skills than people already working such that increasing participation (although bringing other benefits) reduces productivity (PC 2022, p. 2).

There is a trade-off between productivity growth and labour participation which is influenced by demographic and cohort effects (Boulhol and Turner 2009; Dew-Becker and Gordon 2012; McGuckin and van Ark 2005). That is, whether productivity increases depends on *who* increases their participation in response to any policy change.

### Box 4.1 – The potential community-wide benefits of increasing labour force participation

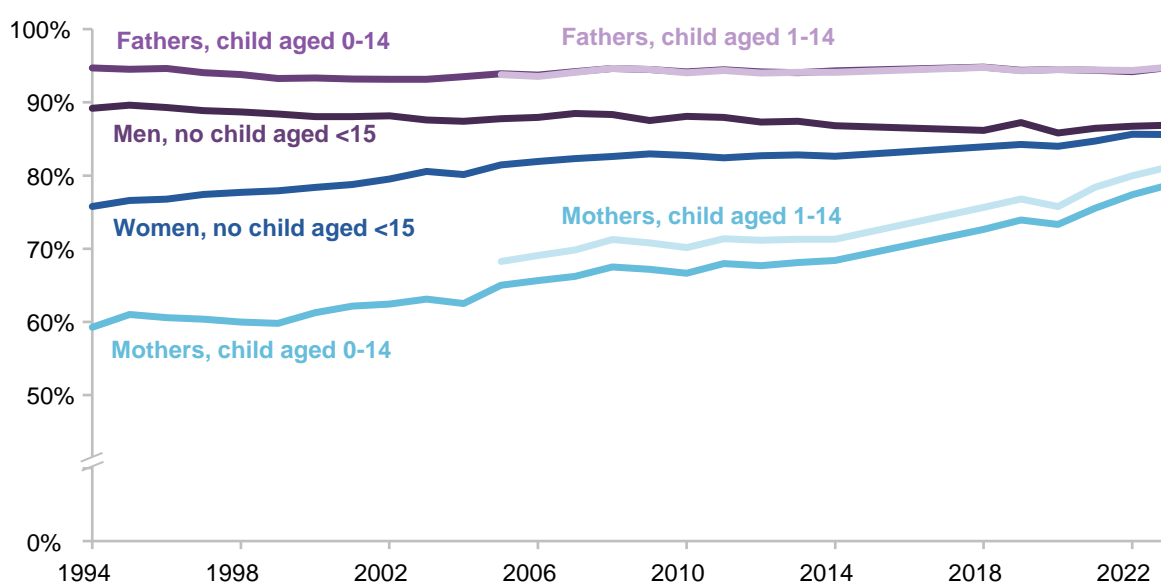
If the use of ECEC services enables people with highly valued skills who are willing and enabled to increase their hours of labour force participation, or allows these parents to upgrade their skills through training and education, or results in better matching of parent skills to jobs then productivity benefits may accrue (PC 2022, p. 5).

## Mothers are increasingly likely to be employed

Over at least the past 30 years, the labour force participation of mothers with children aged less than 15 has increased markedly (figure 4.10), with growth in participation particularly pronounced over the past decade. This likely reflects a host of factors, such as improvements in the availability of ECEC, increasing levels of education among women and increased societal acceptance of mothers engaging in paid work. The percentage of women holding a bachelor's degree or above increased more than fourfold in the 20 years from 2002 (from about 4% to 19%), and almost doubled over the following 20 years (to 36% in 2021) (ABS 2023c). This has contributed to women building a stronger labour market attachment and increased the likelihood of them returning to work after childbirth (Baxter 2005, p. 16). Stronger labour market connections are also evident for grandmothers (box 4.2).

### Figure 4.10 – The gap between mothers' labour force participation and others has narrowed<sup>a,b</sup>

Participation rates for parents with a dependent child aged less than 15 years, men and women aged 25–54, 1994–2023



a. Participation rates are for mothers and fathers with a dependent child aged under 15 years, and for women and men aged 25-54 without a child aged under 15. b. Information on parental status was missing for 2015–2017 and so participation rates were interpolated for these years (that is, the lines were connected between 2014 and 2018).

Source: ABS (*Datalab: Longitudinal Labour Force, Australia*).

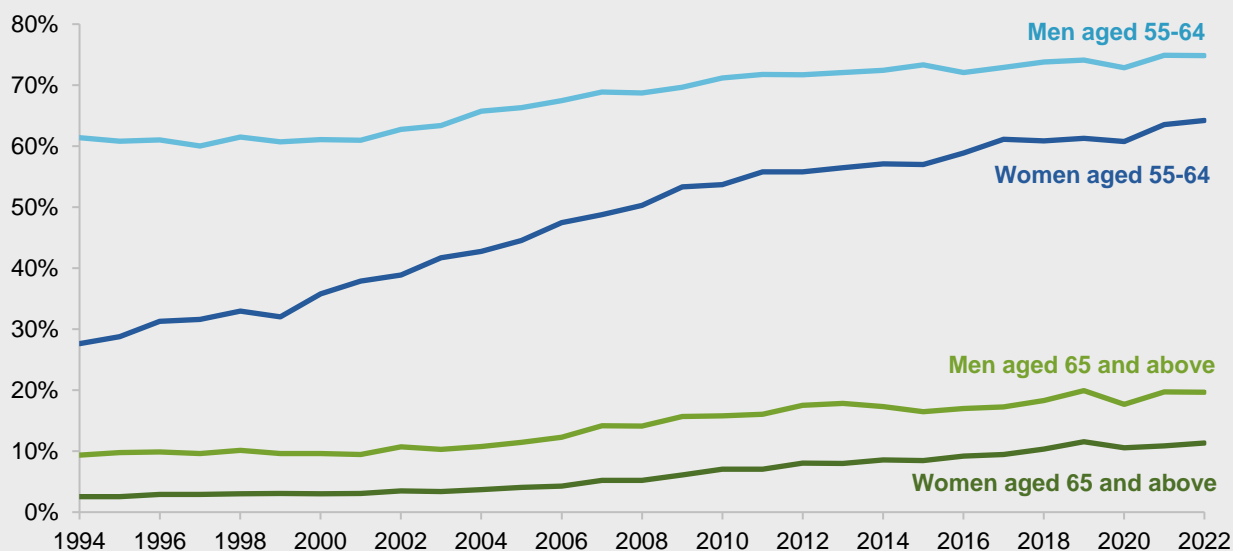
### Box 4.2 – Older women are increasingly likely to be employed

Older women are participating more in the labour force than before. The figure below shows the striking increases in female participation between 1994 and 2022. For example, the participation rate of women aged 55–64 increased from 28% to 64%. Participation among older men also increased but to a lesser extent – their rates of participation remain higher than for older women.

Many factors have contributed to the increase in participation such as increases in the retirement age and life expectancy, improvements in overall health and changes in social and demographic trends (such as increased educational attainment, decreased fertility rates and increased availability and use of flexible work, childcare and maternity leave), increasing connections to the labour market across the lifetime (AIHW 2023; Baxter 2023a).

About half of employed older women work part time – a trend that has been consistent for over 30 years (ABS 2023d). These strong revealed preferences for part-time work have been attributed to women using part-time hours to support their transition to retirement or to accommodate caring for relatives or their own health issues (Cassidy and Parsons 2017, p. 21).

#### Growth in the labour force participation of older men and women



Source: ABS (*Labour Force, Australia, detailed, May 2023*).



Mothers' participation, however, remains considerably lower than fathers' and relative to women of a similar age who do not have children.

Fathers have a slightly higher participation rate than men without children of a similar age range (figure 4.10). Most fathers also tend to work full time (section 4.3). Single fathers, on the other hand, have lower participation rates than partnered fathers and are more likely to be engaged in part-time work (Baxter 2023b, p. 18). Single fathers accounted for 15% of single parent families with children aged under 15 and only 3% of all families with a child aged under 15 in 2022 (ABS 2022a).

Some gendered employment patterns exist in same-sex couples with children too.<sup>2</sup> Male same-sex couples are much more likely to have both parents working full time than in other couple families, but they are also more likely to have both parents not employed (Baxter 2023b, p. 21). Female same-sex couples are more likely than other couples to have at least one parent working part time (Baxter 2023b, p. 21).

### **Mothers of children aged 0–4 have substantially increased their participation**

Increases in labour force participation among mothers have been particularly strong for those with children aged 0–4. The participation rate for this group rose by 18 percentage points from 54% in 2009 to 72% in 2023 (figure 4.11), one of the main contributors to the rise in mothers' participation observed in figure 4.10. Better access to quality ECEC, paid parental leave and workplace flexibility are contributing to mothers returning to work, but factors like rising education and changing social norms have also contributed (Tuohy 2023).

While there has been growth in participation among mothers of young children, they still have lower participation rates than other groups. Lower participation and employment rates are seen among:

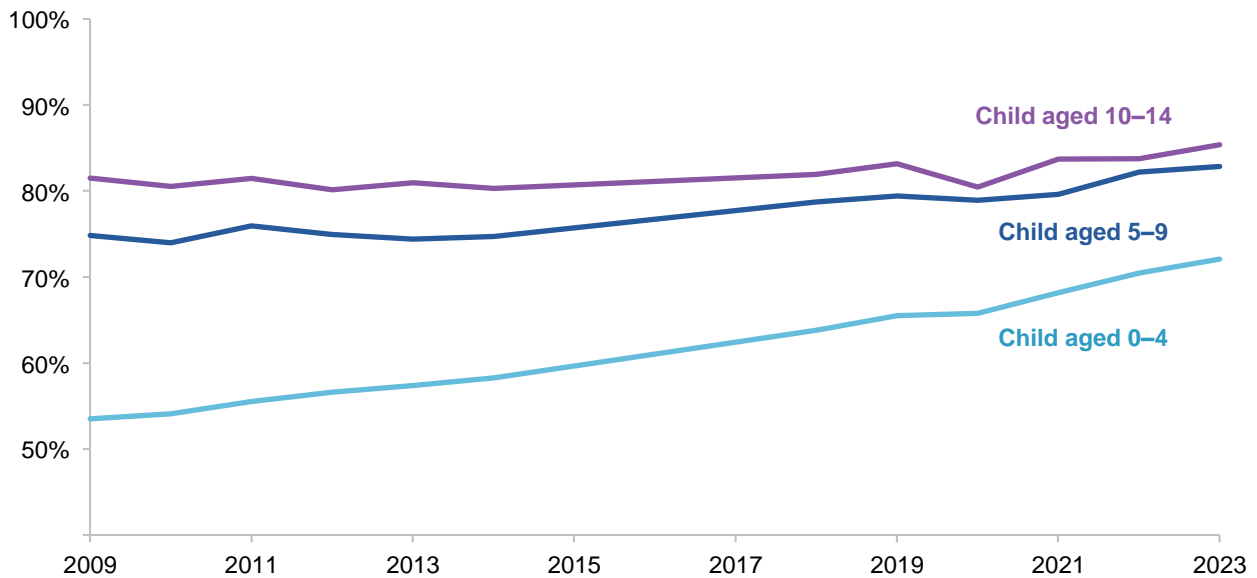
- mothers of younger children, especially children aged under 2 years old (figure 4.11)
- mothers with more children (figure 4.11)
- single mothers when compared with partnered mothers – with the gaps being largest when children are young (figure 4.12).

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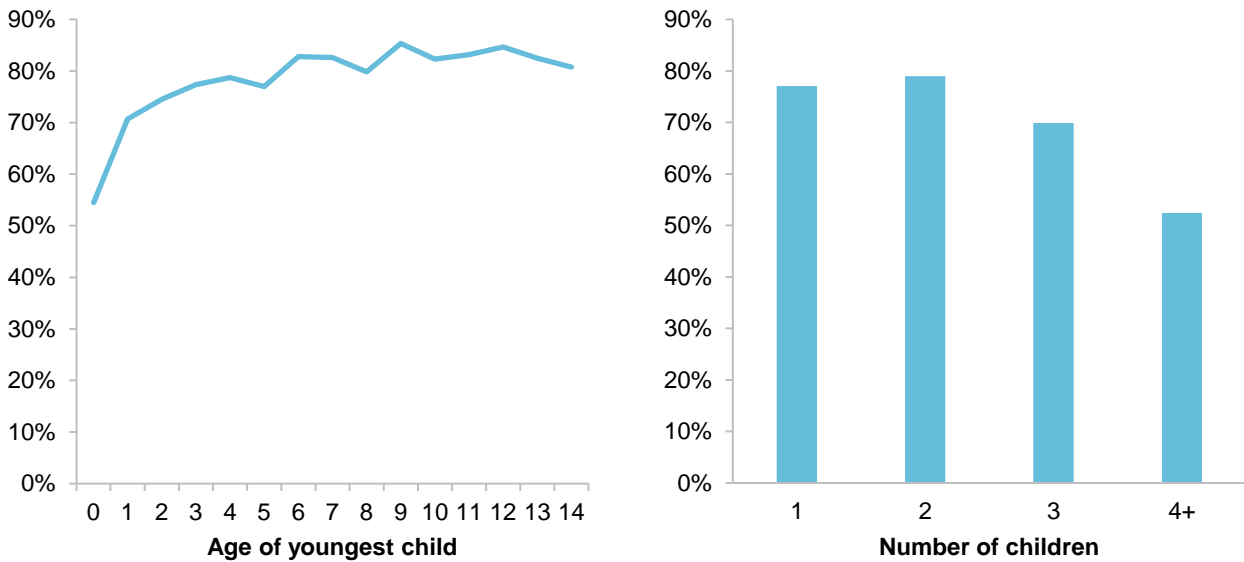
<sup>2</sup> This group is typically too small to be picked up reliably in most sample surveys, but census data that covers the entire population can be used to provide some insights into this group.

**Figure 4.11 – Increases in participation have been strong among women with children aged 0–4; but mothers with younger and more children have lower employment rates<sup>a</sup>**

**Participation rates of mothers (aged 25–54) by age of youngest child, 2009–23**



**Employment rates of mothers by age of youngest child and number of children, 2022-23**

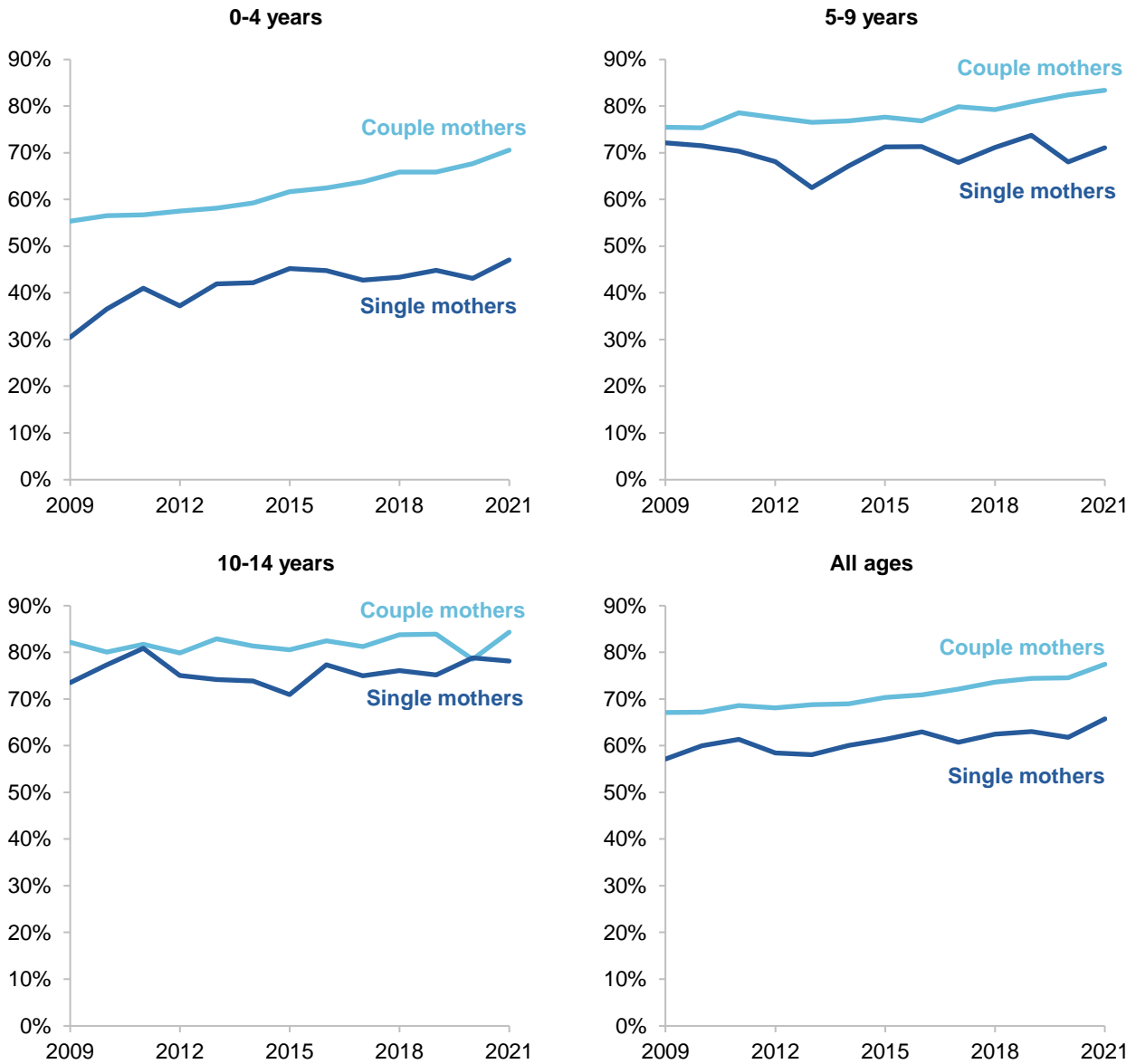


a. Information on parental status and the age of the youngest child was missing for 2015–2017 and so participation rates were interpolated for these years (that is, the lines were connected between 2014 and 2018).

Source: ABS (*Datalab: Longitudinal Labour Force, Australia*).

**Figure 4.12 – Participation gaps between single and partnered mothers are greater when children are younger<sup>a</sup>**

**Participation rates of single and partnered mothers by age of youngest child, 2009–21**



a. 'All ages' includes children aged 0–14 years.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022*).

## Hours worked by mothers have also been increasing

### Full-time paid work among mothers has become more common

The share of employed mothers working full time has increased in the past decade (and is mirrored in the decline in the share working part time, figure 4.13).<sup>3</sup> While there was little change overall between 2004 and 2011, there has been a gradual increase in the full-time share from about 40% to 52% since then. This trend is evident among mothers with children across all age groups – for example, in 2011 about 34% of mothers with children aged 0–4 worked full time; this share had increased to 44% in 2023.

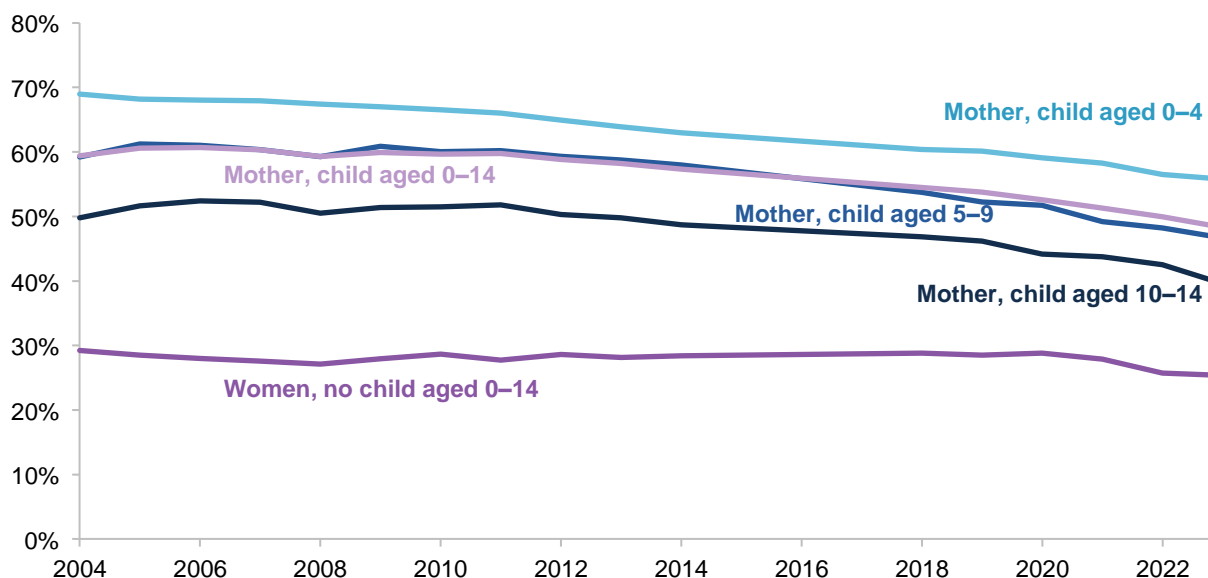
Mothers record considerably higher rates of part-time employment than women who do not have children, and mothers with younger children and multiple children tend to have higher rates of part-time employment than other mothers (figure 4.13). This latter observation perhaps reflects a greater caring load which means they have less time to engage in work or a stronger preference for parental care of younger children.

For mothers who are employed, hours of paid work typically:

- increase as children age, but the distribution of hours is similar once the youngest child reaches 2–6 years old and increases again when the youngest child is 7–14
- are lower when mothers have more children (figure 4.14).

Single and partnered mothers have similar part-time rates of employment. In 2021, single mothers had a part-time employment rate of 53% compared to 52% for partnered mothers (ABS 2022b).

**Figure 4.13 – The share of part-time work has decreased – full-time work has increased<sup>a</sup>**  
**Share of part-time employment for mothers and women without children, 2004–23**



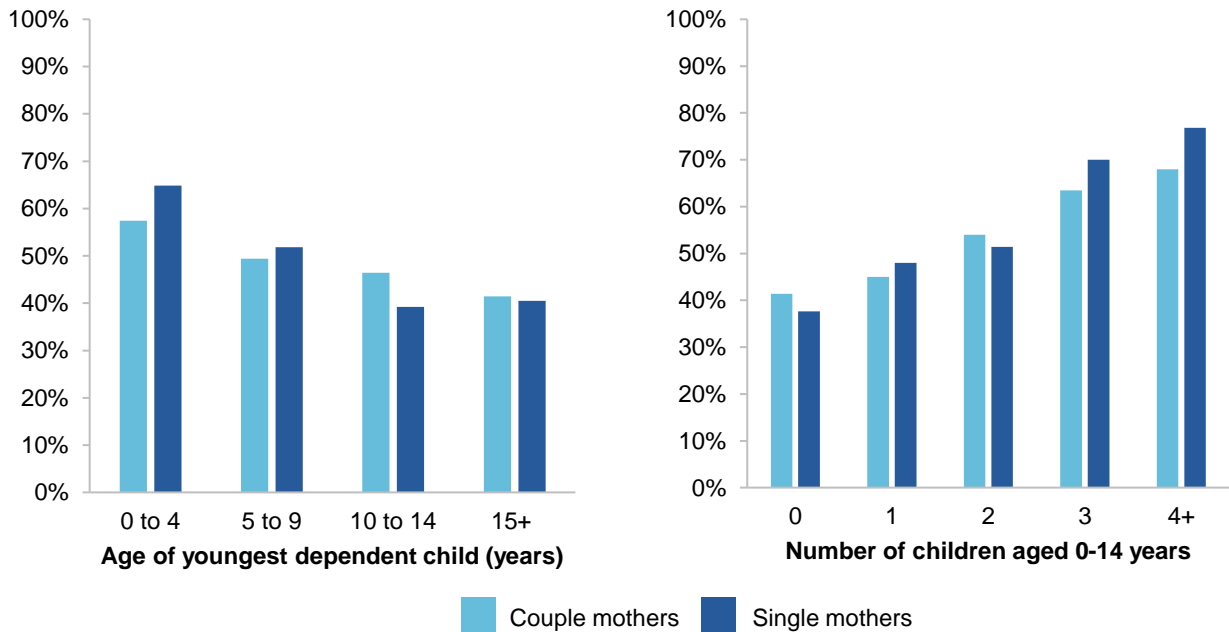
a. Participation rates are for women aged 25–54 with and without children aged under 15. Information on parental status and the age of the youngest child was missing for 2015–2017 and so participation rates were interpolated for these years (that is, the lines were connected between 2014 and 2018).

Source: ABS (*Datalab: Longitudinal Labour Force, Australia*).

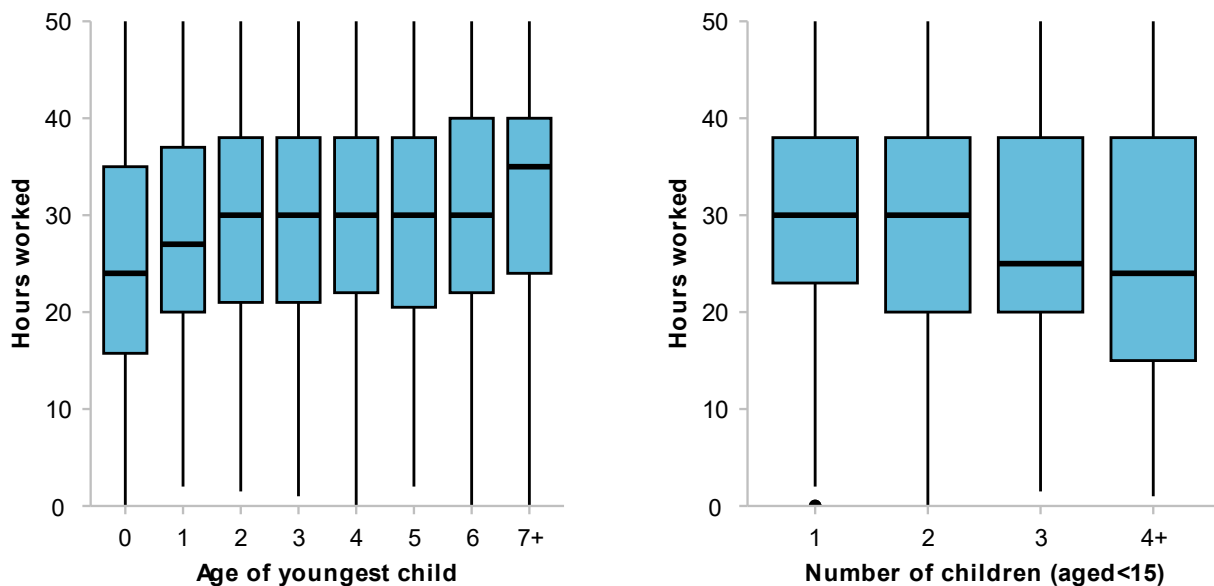
<sup>3</sup> Full-time employment is defined as working 35 hours or more across all jobs in a usual working week (ABS 2023e).

**Figure 4.14 – Part-time employment is more common among mothers with younger children and multiple children, but the rates do not vastly differ by partner status**

**Part-time employment rates for mothers, 2021**



**Distribution of the hours of paid work per week for employed mothers, 2019–21<sup>a</sup>**



a. Hours usually worked in all jobs for mothers who actually worked positive hours in the reference week. Data is pooled for 2019–21 to increase sample size.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022*) and HILDA Release 21.

**Hours of paid work have also risen among mothers working part time**

Mothers have increased their average hours of paid work over the past two decades. Mothers who work part-time tended to work about 19 hours per week on average in 2001, and this had increased to almost 23 hours per week in 2021 (Productivity Commission estimates based on HILDA Release 21). Meanwhile,

average hours worked for mothers employed full time has not changed over time – they work about 42 hours on average.

Some mothers work jobs with irregular or less predictable hours. For example, in 2022, about 18% did not work the same hours each week and about 13% were engaged in shift work (ABS 2023b). Working in these types of jobs can make finding suitable childcare arrangements more challenging (paper 7) and make it difficult for parents to plan for future expenses such as ECEC expenses (paper 6).

### **Are higher rates of part-time employment among mothers a result of choices?**

Part-time employment has become a common feature of the Australian labour market generally. The share of part-time employment has risen steadily since the 1960s and this employment type represented over one-third of total employment in Australia in 2017 (Cassidy and Parsons 2017, p. 19). While this trend is common in other advanced economies, Australia has one of the highest part-time employment rates among OECD countries (see below). A significant contributor to this is students (aged less than 25) who are working part time while also studying (Cassidy and Parsons 2017, pp. 19–20).

The increase in part-time work has been a result of both labour demand and supply factors (Abhayaratna et al. 2008, p. XVI; Cassidy and Parsons 2017, p. 19).

Changes in demand for part-time workers reflects:

- a transition to a service economy as a result of growth in the tourism, hospitality, education and health sectors where the nature of work involves irregular hours and as such there is more scope for part-time and casual work
- use of part-time employment by some firms to respond to cyclical fluctuations in demand for their output and to increase the flexibility of their business models and manage costs effectively (Cassidy and Parsons 2017, p. 22).

Labour supply factors have also been important. The demographic of the labour force has changed with greater entry of women into the labour market, increased employment among young people still engaged in education (including international students and working-holiday makers) and greater numbers of older people working. These groups have typically preferred to work part time and the Australian labour market has accommodated these preferences (Abhayaratna et al. 2008, p. XX).

A large majority of mothers attribute their part-time work status to either caring for children or because they prefer part-time work. A 2021 survey revealed that about 67% of mothers stated they were working part time (rather than full time) because they were caring for children, 20% stated they prefer working part time and a mere 3% stated they could not find full-time work (Productivity Commission estimates based on HILDA Release 21).<sup>4</sup> As children age, mothers tend less frequently to report caring for children as the main reason for working part time and more frequently to report that they prefer part-time work.

These data raise the question of whether ‘caring for children’ reflects a preference on the part of mothers to work part time or that their options are constrained (perhaps due to an inability to find or afford adequate ECEC arrangements). This is difficult to answer, but looking at *stated* preferences of mothers to work more hours can shed some light. A survey in 2021 revealed that of the mothers working part time who said they were doing so because they were caring for children, only 16% expressed that they would choose to work more hours if they could (Productivity Commission estimates based on HILDA Release 21). This seems to imply that for almost 85% of mothers, there was a *stated* preference to choose part-time work so that they could also care for children. Further, for those mothers who were not working full time, the most important job

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<sup>4</sup> Of the remaining 10%, 2% are studying and 8% nominate ‘other’ reasons.

characteristic they reported in looking for work or more hours was ‘the ability to work part-time hours’, that is, they stated they wanted a job where they could work part-time hours (ABS 2023a).

Many mothers are therefore likely choosing to work part time – as noted by Goodstart (sub. 125, p. 92), ‘[u]ndoubtedly, some women’s workforce participation decisions are not driven by [workforce disincentive rates] or by financial incentives as part-time work reflects their preference’. That is not to say that some of these mothers may choose differently if ECEC became more available and affordable (Cleveland, sub. 278, p. 5; The Parenthood, sub. 276, p. 7).

## **While participation rates have risen, having a child still negatively affects lifetime earnings for many women**

Having a child often disrupts a mother’s employment and can lower their subsequent engagement in paid work. The labour market trajectories of men and women are similar in the years leading up to parenthood, but diverge sharply with the arrival of children (Cortés and Pan 2023, p. 4), with mothers leaving the labour force, and then returning to work, in some capacity, as children age. This employment disruption leads to a gender earnings gap, coined the ‘motherhood earnings penalty’ (Bahar et al. 2022, p. 37). For Australia:<sup>5</sup>

Women’s earnings are reduced by an average of 55 per cent in the first 5 years of parenthood.

The gap in earnings ... remains significant a decade into parenthood. (Bahar et al. 2022, p. 37)

As a result of lower earnings, mothers also tend to have lower superannuation and retirement savings than fathers.

The drop in mothers’ earnings in Australia is attributed to lower participation rates and reduced working hours, and to a lesser extent, a fall in hourly wages (Bahar et al. 2022, p. 4).

Mothers’ participation rates tend to recover over the lifecycle as children grow up, but the decline in full-time employment is not fully reversed. The dip in participation and full-time employment seen at child-rearing ages, however, is becoming less pronounced among newer generations in Australia (figure 4.15).

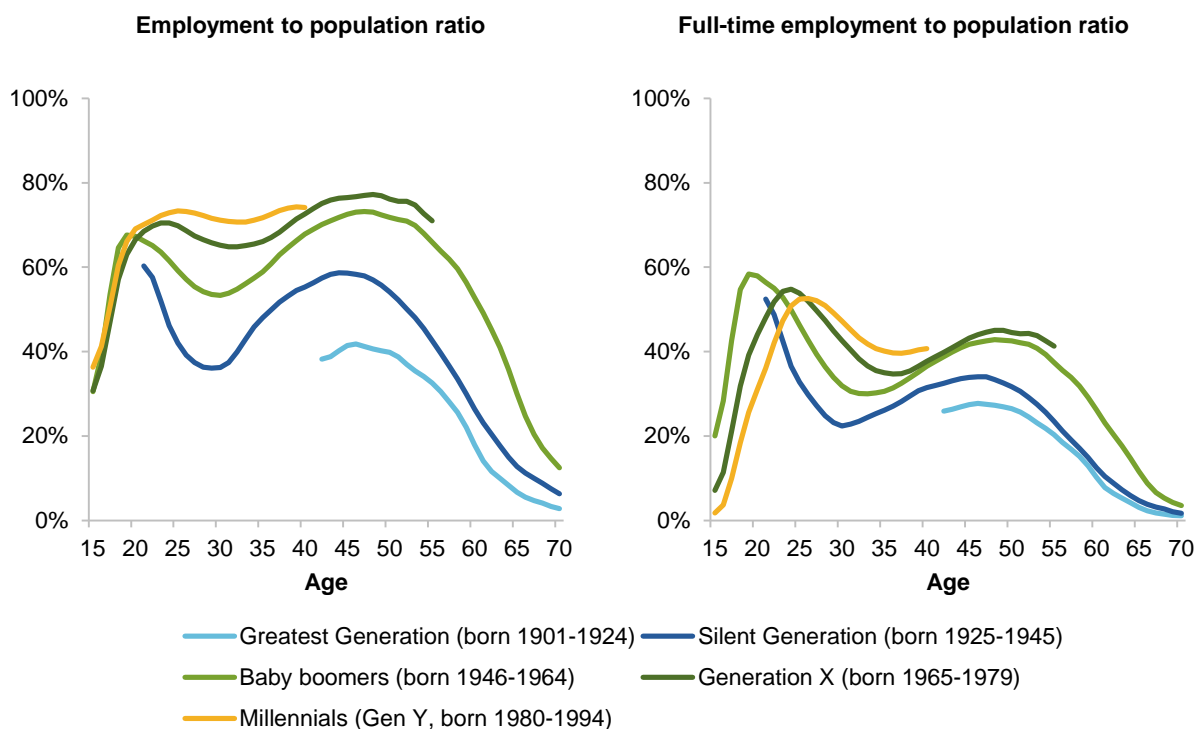
Engaging in flexible work and part-time roles tends to reduce the hourly wages of mothers and therefore contribute to the ‘penalty’ (Bahar et al. 2022, p. 5). This is because part-time jobs often offer reduced opportunities for career and wage progression due to less accumulation of experience (Costa Dias et al. 2018), and engaging in flexible work can restrict mothers’ earnings or career progression in industries or occupations that disproportionately penalise short or flexible working hours (Cortés and Pan 2019; Goldin 2014).

While mothers typically reduce time spent in paid work around the birth of a child, they increase their amount of unpaid work (housework and caring for children). Mothers tend to work slightly more total hours than fathers on average following the birth of a child but most of this work is unpaid – mothers do two times more unpaid work than fathers on average (Wilkins et al. 2021, pp. 89–91). The gender imbalance in care (and other unpaid work) can present a barrier for mothers to engage in paid work as they try to avoid the ‘double burden’ of paid and unpaid work (OECD 2014, p. 1; Wood et al. 2020, p. 12).

<sup>5</sup> Kleven et al. (2019) provide estimates of the motherhood penalty for other countries. Cortés and Pan (2023) also provide a review.

**Figure 4.15 – The employment dip at child-rearing ages is much less pronounced in newer generations**

**Female employment by generation**



Source: ABS (2021).

**ECEC can help mothers back to work, improving labour market outcomes and gender equality**

The provision of affordable, available and accessible ECEC can help mothers return to work, enabling mothers to balance paid work and care by reducing unpaid care workloads and freeing up their time to engage in paid work. And there is some evidence that when ECEC becomes cheaper or more available that mothers respond by increasing their participation and hours worked in the labour market (section 4.4).

To the extent that mothers’ employment disruptions are reduced and participation in paid work is increased, the severity of the gender earnings gap (or ‘motherhood earnings penalty’) may be reduced as it is shown to be driven largely by low participation and paid hours worked among mothers (Bahar et al. 2022, p. 37).<sup>6</sup> Further, mothers who return to work more quickly after childbirth (compared to mothers who return a year later) earn higher wages 10 to 20 years later because of the accumulation of more work experience (Kuka and Shenhav forthcoming).

Removing structural barriers to using ECEC will therefore be important in helping to achieve the Australian Governments’ broader gender equality goals (PM&C 2024). Policies designed to increase the availability,

<sup>6</sup> Examining the link between childcare and decreases in the motherhood penalty is a new area of research. Some studies provide evidence that childcare in Quebec and Norway reduced the motherhood penalty (Andresen and Nix 2022; Connolly et al. 2023; Karademir et al. 2023), while a study in Austria found no effect (Kleven et al. forthcoming).



affordability or suitability of ECEC can help to increase mothers' opportunities to engage in, and increase their hours of, paid work.

In the context of gender equality goals, other family policies that shape capacity and incentives to work (and which may re-enforce gender norms and stereotypes) are also highly relevant. For example:

- the tax and transfer system provides disincentives for secondary earners to return to work full time; this may help to re-enforce the 'traditional family' where fathers engage in paid work full time and mothers only part time (section 4.4)
- paid parental leave policies which provide more leave for mothers than fathers can re-enforce gender norms of the mother being the primary carer (section 4.4).

### **Participation rates in Australia are lower and part-time rates are higher than in other OECD countries**

Participation rates of men and women in Australia are lower than in many other developed countries. In 2022, for men aged 25–54, the participation rate was about 91% for Australia – about the OECD average – but Australia ranked 29th out of 38 OECD countries because rates were quite similar across countries (OECD 2023c). For women, the participation rate was about 82% – higher than the OECD average of 75% but lower than many other countries (a ranking of 27 out of 38) (OECD 2023c). Australia's participation rate for women is in line with the average of other English-speaking countries, but about 5 percentage points lower than the Nordic average (figure 4.16).

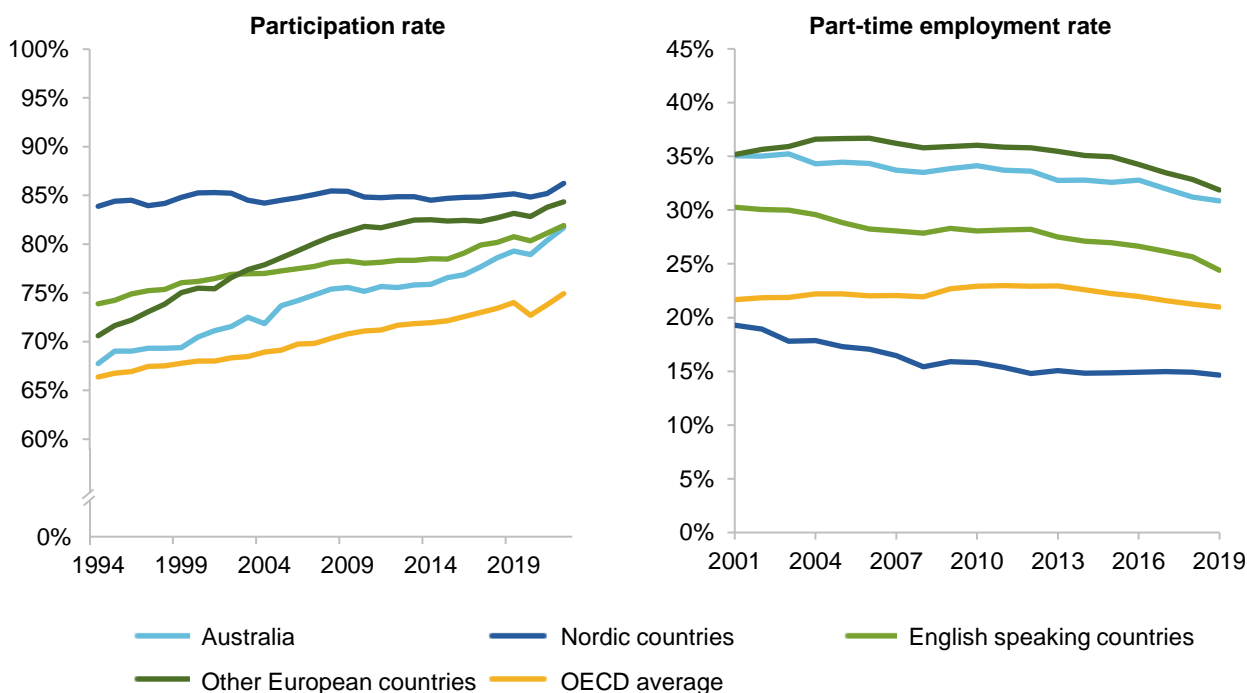
As noted above, part-time employment rates in Australia are higher than in most OECD countries – this trend persists across age groups and sex (OECD 2016c). Australian women's part-time employment rates are above those recorded for women in other OECD countries but show a downwards trend (figure 4.16). In 2019, about 31% of employed women were employed part time in Australia – considerably higher than the OECD average of 21%.

Participation rate differences between Australia and other OECD countries are likely due to a combination of factors such as differences in total fertility rates, tax and welfare systems, industry composition, paid parental leave policies, childcare policies, social norms and attitudes.

Population coverage in national labour force surveys and the statistical treatment of persons on maternity leave, for example, also contribute to differences (OECD 2023b; PC 2014, pp. 822–825). These differences need to be considered when making comparisons and judgements about whether Australian mothers can reach the high participation rates of other countries (box 4.3).

**Figure 4.16 – Australian female participation has increased, but part-time employment remains high compared to other countries<sup>a,b</sup>**

**Average participation rates (1994–2022) and part-time employment rates (2001–19) for women aged 25–54 by region**



**a.** Nordic countries include Denmark, Finland, Iceland, Norway, and Sweden. English speaking countries include Canada, New Zealand, the United Kingdom, and the United States. Other European countries include Austria, Belgium, France, Germany, and the Netherlands. **b.** Part-time employment is defined using the common definition of working less than 30 hours per week in the main job. Data for Australia are not available for 2020 to 2022. The United States is not included in English speaking countries for the average part-time employment rate as the data was not available.

Source: OECD (2023c, tbl. C3, 2023a, tbl. H1).



**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.

### Box 4.3 – The challenges of international comparisons

Studies have observed that female and maternal labour force participation rates in Australia are high by international standards, but also noted that they are well below Nordic countries and below countries like Canada and New Zealand (OECD 2023d; Wood et al. 2020, p. 8). Making inter-country comparisons is difficult, however, because of key differences in statistical collections in the treatment of mothers on maternity or parental leave across countries (OECD 2023b, tbl. 2).

To provide an example, the Commission has compared the labour force participation rates of mothers in Canada and Australia, with a particular focus on Canada's Quebec province which has often been cited as having high participation rates due to a universal ECEC system with a low, flat fee for service (Wood et al. 2020, p. 31).

In Canada, mothers on unpaid leave of longer than four weeks are classified as 'employed' if they have a job to go back to and are therefore in 'the labour force' (*Canadian definition*), whereas they are not counted as employed in Australia and are therefore *not* in the labour force (*Australian definition*).

Therefore, the employment rate of Australian mothers appears to be considerably lower than in Canada and Quebec – 70.5% for Australian mothers of children aged 0–5 compared with 75.5% in Canada and 80.5% in Quebec based on each country's definition of employed (figure at end of box).

Looking at whether mothers *actually* worked in the reference week in labour force surveys provides a way of removing the effect of definitional differences from employment measures. Defining employment in this consistent way reveals that the employment rates of mothers in the different jurisdictions are much more similar than the headline statistics, especially for mothers with children aged 0–5 (59.4% in Australia, 57% in Canada and 60.8% in Quebec).

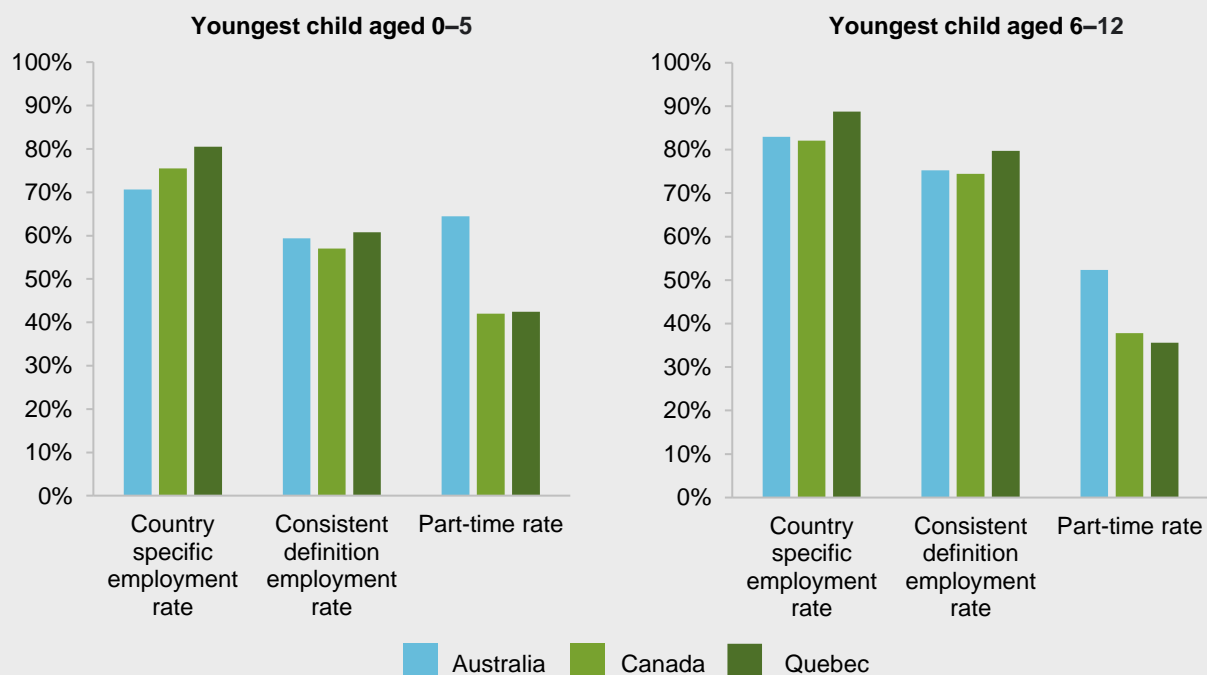
Part-time work is still more common among mothers in Australia than in Quebec or Canada, even after constructing comparable measures of employment. For mothers with children aged 0–5 for example, the part-time employment rates are 64% in Australia and 42% in both Canada and Quebec. Part-time employed mothers work on average 2 hours less in Australia compared to Canada (21 compared to 23 hours) (Productivity Commission estimates).

Part-time rates reflect a host of features of each country – such as ECEC policy settings, tax and transfer systems, labour markets and industrial relation settings, cultural norms, industry composition and paid parental leave policies (Abhayaratna et al. 2008, pp. 30–32). Across the population, Australia has higher shares of part-time work compared to Canada – 25% vs 18% in 2022 (OECD 2023e), which may suggest that part-time work is more readily available in Australia (due to labour supply, labour demand or regulatory factors). But differences in maternal part-time rates between Australia and Canada do not seem to be related to employment protections or industry composition. Investigation of why part-time employment rates are so much higher in Australia would be a fruitful area for future research.

**Box 4.3 – The challenges of international comparisons**

**Maternal employment rates in Canada are more similar to those in Australia than a first glance might suggest<sup>a,b,c</sup>**

Maternal employment rates and part-time employment rates by age of youngest child, 2022-23



a. Employment rates in Canada are estimated using the monthly Canadian labour force survey (LFS) public use microdata file, and in Australia estimated using the monthly Australian LFS microdata available through the ABS Datalab environment. b. There are two employment rates presented. The first uses country specific definitions of employment, while the second creates a consistent employment definition by defining mothers as employed only if they worked any hours in all jobs in the reference week for the survey. c. Part-time employment is defined as working less than 35 actual hours per week in all jobs in the reference week.

Source: Productivity Commission estimates based on Statistics Canada (2023) and ABS (*Datalab: Longitudinal Labour Force, Australia*).

**4.3 ECEC-related barriers deter some parents from working**

The terms of reference for this inquiry state:

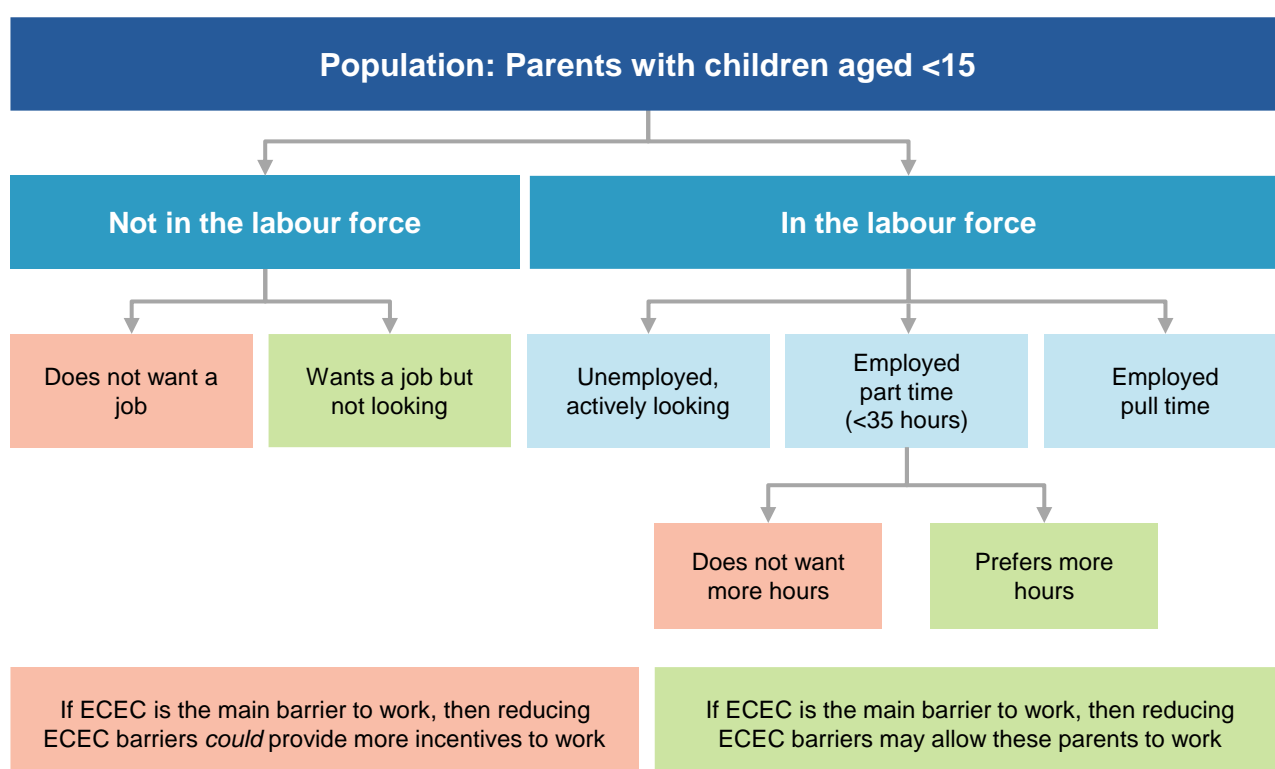
Cost and availability continue to be barriers to accessing ECEC, and for parents and carers achieving their preferred level of workforce participation. The Government believes more accessible ECEC is one of the most powerful initiatives it can pursue for increasing workforce participation, particularly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

This section considers the prevalence of different ECEC-related barriers to employment and how they have changed over time.

## Survey evidence on parents' labour force status and preferences for work

The Australian Bureau of Statistics regularly surveys Australians on barriers and incentives to employment (ABS 2023a). Information gathered depends on a parent's labour force status (figure 4.17) – whether or not they are in the labour force and, depending on the answer to that question and their current employment situation, whether or not they would like work or more hours. Parents who were not in the labour force and those working part time were asked about the effects of a range of potential barriers to them entering work or working more hours, among them are ECEC-related factors such as cost and availability.

**Figure 4.17 – Labour force situation of Australian parents<sup>a,b</sup>**



**a.** Framework is based on the ABS's Barriers and Incentives to Labour Force Participation. **b.** Unemployed persons are those that actively looked for work in the past four weeks.

Parents who are not working or actively looking for a job are classified as not in the labour force. Some of these parents do not want a job, while others want to work but face barriers to doing so. For example, they may have a long-term disability, face difficulties in finding suitable care for their children, lack qualifications or experience, or live in an area where there are few available jobs. Lowering barriers to ECEC could provide an incentive for them to seek employment.

Parents who are participating in the labour force can be either unemployed (that is, actively looking for work) or working. The unemployed may face challenges to finding work but the fact that they are actively looking suggests ECEC-related factors are not a significant barrier to their labour force participation. That said, reducing any barriers may make the process of finding a job and matching ECEC arrangements easier.

Among parents who are working, a proportion are in part-time employment and some of this group would prefer to work more hours. Reducing ECEC-related barriers might support them in achieving this outcome.

Others report that they do not want more hours but a reduction in ECEC-related barriers might provide an incentive to seek more hours.

There is also a possibility that some working parents may wish to reduce their hours worked, but have not done so because of job requirements or a need for income.

Figure 4.17 summarises these classifications of a parent's potential labour force situation.

The influence of ECEC-related factors on employment decisions can be considered from the perspective of:

- those who want a job or more hours – for them, a reduction in ECEC-related barriers might support greater labour force engagement
- those who do *not* want a job or more hours – for them, a reduction in ECEC-related barriers might create an incentive to seek a job or more hours.

The distinction is drawn because it is likely that those who want a job or more hours would be more likely to increase their participation if barriers to work were reduced than those who do not want a job or more hours.

## Parents' preferences for work

The ABS survey results suggest there is not much scope to increase the participation of fathers, but some scope to increase the participation of mothers (table 4.1). About 95% of fathers are employed, the majority of whom work full time, whereas 75% of mothers are employed, with about an even split between full-time and part-time work. Only about 5% of fathers (or 124,000 persons) wanted a job or to work more hours. In contrast, about 15% of mothers (399,000 persons) wanted to participate more – 1-in-5 mothers working part time stated they wanted to work more hours and about 1-in-3 mothers not in the labour force wanted a job. In total, about 523,000 parents stated a preference to engage more in the labour force.

**Table 4.1 – A higher proportion of mothers than fathers want to work more  
Labour force status of parents (with child aged <15) by sex, 2022-23**

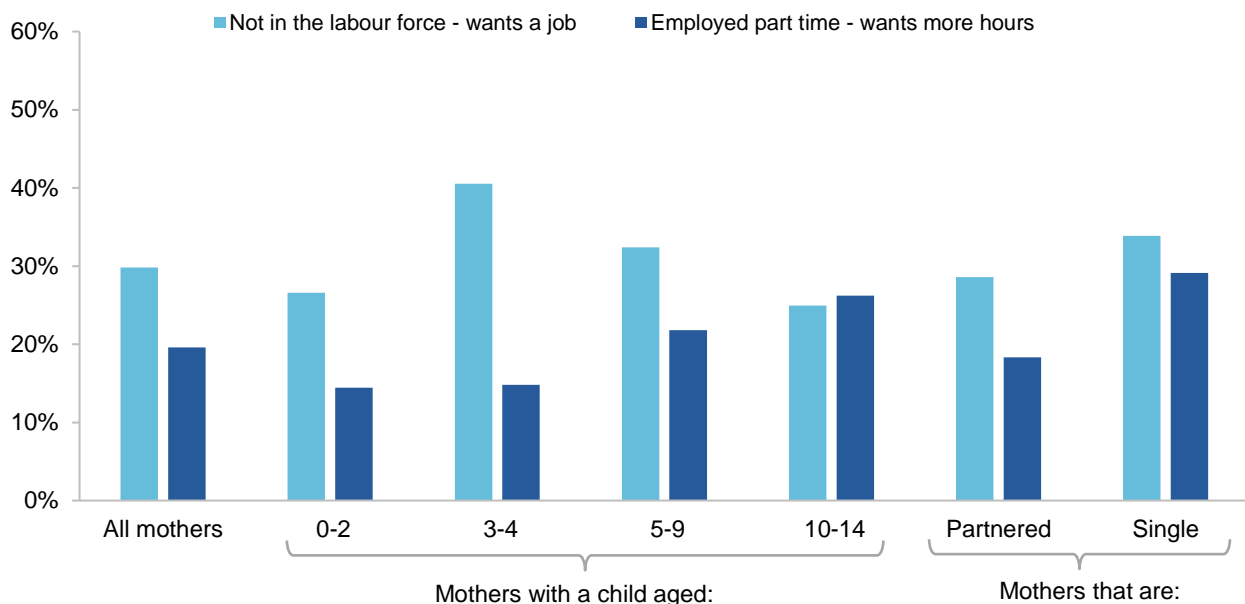
	Fathers		Mothers		Total	
	('000)	%	('000)	%	('000)	%
<b>Employed</b>	<b>2204.6</b>	<b>94.2%</b>	<b>2020.3</b>	<b>74.5%</b>	<b>4224.9</b>	<b>83.6%</b>
Employed full time	2002.9	85.6%	932.5	34.4%	2935.4	58.1%
Employed part time	201.7	8.6%	1087.9	40.1%	1289.5	25.5%
Prefers more hours	70.0	3.0%	213.4	7.9%	283.4	5.6%
Does not prefer more	131.7	5.6%	874.5	32.3%	1006.2	19.9%
<b>Unemployed</b>	<b>17.3</b>	<b>0.7%</b>	<b>69.8</b>	<b>2.6%</b>	<b>87.1</b>	<b>1.7%</b>
<b>Not in the labour force</b>	<b>118.5</b>	<b>5.1%</b>	<b>621.0</b>	<b>22.9%</b>	<b>739.5</b>	<b>14.6%</b>
Wants a job	54.2	2.3%	185.2	6.8%	239.4	4.7%
Does not want a job	64.3	2.7%	435.8	16.1%	500.1	9.9%
<b>Total</b>	<b>2340.4</b>	<b>100.0%</b>	<b>2711.1</b>	<b>100.0%</b>	<b>5051.5</b>	<b>100.0%</b>

Source: ABS (*Microdata, Barriers and Incentives 2022-23*).

Mothers employed part time who wanted more hours typically worked about 19 hours a week with a stated preference on average for about 31 hours per week (about 44% wanted full-time hours). Mothers not in the labour force but who wanted a job stated they wanted to work 22 hours per week on average (that is, most of them, 86%, wanted part-time work).

Mothers' preferences for work change as children age (figure 4.18).<sup>7</sup> In 2022-23, of mothers who were not working, 27% wanted a job when their child was aged 0–2 and 41% with a child aged 3–4 wanted a job. Similarly, as children age, the proportion of mothers working part-time who want more hours increases. Single and partnered mothers tended to have similar preferences for wanting paid work if they were not in the labour force. For those working part time, however, 29% of single mothers stated a preference for more hours compared with only 19% of partnered mothers.

**Figure 4.18 – As children age a greater share of mothers want to work or work more<sup>a</sup>**  
**Proportion of mothers who want work by different characteristics, 2022-23**



a. Each column can be interpreted as the proportion of mothers in each category who want to work or want more hours. For example, the first column indicates that 30% of mothers who are not in the labour force want a job (implying 70% of mothers who are not in the labour force do not want a job), the second column indicates that 20% of mothers who are employed part time want to work more hours (implying 80% of mothers working part time do not want more hours).

Source: ABS (*Microdata, Barriers and Incentives 2022-23*).

Comparing mothers working part-time who did and did not want more hours sheds light on the characteristics of mothers who might work more. The analysis (figure 4.19) reveals that those wanting more hours:

- had an older child (6.8 compared with 5.5 years old)
- had lower household gross weekly incomes (\$1,800 compared with \$2,300)
- were almost 7 percentage points more likely to be a single parent
- were about 10 percentage points less likely to have a university degree

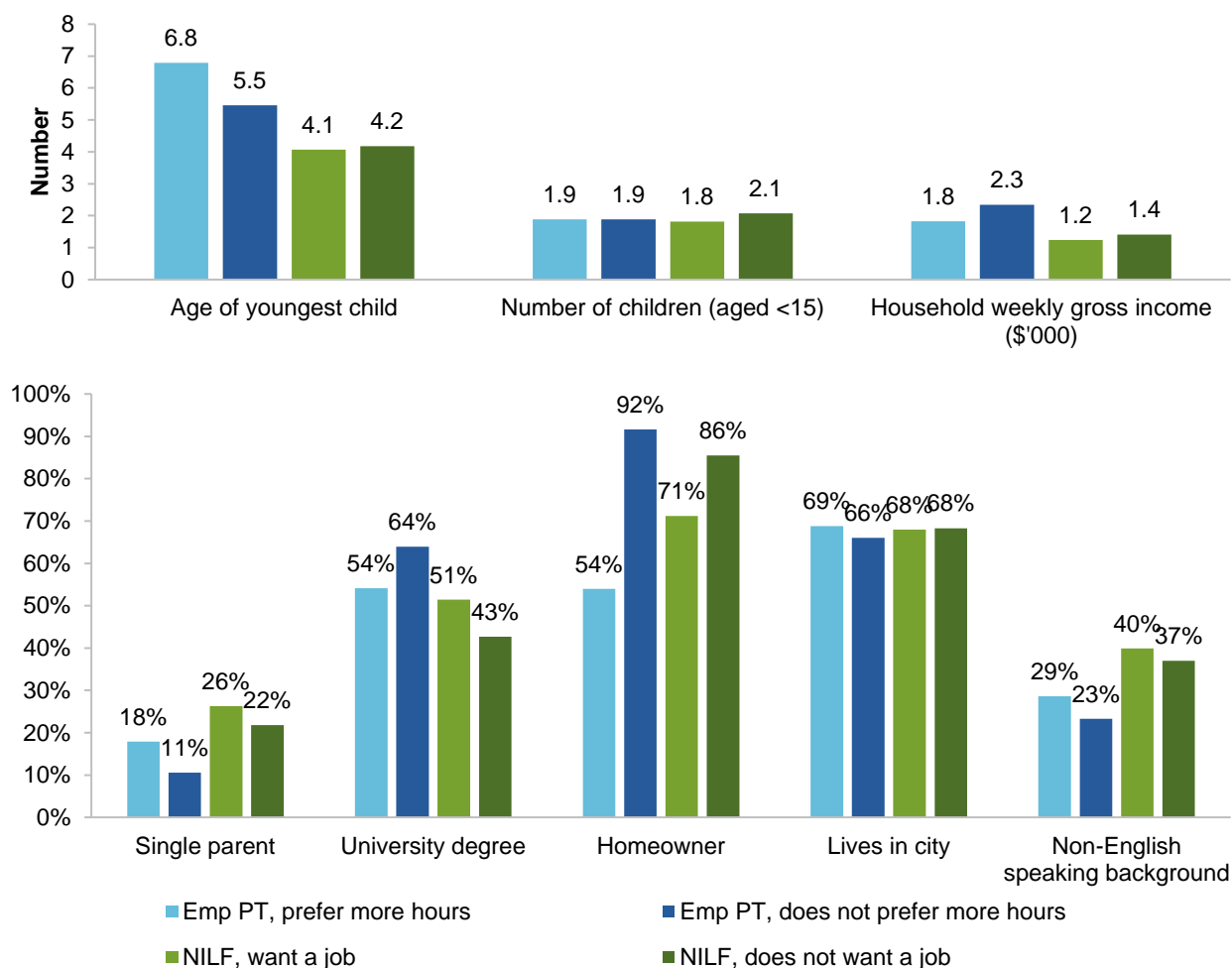
<sup>7</sup> Because the sample of fathers who are either not in the labour force or employed part time is small, statistics in figure 4.18 could not be calculated reliably.

- were much less likely to be a homeowner (including paying a mortgage).<sup>8</sup>

Differences between mothers not in the labour force who did and did not want a job show a similar trend but are typically less pronounced.<sup>9</sup>

**Figure 4.19 – Mothers who want to work or want more hours tend to be from lower income households<sup>a,b,c</sup>**

**Characteristics of mothers (with a child aged <15) by labour force status, 2022-23**



a. 'Emp PT' refers to 'employed part time' and 'NILF' refers to 'not in the labour force'. b. Each bar in the top chart depicts the average characteristic by group (for example, the average household income for a mother who works part time and wants more hours is \$1,800 per week). Each bar in the bottom chart depicts the proportion of mothers with the characteristic by labour force status (for example, 18% of mothers whose labour force status is 'working part time and wanting more hours' are single parents). c. Results for homeowner are based on 2020-21 as data on homeownership in 2022-23 is not available.

Source: Productivity Commission estimates based on ABS (*Microdata, Barriers and Incentives 2020-21 and 2022-23*).

Supporting these results, mothers who are from higher-income households have higher full-time employment rates and tend to be more settled with their hours of work (figure 4.20).

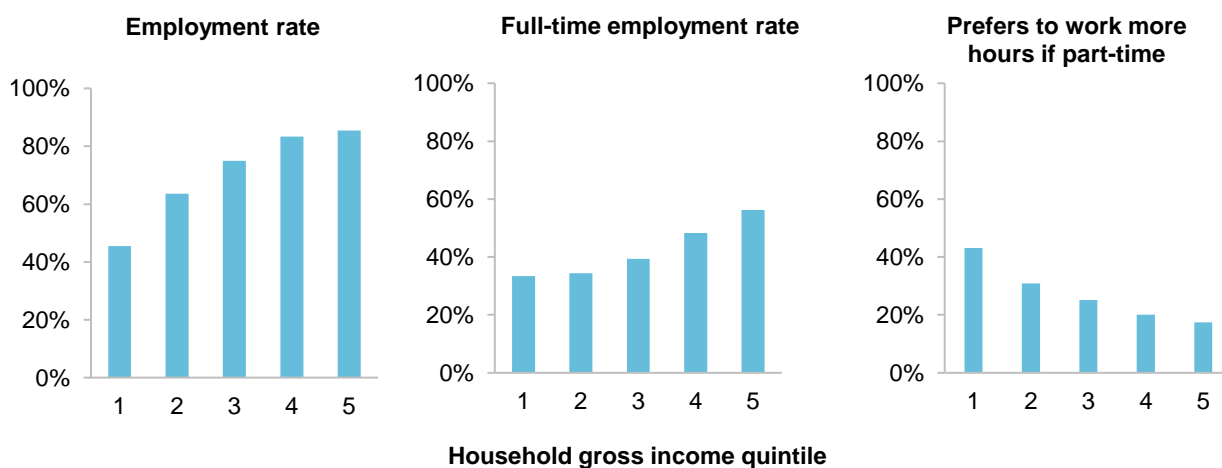
<sup>8</sup> These differences reported are all statistically significant (at least at the 10% level).

<sup>9</sup> Most of these differences are not statistically significant with the exception of the number of children.



### Figure 4.20 – Mothers from high-income households are more settled in their employment choices<sup>a,b</sup>

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



a. One is the lowest income quintile and five is the highest income quintile. b. Sample was pooled across 2015 to 2021 to increase sample size, results are consistent across the years.

Source: Productivity Commission estimates using HILDA Release 2021.

### Mothers commonly report ‘caring for children’ as the main reason they are not in the labour force or are working part-time hours

Caring for children is an important factor in the labour force participation decisions of many parents. Parents who were not in the labour force and those working part time (about two million people, table 4.1) were asked about the main ‘barrier’ they faced to working or working more. Of these parents, 55% nominated ‘caring for children’ – 94% of whom were mothers. The remaining 45% of parents reported barriers that were not related to children – for example, they were studying or had a long-term illness.

### ECEC-related barriers affect the work choices of some parents, mostly mothers

Parents who nominated caring for children as their main barrier to work were then asked why that influenced their work choices, with response options including preferences to care for children or ECEC-related barriers.

Parents’ stated preferences to care for their children were strong – of all parents who reported that caring for children was their main barrier to work, almost 70% stated that they preferred to care for children or that their children were too young/old for childcare. The remaining group – or 328,000 parents, mostly mothers – nominated ECEC-related barriers. Of this group:

- about 98,000 wanted a job or to work more hours – and therefore would be likely to work or increase work hours if ECEC-related barriers were reduced
- about 230,000 did not want a job or to work more hours at the time of the survey – a reduction in ECEC-related barriers might increase the likelihood of them seeking a job or more hours if their preferences around work were to change.

And the main ECEC-related barriers reported were:

- cost for 136,000 parents
- availability for 96,000 parents
- other ECEC-related factors for 96,000 parents.

Overall, 6.5% of parents with children aged under 15 years, or just over 10% of all mothers, nominated caring for children as their main barrier to work and attributed that situation to ECEC-related barriers. Fewer than 4% of mothers (or about 94,000 women), however, were in that situation and actually stated wanting a job or more hours.

Estimates of the extent to which labour supply might be increased if these parents chose to engage more in the labour force are presented in section 4.4.

### ECEC-related barriers are more commonly reported by parents who want to work or work more

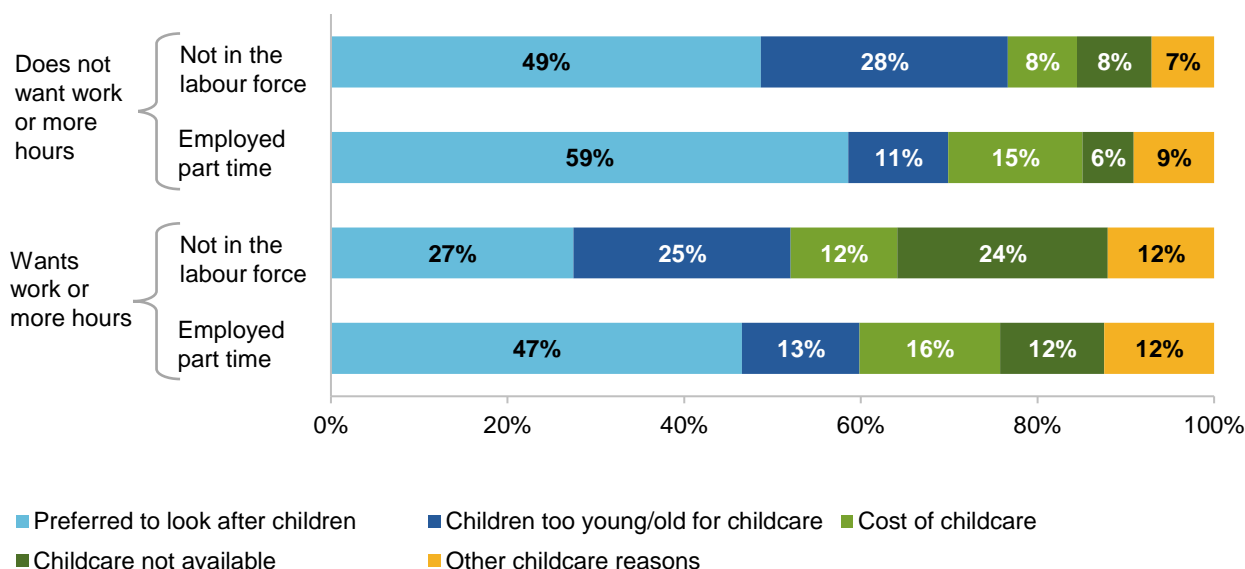
Parents who wanted to work or work more were more likely to report ECEC-related barriers than those who did not want to work (figure 4.21). Of this group, those who wanted to work were more likely to report availability issues, those working part-time were more likely to report cost issues (figure 4.21). An evaluation of the Child Care Package (Bray et al. 2021, p. 273) found similar results, in that parents who wanted to increase their hours of care noted affordability as the main barrier (78%).<sup>10</sup>

Stated preferences to care for children were strongest among parents who did not want to work or to increase work hours (figure 4.21).

A relatively high proportion of parents stated they would like to work more but that they also prefer to look after their own children – responses that seem to conflict (Future Work, sub. 270, p. 4). This is an issue with using stated preferences; the relative intensity of preferences and tradeoffs are revealed only by parents’ actions.

**Figure 4.21 – ECEC-related barriers are more prominent for parents who want to work or work more hours<sup>a</sup>**

#### Main reason caring for children is a barrier to work, 2022-23



a. ECEC-related barriers are: cost of childcare; childcare not available and other childcare reasons.

Source: ABS (*Microdata, Barriers and Incentives, 2022-23*).

<sup>10</sup> The authors also found that the other most common barriers for this group were the flexibility in work hours, availability of suitable work, the flexibility of childcare and the ability to obtain more hours of care.

Conflicting preferences for caring and work also appear when parents are allowed to nominate *multiple* reasons why caring for children is a barrier.<sup>11</sup> In a separate survey, about 60% of parents who reported that caring for children was a barrier to work nominated multiple reasons why that was the case.<sup>12</sup> For example, of parents who reported the cost of ECEC as a barrier, about 37% also reported a preference to care for children and 22% reported that the times and days of available ECEC were not suitable (figure 4.22).

These results suggest that there is a strong relationship between the cost of ECEC and parents' preferences to care for their own children. Parents are likely weighing up the value they place on caring for their own child against the value of sending them to ECEC. That is, parents may be assessing the value of their potential wages and any value placed on potential developmental benefits to the child against the out-of-pocket expenses of ECEC. If parents believe the cost of ECEC is too high this may strengthen their preference for looking after their own children. Therefore, changes to the out-of-pocket expenses of ECEC may result in some parents changing their decisions about caring for children.

**Figure 4.22 – Parents tend to report multiple ECEC-related barriers**

If parents report this barrier:	Prefer to care for children	Cost of ECEC
Then a proportion of them also report this barrier:	Cost of ECEC (55%)	Prefer to care for children (37%)
	Child too young/old (38%)	Child too young/old (25%)
	Time/days available not suitable (16%)	Time/days available not suitable (22%)
	ECEC not flexible enough (14%)	ECEC not flexible enough (19%)

Source: ABS (*Survey of Income and Housing, 2017-18*).

### Barriers to ECEC use have decreased over time, but cost barriers remain

The Commission has used data from the HILDA survey to track families' reports of difficulties relating to the ECEC system over the past 20 years (in a replication of a figure from Breunig et al. 2023).

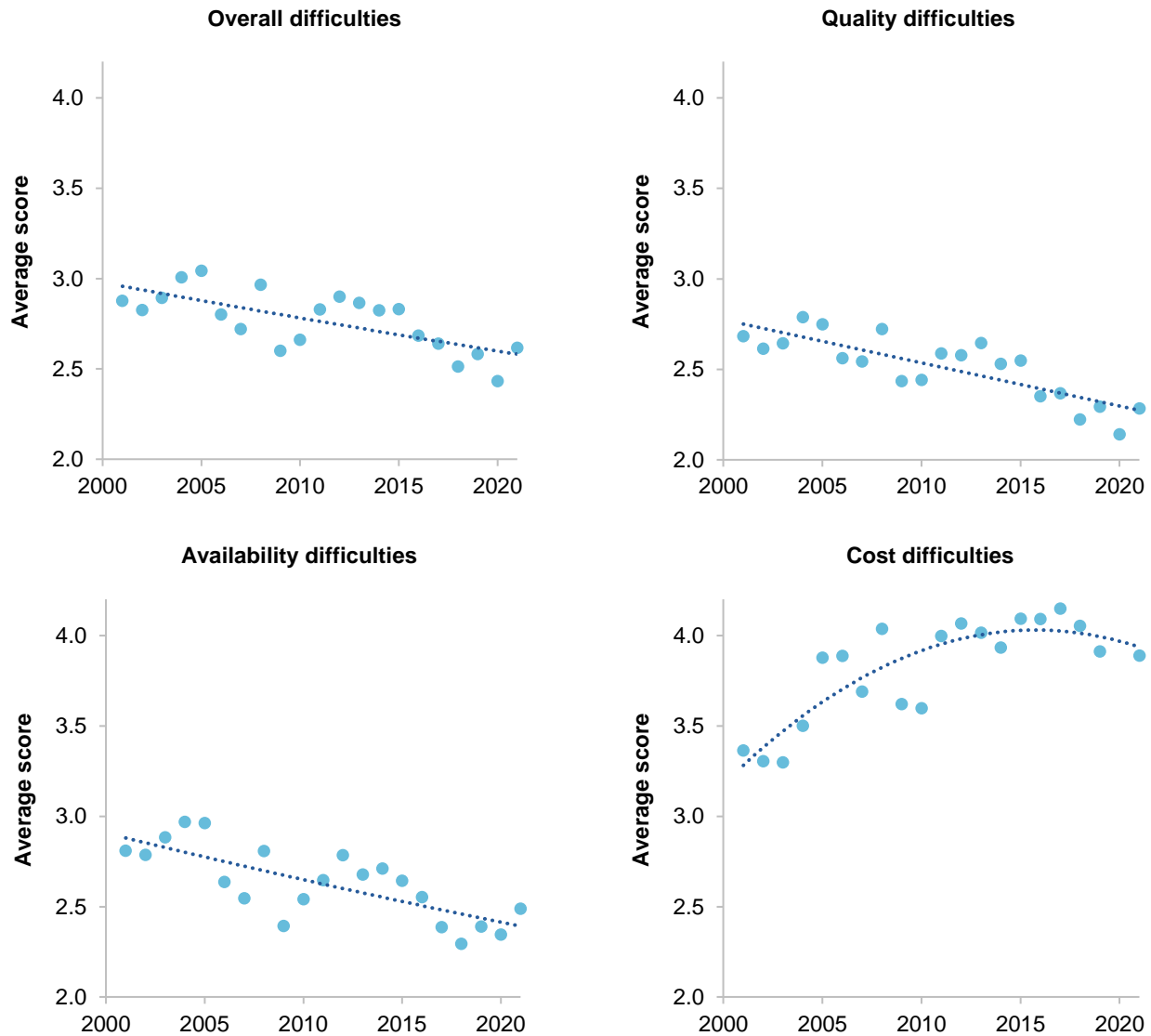
Overall, reports of difficulties fell (figure 4.23) due to a reduction in reports of challenges with:

- quality of ECEC (which refers to difficulties in finding quality childcare, the right person to care for children or care that children are happy with)
- availability (which refers to difficulties in finding care for the hours needed, in the centre of choice or in the right location, and in juggling multiple childcare arrangements).

<sup>11</sup> The ABS Barriers and Incentives survey does not ask parents about all the reasons caring for children is a barrier to work. Data from the ABS's Survey of Income and Housing (2017-18) is used to supplement analysis in this section because it does ask about all 'barriers' or 'reasons'.

<sup>12</sup> Of the 40% that report one barrier, 51% report cost as the barrier and 36% report preferences to look after their own child or that the child is too young/old for ECEC.

**Figure 4.23 – Most ECEC difficulties have declined, with the exception of cost<sup>a,b</sup>**  
**Average responses to difficulty with childcare questions in HILDA, 2001–21**



**a.** HILDA asks each household with a child aged under 15 a set of questions about the difficulties they face with ECEC on a scale of 0 (not a problem at all) to 10 (very much a problem). These questions can be grouped into difficulties with availability, quality and cost, and average responses for each domain are calculated. **b.** The chart for cost difficulties differs from that of Breunig et al because the 2020 observation was dropped (when childcare was free for part of the year due to the COVID-19 pandemic) and a polynomial trend fitted.

Source: Productivity Commission replication of Breunig et al. (2023) based on HILDA Release 21.

There was a noticeable drop in reports of difficulties with the quality of ECEC around 2014. The National Quality Framework was introduced in 2012 which introduced tighter regulations around qualifications of staff among other things. Since then, the proportion of services meeting the National Quality Standard overall has increased (ACECQA 2023, p. 6). Parents using ECEC may have noticed improvements in quality and/or may have been more aware of the policies to improve the quality of services, giving them greater confidence in the quality of services.

Difficulties with availability of ECEC services also decreased, likely reflecting growth in the supply of ECEC services and number of approved places for children (paper 5). Presumably, a smaller proportion of parents have faced difficulties in securing their child a place at a service over time.

Reported difficulties with the cost increased until around mid-2010s but appear to have levelled out. That said, at a rating of about 4 on a scale of 1 to 10, costs are not a major issue for parents on average. 'Adjustments to subsidies and introducing new programs have typically been associated with strong falls in costs to parents in the short term' (AIFS 2023, p. 8), but price growth tends to return to trend. As a result, the cost of ECEC has been particularly salient in the media, as well as other cost of living pressures, which may mean that reports of cost difficulties prevail.



#### **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.

## **4.4 Reducing ECEC-related barriers could enable more parents to work**

As seen above, there are parents who would like to participate more but face ECEC-related barriers to doing so. This section explores the potential impacts of changing ECEC barriers on parents' participation. In considering these effects, it is important to also consider how other family policies interact with the ECEC system to shape parents' work choices.

### **The potential effects of reducing ECEC-related barriers**

#### **Responsiveness of labour force participation to the cost of ECEC**

Predicting parents' likely responses to a reduction in ECEC-related barriers to labour force participation is not straightforward. In the case of costs, for example, cheaper ECEC creates both an incentive to work more, because working delivers higher hourly pay net of costs, but also an incentive to work less, because that

higher net hourly rate of pay means the same total income can be achieved with fewer hours worked (box 4.4). The net effect on hours worked by parents will reflect these opposing effects.<sup>13</sup> In the case of availability of care, as noted above, the extent to which a parent's preferences to care for their children might change if they had better access to ECEC is unclear.

#### **Box 4.4 – A simple labour supply model**

In a simple labour supply model, a parent has a few key decisions to make.

1. What time do they spend engaging in paid work and engaging in other activities (typically described as leisure, and can include things like caring for children, housework, studying or volunteering)?
2. If they engage in paid work or other activities outside the home, how are their children cared for – what mix of formal and informal care works best for them?

For parents who are not in the labour force, lower ECEC costs may increase the incentive to take up paid work because lower costs reduce their 'reservation wage' (that is, the lowest net hourly wage rate (post taxes and ECEC expenses) at which a person would be willing to accept a job). Lower ECEC expenses translate into a higher net hourly wage.

Predicting the effect of a reduction in ECEC expenses for parents who are already working is more complicated. An increase in the ECEC subsidy means that a parent's net hourly wage increases (out-of-pocket expenses decrease assuming ECEC prices are unchanged). There are two economic effects of this:

- the substitution effect – an increase in the subsidy means that the economic cost of not working increases as working becomes more attractive. Parents have an incentive to *increase* hours worked
- the income effect – an increase in the subsidy means that net income increases and spending time on non-work activities becomes more affordable. Parents have an incentive to *decrease* hours worked.

The observed change in hours worked depends on which effect dominates. If the substitution effect is stronger, then hours worked increase. If the income effect is stronger, then hours worked decrease.

As Bray and Gray (sub. 14, p. 38) noted 'actual individual responses will depend upon the relative weight individuals place on the value of time in and out of paid employment'. The degree to which people respond to these two effects is called their labour supply elasticity (or the percentage change in hours worked in response to a percentage change in wages) and it is shaped by their individual preferences.

Studies that estimate labour supply elasticities have found that mothers generally increase their labour force participation in response to decreases in ECEC costs, but the responses are relatively small.<sup>14</sup> Generally speaking, a 1% decline in ECEC costs leads to a considerably smaller than 1% increase in participation, on average. Studies for Australia imply a 1% decrease in ECEC costs could increase:<sup>15</sup>

- the labour force participation of mothers by 0.02–0.29%

<sup>13</sup> Raising taxes to pay for an increase in ECEC subsidies may have negative employment effects as well.

<sup>14</sup> There is limited research on the effects of ECEC prices on fathers' employment responses. Mumford et al. (2020) is one of the few papers that considers fathers. They find a 1% decrease in ECEC costs increases fathers' participation by a mere 0.01% and hours worked by 0.01%.

<sup>15</sup> Excluding the results from Kalb and Lee (2008) which finds a zero elasticity for both participation and hours worked.

- the hours worked by mothers by 0.02–0.65% (table 4.2).

These estimates are consistent with international evidence, despite differences between countries. For example, an extensive literature review (Morrissey 2017, p. 1) found that, among US studies, a 1% decrease in the cost of childcare would most likely increase maternal labour force participation (employment) by 0.05–0.25%, while estimates for other countries are typically smaller.

These estimated effects of changes to ECEC costs are also much smaller than the effect that wages have on labour force participation. For example, the NSW PC (2022, p. 8) found that labour force participation is 4.5 times more responsive to a percentage increase in wages compared with ECEC costs.

**Table 4.2 – Responsiveness of mothers' labour supply to ECEC prices<sup>a,b,c</sup>**

**Labour supply elasticities**

Author(s)	Children's age	Family type	The effect of 1% increase in gross ECEC prices on:	
			Participation	Hours worked
Kalb and Lee (2008)	0–12	Partnered	0%	0%
Doiron and Kalb (2005)	0–12	Partnered	-0.02%	-0.02%
Apps et al. (2016)	0–4	Partnered	Not estimated	-0.25%
Gong and Breunig (2017)	0–5	Partnered	-0.08%	-0.11%
Mumford et al. (2020)	0–4	Partnered	-0.15%	-0.20%
Breunig, Gong and King (2012)	0–13	Partnered	-0.29%	-0.65%
Doiron and Kalb (2005)	0–12	Single	-0.05%	-0.05%
Kalb and Lee (2008)	0–12	Single	-0.19%	-0.16%
NSW PC (2022)	0–4	Both	-0.07%	-0.16%

**a.** Elasticity estimates are typically estimated for a 1% increase in price, such that the interpretation is a 1% increase in price results in a decrease in participation of 0.29%, for example. The models used to estimate elasticities impose symmetry such that the interpretation for a decrease in the price has the same magnitude of effect in the opposite direction. **b.** Estimates of gross price (the price charged by providers) elasticities are presented rather than net prices (the price paid by families after subsidies are received). Some studies estimate both. **c.** These studies do not differentiate between short-term and long-term effects.

But some groups of mothers may be more responsive to price changes than others. Gong and Breunig (2017) estimated elasticities for different subgroups and found mothers who:

- had lower education levels were about 25% more responsive than mothers with a tertiary education
- had more than one child were twice as responsive than mothers with one child
- lived in lower-income households were about 50% more responsive than mothers in higher-income households.

Other studies found larger elasticities for single mothers compared with partnered mothers (Doiron and Kalb 2005; Kalb and Lee 2008). These results are also consistent with the international literature (Morrissey 2017, pp. 16–17) and help to inform which groups might be the most sensitive to changes in ECEC costs and which groups might have the largest labour supply response.

There is some discussion in the literature that the estimated elasticities would be larger if models were able to control for the availability of childcare. That is:

shortages may also mask the responsiveness of women to child care prices and EMTRs [effective marginal tax rates]. If child care is rationed, then this restricts the parents' choices, taking out the combined employment and child care use option, or at least reducing the availability of this option. This is likely to lead to fewer women in the labour force than would occur if child care was readily available. Accounting for rationing of child care substantially increased the price elasticity of child care use and of labour supply. (Kalb 2017, p. 141)

Despite most studies not taking availability into account, elasticity estimates like those presented in table 4.2 and the models underlying them have been used to estimate the potential effects of changes in policy that aim to reduce ECEC costs (Gong et al. 2018; PwC 2019, p. 59; Wood et al. 2020).

### **Increasing ECEC subsidies have offset fee rises, accommodating participation growth**

Changes to the Australian ECEC system have aimed to reduce costs for families (figure 4.24). However, major policy initiatives have typically only been successful in reducing out-of-pocket ECEC increases in the shorter term – once the immediate effects of the policy changes have abated, out-of-pocket ECEC expenses have typically risen faster than general prices (CPI). That said, these policy initiatives have been successful in curtailing sustained increases in out-of-pocket expenses, especially since the introduction of the National Quality Framework which put upwards pressure on costs to improve quality. For example, without the introduction of the Child Care Rebate (CCR) in 2004, out-of-pocket ECEC expenses might have continued to grow at a high rate and could therefore have been substantially higher than they currently are. And it takes time for the real costs of ECEC to rise post a subsidy increase – creating a financial incentive for some families to change their labour supply decisions.

Consistent with the small estimates of the responsiveness of parent labour supply to changes in ECEC costs (table 4.2), most studies that have examined the 'on-the-ground' impacts of Australian policy changes have found limited effects on the labour force participation of parents. The introduction of the Child Care Tax Rebate (commonly known as CCR) in 2004 produced an increase in hours worked of about one hour on average across mothers and increased the probability of being employed (for non-workers) by 5.6 percentage points. Effects were larger for single mothers (Gong and Breunig 2014, pp. 932–936).

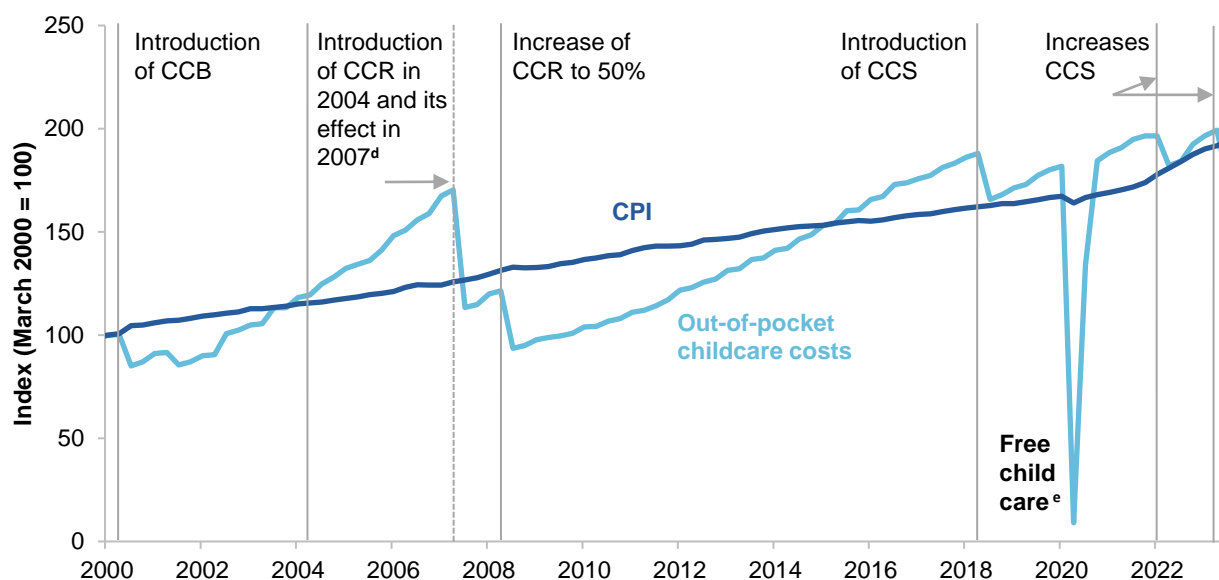
Prior to its introduction, it was predicted that the Jobs for Families Child Care Package in 2018 – in which the CCS replaced the CCB/CCR – would encourage more than 230,000 families to increase their involvement in paid employment (Porter 2016). An evaluation of the package found a small increase in employment – hours of activity increased by 1.4% for single parents and by 0.3% for couples – but that the increase was consistent with the historical trends in employment (Bray et al. 2021, pp. viii, 280). That is, the increase in participation could not necessarily be attributed to the package itself but to existing trends in employment among families. As noted by Bray and Gray:

The evaluation found no significant impact on workforce participation, access to, or flexibility of, childcare services, nor in moderating cost increases for care. (sub. 14, p. i)

But subsidy increases have supported the trend growth in mothers' labour force participation seen in figure 4.10. The increased demand for ECEC associated with that growth and accommodating expansion in the system will have contributed to increases in ECEC costs. Subsidies increases have broadly offset those higher costs, allowing the additional demand to be met. Without increases in subsidies, the trend growth in overall labour force participation would have been weaker.



**Figure 4.24 – Policy changes had short-run effects on out-of-pocket ECEC expenses<sup>a,b,c</sup>**  
**Quarterly index of childcare subgroup of CPI and general prices CPI, March 2000–September 2023**



**a.** CCB = Child Care Benefit; CCR = Child Care Rebate; CCS = Child Care Subsidy. **b.** The CCR was initially a tax rebate that allowed families to offset 30% of their childcare expenses against tax payable and was known as the Child Care Tax Rebate (CCTR). It was renamed the CCR in 2009. **c.** In March 2022 there was an increase in the CCS for families with more than one child aged five years and under in CCS-approved services (DESE 2022, p. 1). And in July 2023 Cheaper Child Care was implemented. **d.** The ABS did not include the CCTR/CCR in the childcare CPI estimate until late 2007. This explains the sharp drop in childcare prices in 2007 rather than in 2004. **e.** Free ECEC was introduced in response to the COVID-19 pandemic, and lasted from 6 April 2020 to 12 July 2020 (Hurst 2020; Klapdor 2020).

Source: ABS (*Consumer Price Index, Australia, Sep 2023*).

### There are other reasons why only limited increases in labour force participation in response to subsidy changes are observed

Some other reasons why only limited increases in labour force participation are observed are explored below.

#### It takes time for parents to find work

The effects of policy changes are not always immediate. Parents need time to enter the labour force, to find a job and to overcome any other barriers they face to participating in the labour market (see below). Therefore, studies may find small immediate effects of policies but greater effects as parents are able to adapt and change their employment levels. Brewer et al. (2022, p. 2) found effects of an expansion in childcare in the United Kingdom were 3 times larger after the first year.

The results of evaluations of policies can depend on the amount of time that has passed since the policy change.<sup>16</sup> For example, Gong and Breunig (2014, p. 929) investigated the likelihood of being employed multiple years after the introduction of the CCR and found positive effects, whereas the evaluation of the 2018 Jobs for Families Child Care Package used data for a single year after the reform and found small, insignificant effects (Bray et al. 2021). A re-evaluation of the effects of the package using more data might find larger effects (assuming that the study can use methods to isolate the effect of the policy change on

<sup>16</sup> In addition, it may be difficult to isolate the effects of one policy change from the others that also affect family decisions. Technical methods are typically required.

participation and not conflate it with other changes in the sector or policies that also impact the participation of parents). However, the authors of the study noted that part of the reason no effect was found was because the changes decreased the subsidy for some families (Bray and Gray, sub. 14, p. 37).

Labour market rigidities and inflexible contracts may also make it hard for parents to adjust labour supply, on the margin, in response to policy changes. A parent's ability to increase their hours worked is dependent on whether their existing employer can accommodate an increase (which depends on flexibility in job contracts), or whether they need to change jobs to find one that accommodates their desired hours (which depends on the flexibility of the labour market). As noted by Gong and Breunig (2014, p. 937) 'the ability of policy changes to induce changes therefore may be enhanced or diminished by the degree of dynamism in the labour market'.

The most recent policy change (not depicted in figure 4.24 above) – the introduction of the Cheaper Child Care Bill in July 2023 – is also expected to have impacts on participation (box 4.5). The impacts of such a policy may not be immediate and data that would permit an evaluation is not yet available. Any evaluation should bear in mind the factors discussed above.

#### **Box 4.5 – Predicted impacts of Cheaper Child Care Bill 2023**

In July 2023, the Australian Government implemented changes to the Child Care Subsidy. This included increasing the amount of subsidy and lowering the taper rate (reducing the rate at which the subsidy fell as a family's income rose). These policy changes were intended to make ECEC more affordable, thereby boosting labour force participation of parents.

- The Federal Budget estimated the hours worked by women with young children would increase by up to 1.4 million hours per week in 2023-24. This is equivalent to an extra 37,000 full-time workers (Australian Government 2022b, p. 4).
- Grattan Institute estimated that the policy would result in about 8% more hours being worked by secondary-earners with young children. This works out to about 220,000 extra days worked in Australia every week, mostly by mothers who are currently working part time increasing their hours. This is equivalent to an additional 44,000 extra full-time workers (Emslie 2022).

#### **ECEC supply may be constrained such that additional demand is not met**

An important aspect that is typically overlooked when increasing subsidies is the responsiveness of supply. Economic theory would suggest if the subsidy produces a large enough demand shift and if supply is unresponsive (that is, if supply is relatively inelastic, at least in the short term) this will cause prices to rise, such that some families are crowded out of the market. Over the longer term, supply will expand but costs and prices may not return to levels seen before the subsidy increase if marginal costs of provision rise. This is likely to happen to some extent as a consequence of services bidding up the wages of skilled workers and costs of land suitable for ECEC sites as they seek to expand. The increasing costs of supply will constrain expansion in response to higher demand to some extent, limiting increases in participation for children in ECEC and for parents in the labour market. To the extent that this happens, the benefits of higher subsidies will accrue to providers and families able to get a place. The supply side of the ECEC market is considered in paper 5.

#### **Responsiveness of participation to non-price factors**

An important consideration in considering the potential effects of subsidy increases is how responsive parental labour supply is to non-price ECEC factors. Whether there are any (local) shortages of ECEC that

are impeding parental labour force participation and how labour supply responds to changes in availability is not well understood or researched in Australia as most research focuses on cost. Shortages of ECEC in a general sense (such as, the number of places available) or shortages in terms of ECEC that is of sufficiently high quality to be acceptable to parents, given that ECEC is more than just a means for parents to participate in the labour force, can affect parents' choices about work and care.

There is some evidence that higher labour force participation of mothers is correlated with higher supply of ECEC. For example, the Mitchell Institute showed a correlation between the accessibility of childcare and mothers' labour force participation – 'regions where more people live in a childcare desert also have lower levels of workforce participation for females who have a child aged under five in the household' (Hurley et al. 2022, p. 36; paper 5). However, it is unclear whether a greater supply of ECEC was a response to demand from mothers wanting to work or whether the establishment of the ECEC services contributed to mothers choosing to work. Disentangling these two potential explanations for the observed data is difficult.

Perceptions of local area difficulties with availability and quality have been shown to impact mothers' labour supply choices. In 2011, Breunig et al. (2011, p. 109) found that 'partnered women and [single] parents who live in areas with more reports of lack of availability, low quality or costly child care work fewer hours and are less likely to work than women in areas with fewer reported difficulties with child care'.

Breunig has recently replicated this paper using data up to 2019 for Australia to see if these observations have changed over time (Breunig et al. 2023). The results suggest that partnered mothers' participation decisions may still be affected by local area difficulties with the availability, quality and cost of ECEC, but that the effects have become smaller over time. These difficulties were found to no longer affect single mothers' participation decisions – there may be other more important factors influencing participation for this group.

Local area difficulties with availability, quality and cost are predictive of the decision to work part time for both partnered and single mothers. More reports of local area difficulties are associated with mothers choosing part-time work over full-time work, and these effects have become stronger over time (Breunig et al. 2023).

Taken together, these results suggest that local area difficulties with ECEC are not having a substantial impact on mothers' decisions to work, but they do affect their choices about their hours worked. This means that improvements in the ECEC system may result in greater marginal impacts on hours worked rather than participation per se.

### **Internationally, evidence on the effect of ECEC expansions on maternal labour supply is mixed**

International evidence of the effects of increased ECEC subsidies or availability on maternal labour force supply shows mixed results. The studies examined large policy changes – 'step changes' (for example, introducing universal childcare in Quebec, large expansions of preschool or childcare or increases to subsidies) – to estimate the impacts of ECEC on mothers' labour force supply using quasi-experimental approaches.<sup>17</sup>

From a recent review of the literature of these policy changes:

Some studies estimate positive and sometimes large effects of child care subsidies on female labor supply (e.g., Baker, Gruber and Milligan 2008; Berlinski and Galiani 2007; Cascio 2009;

<sup>17</sup> Quasi-experimental are studies aim to evaluate policy reforms using empirical methods to help establish cause and effect. This differs from the Australian elasticity estimates presented above which typically do not rely on policy reforms to estimate elasticities. Instead these studies estimate structural parameters of utility functions relying on geographic differences in local prices for variation, rather than specific policy changes (for example, Gong and Breunig (2017)).

Eckhoff Andresen and Havnes 2018) ... At the same time, a number of other studies provide a much less optimistic view on the potential for child care provision to improve female labor supply. Studies from the U.S. (Fitzpatrick 2010, 2012), Norway (Havnes and Mogstad 2011), France (Goux and Maurin 2010), and Spain (Nollenberger and Rodríguez-Planas 2015) find that child care expansions did not generate any significant improvements in maternal employment. Or if they did, the effects were small and typically limited to single mothers. (Kleven et al. forthcoming)

Whether positive effects are found depends on many factors: the populations studied (including the country and gender norms); the local labour market conditions; the availability and cost of informal care arrangements; how high ECEC participation and mothers' labour force participation were before reforms; and the type of ECEC policy (including the existing policy settings and the age of the children affected).<sup>18</sup>

Using the international literature to predict the labour supply impacts in Australia if ECEC were expanded is difficult, but the literature offers some important insights.<sup>19</sup> For example, it has been found that expanding childcare subsidies further has minimal effects on labour supply if subsidies are already quite generous (Lundin et al. 2008, p. 659) or if informal care arrangements are heavily used, as substitution to formal care is likely to occur (Havnes and Mogstad 2011, p. 1456). But, when mothers' participation is high and so too is the share of part-time work, then reducing the cost of childcare can marginally increase the hours worked of the mothers already in the labour force (Huebener et al. 2020).

## Reducing ECEC-related barriers may only have marginal impacts on labour supply

The extent of parents' inability to find suitable ECEC services to enable them to work when they prefer to can provide a guide to the scope for increasing the labour force participation of parents via changes in ECEC policy. As found in section 4.3, about 328,000 parents, of whom about 94% were women, reported ECEC-related factors as their main barrier to participation.

### Removing barriers for parents who want to work

According to the ABS Barriers and Incentives to Labour Force Participation survey, 2022-23, an estimated 523,000 parents (mostly mothers) of children aged 0–14 wanted a job or wanted to work more hours (table 4.1). Of these parents, about 98,000 reported that ECEC-related barriers (that is, affordability, availability or other childcare related issues<sup>20</sup>) were the main reason preventing them from increasing their labour supply (section 4.3). If these ECEC-related barriers were removed, and assuming that these parents could find work or increase work hours to their *self-reported* desired hours, then there could be an increase in labour supply of about 46,000 full-time equivalent (FTE, based on 35 hours work per week) workers.

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<sup>18</sup> The quality of the methodology is also an important consideration. For example, Baker et al. (2008) and Lefebvre and Merrigan (2008) find large effects of Quebec's childcare reforms on mothers' labour supply but their methodologies have been criticised for potentially biasing estimates (Havnes and Mogstad 2011, p. 1457). A recent study which overcame these the criticisms found positive but smaller effects (Karademir et al. 2023, pp. 3, 25).

<sup>19</sup> NSW Treasury (Tan et al. 2022) used international evidence to examined the potential effects of a 'step-change' in ECEC prices in NSW. They used upper-bound labour supply elasticity estimates based on a study by Lefebvre and Merrigan (2008) of the effects of the 1997 Quebec policy change. However, the approach has limitations, for example, the study referenced over-estimated elasticities (see footnote 18) and NSW Treasury noted themselves that the use of Quebec was not a 'precise predictive exercise' (p. 49).

<sup>20</sup> It is assumed that 'other childcare reasons' are ECEC-related.

Most of this increase in hours worked (or about 77%) would come from mothers who are not in the labour force choosing to work, as mothers who already work part time wanted to only increase their hours worked marginally (section 4.3). The mothers who would return to work or work more hours tend to be from lower-income households and have younger children (aged 0–4).

The Commission undertook a similar exercise in its 2014 inquiry into ECEC and estimated that 165,000 FTE workers would work or work more if ECEC-barriers were removed (PC 2014, p. 214). This lower number estimate of 46,000 FTE likely reflects the considerable increase in mothers' labour force participation since 2014 and ongoing improvements in the ECEC sector to improve affordability, accessibility and quality.

### Removing barriers for parents who do not want paid work

At the time of the 2022-23 survey, a further 230,000 parents *did not* want a job or to work more hours but reported an ECEC-related barrier as the main reason for this. Some of these parents may change their preferences for work if ECEC-related barriers are reduced. These parents are not asked about their desired hours of work and so it is assumed that:

- each parent not in the labour force would want to work 22 hours (the average response for those not in the labour force who wanted a job)
- those who wanted to work more hours would want 12 additional hours (the average increase in hours if work desired by those who wanted to work more hours).

Supposing all these parents would choose to work if barriers were reduced, and making these assumptions about their desired hours, then an additional 97,000 FTE workers could join the labour force.

### Summary

Overall, the analysis suggests up to an additional 143,000 FTE workers could be added to labour supply if all ECEC-related barriers were removed. Around 328,000 parents would be affected (some of whom are already in the labour force and would increase their hours worked).

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

As a result, this analysis should be used with caution. It is an upper bound and subject to many caveats (box 4.6).

Estimates of the changes in labour force participation and ECEC demand in response to *specific* policy changes to the design of the CCS are presented in paper 6.

#### **Box 4.6 – Caveats to the potential increase in labour force participation**

The estimated increase to labour supply of 143,000 full-time equivalent workers provides a guide for the potential increase in labour force participation if ECEC-related barriers were removed. But the approach to estimating these numbers has several caveats and they should be interpreted with them in mind. For example, these estimates are:

- an upper bound as they assume that all ECEC-related issues are solved, that parents who stated they did not want a job or to work more hours choose to work or work more if their ECEC-related barrier is removed and that parents do not face any other barriers to finding a job or more hours
- based on survey data which may not be representative of the Australian population. Population weights have been used to try to reduce misrepresentation
- based on parents' *stated* preferences for work and *self-reported* ECEC-related barriers to work given the conditions at the time of survey in 2022-23. Since then, further improvements in the ECEC sector, such as the introduction of the Cheaper Child Care Bill, may have enabled some parents to join the labour force and others may have changed their preferences regarding work and care or their main barrier to work. These changes are not captured in these estimates. (Modelling in paper 6 does not rely on parents' *stated* preferences for work or *self-reported* ECEC-related barriers and overcomes many of these issues).



#### **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, then 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.

## Mothers face other barriers to working beyond caring for children

Although caring for children is a significant barrier to participation, mothers also face other barriers.

Child care related factors are a barrier to some parents seeking to increase their paid work, [but] it is the sole barrier for a relatively small proportion, and is more significant for those already using child care, with cost being the most frequently cited problem. (Bray et al. 2021, p. 273)

There are many reasons why mothers who are not in the labour force are not looking for work, other than ECEC-related reasons and preferences for caring for children including, for example:

- their own illness or disability
- the ill health of someone other than self/family reasons
- they are studying or returning to study
- they believe there is no suitable job available
- they lack training or qualifications necessary (HILDA Release 21).

Further, those mothers *who are looking for work* face barriers that are not ECEC-related. A key barrier appears to be finding a job that is suitable and flexible (also noted by Bray and Gray, sub. 14, p. 38).

Mothers looking for work tend to report the main difficulties they face in getting a job include:

- unsuitable hours
- there are no jobs available
- too many applicants
- did not have required education, training, skills or work experience
- own ill health or disability (HILDA Release 21).

Mothers may also feel discriminated against in the workplace and consider this a barrier to working. Governments have put in place policies to prevent discrimination from occurring – such as *The Sex Discrimination Act 1984 (Cth)* which makes it unlawful to treat a person unfairly because of their sex, family responsibilities or because they are pregnant. Despite this, in a 2014 survey, almost 50% of mothers reported experiencing discrimination in the workplace at some point during pregnancy, parental leave or on return to work (Australian Human Rights Commission 2014). Further, one-in-five mothers were made redundant, their jobs were restructured, they were dismissed or their contract was not renewed because of their pregnancy, taking parental leave, or family responsibilities that included the need to breastfeed or express milk at work (Australian Human Rights Commission 2014). A more recent survey suggests that mothers' experience of discrimination persists in Australian workplaces (Potter 2023).

The existence of other barriers to employment means that even if all ECEC barriers are resolved not all parents who want a job may be able to find one. In fact, they may find themselves facing new challenges to finding work or more hours.

## Parents' work decisions are also shaped by other policies

Other government policies and the conditions offered by employers can also affect parents' choices about whether to work and how much to work. The provision of ECEC, family-friendly work policies and paid parental leave may make it easier for women to combine paid employment and motherhood. The tax and transfer system, however, can bring about financial disincentives to return to work.

The effects of these policies and their interaction with ECEC policies on parental labour force participation are considered below.

## **Paid parental leave can improve the likelihood of mothers returning to work**

The Paid Parental Leave (PPL) scheme was first introduced in January 2011 and provided working mothers with government-funded parental leave at the national minimum wage for a maximum period of 18 weeks. In 2013, Dad and Partner Pay was introduced to provide eligible working fathers and partners up to 2 weeks government-funded pay at the national minimum wage. Although publicly funded, PPL is provided through employers in the majority of cases (Kalb 2017, p. 142). Many large employers also offer parental leave at full pay (NSW Treasury 2022) – some offer as much as 26 weeks but the most common length is between 7–12 weeks (WGEA 2022). Some workplaces also have other measures to encourage mothers to keep in touch over their leave period and to facilitate a return to work (Kalb 2017, p. 142).<sup>21</sup>

The PPL scheme has supported women to take a temporary break from working to care for their infant child and to maintain a connection to their employer and the labour market. Reviews of the scheme found that:

- most mothers who received PPL took the full 18 weeks of payment (suggesting a preference of mothers to care for children if they are in a financial position to do so) (Martin et al. 2013, pp. xvi, 67)
- although mothers took longer to initially to return to work, the probability of returning to work in the longer-term increased, such that more mothers had returned to work by 12 months following birth (Broadway et al. 2020, p. 30; DSS 2014, p. 7,40)
- there was a particularly strong impact on mothers with lower incomes and lower formal education, who were either employed on casual contracts or self-employed before the birth of their child (Broadway et al. 2020, p. 30; DSS 2014, p. 7,40).

As noted by Broadway et al. (2020, p. 50):

By improving mothers' opportunities to stay at home immediately after birth, while simultaneously making a return to paid work more likely later on, the scheme makes a clear contribution to a better balance between paid work and family life.

There are concerns, however, that the PPL scheme can reinforce inequities between mothers and fathers. Social and cultural expectations still place the responsibility of caring for children primarily on mothers. As such, mothers tend to have breaks in their employment or reduce their hours worked, while this is typically not the case for fathers.

Many have called for changes to the scheme to improve gender equity. For example, KPMG in conjunction with the Business Council of Australia Women's Participation Taskforce argued that PPL and Dad and Partner Pay should be combined into a new scheme that offers up to 26 weeks to be shared between parents however they choose, with bonuses for more equally shared leave (KPMG 2021, p. 2). And Grattan Institute (Wood and Emslie 2021, p. 3) called for a 'six weeks 'use it or lose it' provision for each parent, and 12 weeks to share between them as they choose', with bonus leave for both parents when both use at least six weeks of leave. The 'use it or lose it' policy is important in encouraging fathers to use PPL; without this policy take up of PPL from fathers is lower (OECD 2016a, pp. 14–15).<sup>22</sup>

As a result of concerns of this type, the PPL scheme is changing to make it more flexible and to encourage both parents to take leave. The 2022-23 Federal Budget announced major changes to the scheme, creating

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<sup>21</sup> Under Australian law, all employees are entitled to up to 52 weeks of unpaid leave from their employer when they have a child.

<sup>22</sup> For example, Iceland and Sweden's 'use it or lose it' policies have been associated with a doubling in the number of parental leave days taken by men (OECD 2016b, p. 2).



'Enhanced Paid Parental Leave' and investing \$531.6 million over four years, some of the changes have since been implemented.

- The amount of PPL available for families will increase up to a total of 26 weeks by July 2026, increasing by two weeks each year until it reaches 26 weeks.
- The number of families eligible for PPL increased with the introduction of a \$350,000 family income test for families who do not meet the individual income test to be assessed under.<sup>23</sup>
- The primary claimant no longer has to be the mother such that families can decide who will claim and how they will share the entitlement.
- There is a future provision for a dedicated 'use it or lose it' portion for each parent to encourage fathers to use the scheme to promote gender equality and a more equal distribution of caring responsibilities. The Women's Economic Equality Taskforce will advise on the size of the portion (Australian Government 2022a, pp. 38–40, 2022c, pp. 1–2).

These changes will bring benefits to families but are unlikely to have substantial impacts on labour force participation. The scheme will enable fathers to be more involved in the early development of their children and this can have lasting impacts, such as improved cognitive and emotional development for the child and greater life satisfaction for fathers (OECD 2016b, p. 1). Moreover, the 'use it or lose it' measure may encourage more equal sharing of PPL and unpaid work, and fathers taking on an increased share of unpaid work may make it easier for mothers to participate in the labour force (Wood and Emslie 2021, p. 24). However, a substantial review of studies found that evidence on the influence of fathers' leave on gender equality in the labour market remains scarce, and somewhat mixed (Canaan et al. 2022, p. 1). Evaluation of the Australian policy, once it is rolled out, would provide further evidence.

Some have called for further increases to PPL entitlements to 12 months (One Tree, sub. 121, p. 10; Merewether and Bush, sub. 60, p. 3; Parents Work Collective, sub. 73, p. 5; The Senate 2023, p. 183). Proponents argue that this: would enable parents to spend more time with children; may ease pressures on the ECEC system given difficulties in finding care for 0–12-month olds; and would bring Australia into line with the OECD average (OECD 2023f, p. 3). But in the context of labour force participation, extending PPL to 12 months or longer has been shown to have negative impacts on mothers' labour market outcomes (Canaan et al. 2022, pp. 13–14).

Consideration of a 12-month PPL scheme would need further investigation to ensure the scheme would provide net community-wide benefits and to consider interactions with changes to ECEC policy. The 'benefits to children and parents from incrementally longer periods of leave have to be weighed against their (appreciable) budgetary costs' and the trade-offs as to where this money could be spent, such as the ECEC system' (PC 2009, p. XXIV). In 2009, the Commission found that extending leave to 52 weeks would cost about \$7.2 billion and that this would have significant budgetary implications (PC 2009, p. 2.56). The net benefits (or costs) of this type of scheme were not considered. The Commission has previously recommended a PPL scheme that enables families to take up to 26 weeks of leave without financial stress (PC 2009, p. XXI) and the government's proposed changes enable this.

### **Flexible work and family-friendly policies can encourage parents to work**

The availability of flexible work and other family-friendly arrangements are a key positive labour force participation driver. For instance, workplace support and flexibility can increase the likelihood of women returning to work after childbirth (Coulson et al. 2012, p. 39). A lack of flexible working options may cause some mothers to work full time when they would prefer part time, but more typically mothers shift employers

<sup>23</sup> Individual income in the year pre-birth must be less than about \$150,000 to be eligible (Services Australia 2023).

or do not return to paid work altogether (Wood et al. 2020, p. 77). Flexible work environments are not a substitute for accessible and affordable ECEC, but can be viewed as a complement such that these policies work together to enhance the ability of mothers and fathers to undertake paid employment.

Flexible work and family-friendly arrangements can include:

- support for parents:
  - changing their hours of work (for example, working part time or changing start or finish times)
  - changing their patterns of work (such as job sharing)
  - changing their place of work (for example, working from home, which has become a prominent feature of many workplaces since the COVID-19 pandemic)
  - using leave arrangements
- along with:
  - specific occupational health and safety measures (for example, for pregnant employees)
  - having specific employer supports such as onsite childcare or reserving places in a childcare centre.

Under the *Fair Work Act 2009*, certain employees have a legal entitlement to request flexible working arrangements.<sup>24</sup> This includes ongoing and casual employees who have worked with an employer for at least 12 months. Casual employees must also have a reasonable expectation of continuing employment on a regular and systematic basis. The employee must have a valid reason for requesting flexible working arrangements and the Act specifies numerous potential reasons, including an employee being a parent of, or having caring responsibilities for, a child who is school age or younger.

The use of flexible working arrangements among men and women is generally similar except when children are young or where multiple children are present (figure 4.25). This could suggest that flexible work is more common among mothers compared to fathers when caring responsibilities are higher. In 2017, 69.5% of mothers used flexible working arrangements specifically to 'care for children', compared to 42.3% for fathers (ABS 2018).

Some fathers are reported to not use flexible work due to prevailing social attitudes (Parents at Work 2019, p. 20). These attitudes include prejudice against fathers for using flexible working arrangements to support caring duties, or attitudes which assert that flexible work is more appropriate for women. Male carers using flexible work report the highest level of exclusion compared to other flexible work users, with 48% witnessing or experiencing discrimination or harassment in 2021, compared to 28% for male users of flexible work without caring responsibilities (Diversity Council Australia, sub. 71, p. 15).

The prevalence of flexible working arrangements increased as a result of the COVID-19 pandemic. During the pandemic, working from home became much more common across Australia. Despite the impacts of the pandemic declining over time, the increased prevalence of working from home is anticipated to persist to some extent in the future (McKinsey Global Institute 2021, p. 37).

While working from home increased among all workers during the pandemic, there were slightly higher increases for mothers. In 2021, about half of employed mothers with a youngest child aged 0–14 years were usually working from home in their main job, a 10 percentage point increase from 2019 (ABS 2023b). Over the same period, the share of employed persons usually working from home increased by 9 percentage points among women aged 25–54 years old without children, and 5 percentage points among both fathers with a youngest child aged 0–14 years and men aged 25–54 years without children. The rise in working from

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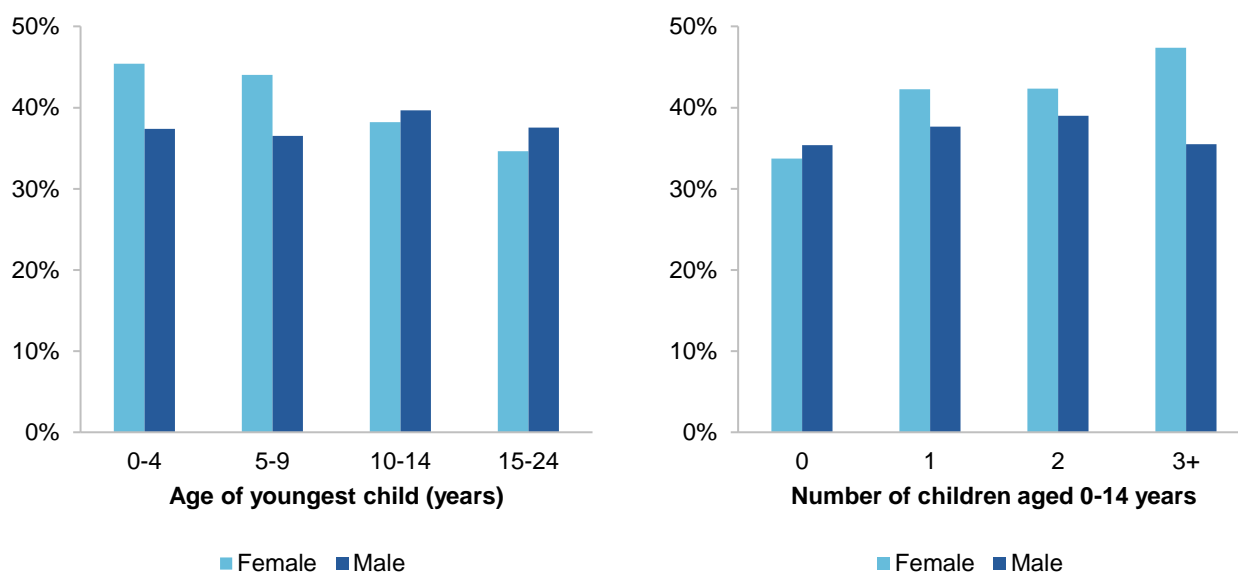
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Fair Work Act 2009, s. 65–66.

home could be explained by evidence that suggests both men and women experienced increases in unpaid work during the pandemic, but there was a greater increase for women (Craig 2020, p. 687).

**Figure 4.25 – Flexible working arrangements are more common for mothers with younger and more children<sup>a</sup>**

**Proportion of workers who had a flexible working arrangement in their main job by age of youngest child and number of children, 2021**



a. This chart shows the use of flexible work arrangements but does not specifically relate to using those arrangements to care for children.

Source: ABS (*Tablebuilder, Characteristics of Employment, Australia, August 2022*).

Mothers with a youngest child aged 0–14 years were already usually working from home in significant proportions (40%) prior to the pandemic (ABS 2023b), with this increasing further during the pandemic as discussed above. As such, working from home may have been a particularly important option for mothers to balance work and care duties following the onset of the pandemic. Working from home may support mothers' labour force participation by improving access to work for those raising children, which are responsibilities that are still mostly carried by women in Australia (PC 2021, p. 82). More broadly, working from home could also promote a more gender-balanced labour force, as more women than men are in jobs that can be done remotely (PC 2021, p. 83).

Increasing awareness of flexible work options and changing attitudes towards flexible work may further allow parents to balance work and care. The Fair Work Ombudsman (2023) publishes best practice guides for flexible work for managers and employers. These guides explain the advantages of taking a best practice approach to flexible working arrangements. Finding ways to promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements is encouraged. Some argue that this could be achieved through employers setting targets for engaging men in flexible work (Lyons 2019). However, beyond policy considerations, change in this area will likely require broader cultural shifts related to perceptions of traditional gender roles and attitudes (Borgkvist 2021, p. 239).

## The tax and transfer system can create disincentives for secondary income earners to work

Some submissions have noted the existence of financial disincentives for mothers to work caused by ECEC expenses in tandem with interactions with the tax and transfer system (Australian Government Department of Education, sub. 90, pp. 38–39; Brotherhood of St Laurence, sub. 96, p. 11; Bray and Gray, sub. 14, p. 7; Goodstart, sub. 125, p. 92; NFAW, sub. 10, p. 6; The Salvation Army, sub. 56, p. 22).

Australia is characterised by a progressive tax system and a means-tested transfer system. The personal income tax system has a high tax-free threshold followed by increasing tax rates at subsequent thresholds. In the transfer system most payments are means tested to ensure support is targeted to people who need it the most. Families with children are supported with almost universal payments (such as Family Tax Benefit Part A) and low-income parents (mainly single parents) may also be eligible to receive more targeted welfare transfers (such as Family Tax Benefit Part B and the Parenting Payment). The means testing includes a family income test, where transfers are reduced or cut off as family income increases.

The Child Care Subsidy (CCS) also factors into this system. Among other eligibility criteria, whether a family receives a subsidy is determined by a family income test, and the rate of subsidy is tapered so that those families that earn the least receive a higher subsidy rate (paper 6).

A consequence of the design of Australia's tax and transfer system, with taxes levied on individuals and transfers based on family income, can be financial disincentives for parents, particularly secondary income earners, to enter the labour force or to work full time.<sup>25</sup> The OECD found 'a high tax wedge between second earners and single individuals exerts a negative impact on female participation' (Jaumotte 2004, p. 78). In Australia, government policies have 'counteractive effects' both encouraging and discouraging the engagement of 'secondary' earners, mostly mothers in paid work (Kalb 2017, p. 152). Providing ECEC subsidies and paid parental leave can encourage women back to work, but the *withdrawal* of family benefits (such as CCS, Family Tax Benefit and Parenting Payment) as family income increases can create financial disincentives for women to engage in or increase paid work.

The disincentives to working or working more faced by a secondary earner can be modelled using effective marginal tax rates (EMTRs) or workforce disincentive rates (WDRs). These measure the combined effect on a person's take-home earnings of income tax, the withdrawal of transfer payments and out-of-pocket ECEC expenses. An EMTR measures how much money a person would lose from earning an extra dollar (box 4.7). WDRs show the proportion of earnings from an additional day of work, or across a week, which is lost to income taxes, the withdrawal of transfer payments and net childcare fees. WDRs tend to provide a 'more realistic idea of the incentives driving work decisions for secondary earners than [EMTRs] because household decisions are often made about the number of days to work rather than additional hours' (Kennedy 2023). WDRs are typically estimated for the secondary income earner (typically the mother) in a range of hypothetical family situations, where the primary earner's (father's) income and labour supply is taken as given.

Several reports have estimated relatively high WDRs for secondary earners in Australia and suggested this discourages them from working more, but this work predates recent ECEC policy changes that have reduced disincentive rates. The Commission has modelled WDRs for a series of hypothetical families under several ECEC policy settings: WDRs have been calculated for pre and post the 2023 Cheaper Child Care reform, as well as for the Commission's recommended changes to the CCS and HCCS. Option 1 – the modelled policy option recommended by the Commission (paper 6) – includes a 100% CCS rate for families with adjusted

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<sup>25</sup> This is unlike tax systems in many other countries that allow for transfers of a tax-free range between married and de facto partners (Kalb 2017, p. 136).

taxable incomes of \$80,000 or less, with the rate tapering down from 100% by 1ppt for every \$5,000 of adjusted taxable income above \$80,000. For families with adjusted taxable incomes of \$140,000 or less, any second and subsequent children receive a 100% higher CCS (HCCS) rate. This HCCS rate then tapers down from 100% by 1ppt for every \$5,000 of adjusted taxable income above \$140,000. Families with adjusted taxable incomes of \$580,000 and above are ineligible to receive any subsidy.

A summary of the Commission's WDRs analysis is discussed below; detailed results are presented in appendix F. Overall, the analysis reveals that the contribution of ECEC expenses to high WDRs has been reduced by recent policy changes, and would be reduced further if the Commission's recommended changes to the CCS and HCCS (paper 6) were implemented. The introduction of the July 2023 Cheaper Child Care reform reduced WDRs by an average of 4 percentage points for a range of hypothetical families examined. 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 also have reduced WDRs for some families.

#### **Box 4.7 – What are effective marginal tax rates (EMTRs)?**

Most people do not get to keep every cent that they earn. For every extra dollar earned, most people pay income tax (for high income earners, this is as high as 45 cents), some lose part of their transfer payments and, over some income ranges, the rate of Child Care Subsidy for families using subsidised care falls, increasing their out-of-pocket ECEC expenses. The sum of these losses can be referred to as 'cents in the dollar'.

To illustrate, if a person earns one extra dollar, but pays 30 cents of this dollar in income tax, loses 17 cents of welfare benefits (such as Family Tax Benefit or Parenting Payment) and pays 22 cents towards ECEC costs in order to earn that dollar, their effective marginal tax rate (EMTR) is estimated to be 69 cents in the dollar.

EMTRs of over 100 cents in the dollar imply that the person has no financial gain from working more hours (in fact, they would incur a financial loss). That said, some people may tolerate high EMTRs in the short term if they think that participating in paid work will bring financial gains in the longer term (for example, through career progression and the accumulation of superannuation) or they enjoy being in paid work. Further, EMTRs do not consider that some families also use informal care to enable work, such that they may not incur additional ECEC costs from working an extra day.

#### **Workforce disincentive rates are relatively high for sole parents and some secondary earners**

Results are presented first for the average of daily WDRs. This is a useful summary measure, but can mask significant variations in the WDRs that apply to different days of work. For example, a parent might take home less of their earnings from a fourth day of work than they do for a third, particularly as transfer payments are withdrawn. Results for daily WDRs are also presented.

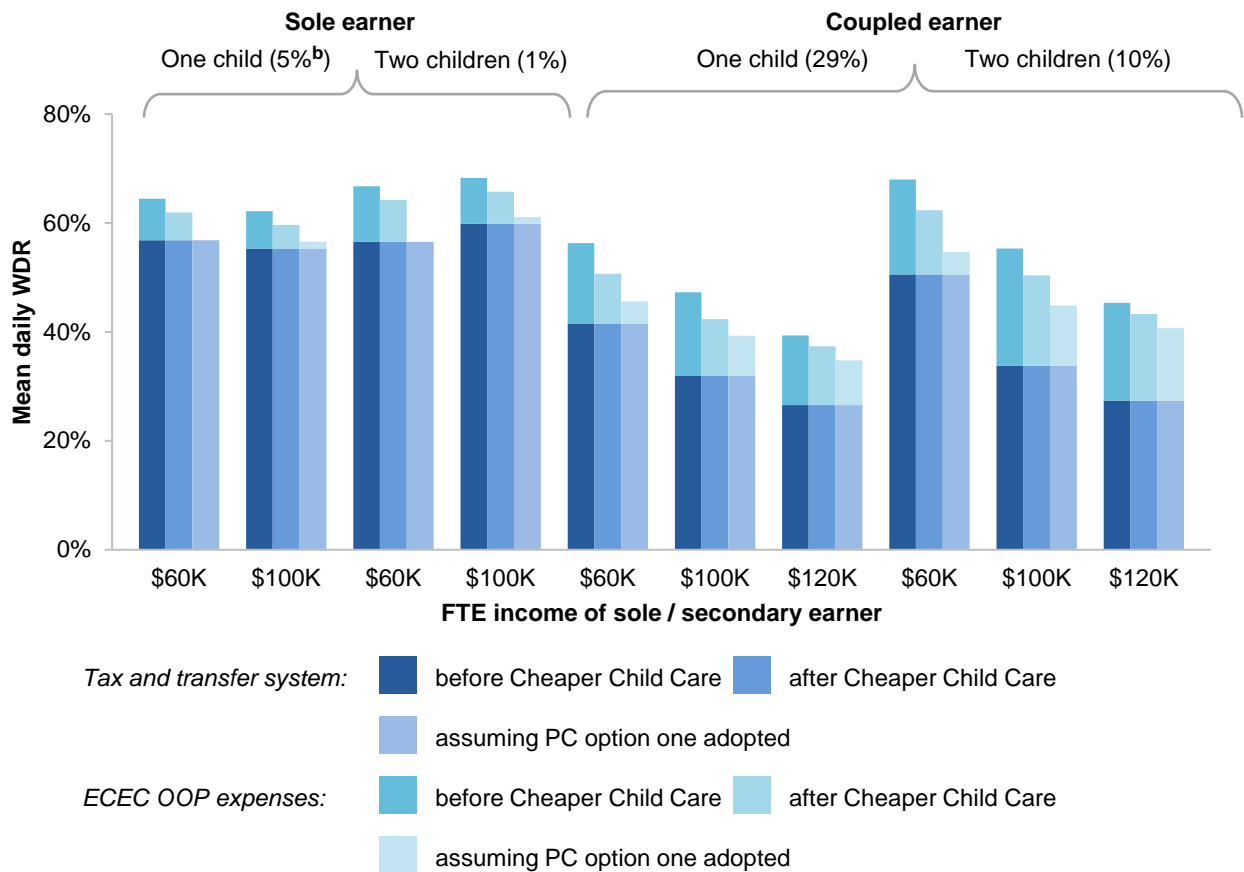
Looking at average daily WDRs, relatively high (greater than 60%) rates apply for most sole parents, and for secondary earners (who are typically mothers) in lower-income families with multiple young children (figure 4.26). For example, a secondary earner in a family with two young children and where both parents have full-time equivalent (FTE) earnings of \$60,000 has an average daily WDR of about 60%. This is more than the highest personal marginal tax rate of 45% (which is only levied on earnings above \$180,000).

**But these high WDRs are mostly due to taxes and transfers rather than ECEC expenses**

Where average daily WDRs are high (greater than 50%), this is mainly due to the withdrawal of transfer payments and the progressivity of the income tax system. Post the Cheaper Child Care reforms, out-of-pocket ECEC expenses accounted for between 7% and 33% of average daily WDRs for these hypothetical families – implying that the remainder (67% to 93%) was due to the tax and transfer system (figure 4.26). Marginal income tax rates are significant, particularly for higher earners, and Family Tax Benefit A, Family Tax Benefit B and Parenting Payment all decrease, at different rates, as family income increases – a phenomenon which particularly affects low- and middle-income households (Wood et al. 2020, p. 27).

**Figure 4.26 – WDRs for sole and secondary earners are high mainly because of the tax and transfer system<sup>a,b,c,d</sup>**

**Average of single-day increment WDRs and proportion attributed to out-of-pocket (OOP) ECEC expenses, before and after Cheaper Child Care reform and assuming policy option 1 modelled by the Commission is adopted**



a. Some hypothetical families analysed here reflect those considered in Bray et al. (2021, tbl. 102). Other hypothetical families were chosen to represent relatively more common FTE family income combinations (appendix F). Families earning a \$40,000 FTE income have been excluded (because a full-time minimum wage earner would have had a higher income than this in 2023). For coupled earners, it is assumed that the primary earner is earning a full-time salary at the same rate of the secondary earner, with the secondary earner earning the same annual rate when working five days per week (their income increases proportionally with the number of days they work). Children are assumed to be aged five and under. b. The proportion of all families with children aged under 15 (2.7 million) that are a single parent family with one child aged five and under (ABS 2022a). These numbers provide an indication of the proportion of all families affected by these WDRs. c. Option 1 includes 100% CCS and HCCS rates for families with adjusted taxable incomes of \$80,000 or less and \$140,000 or less, respectively. These rates then taper down from 100% by 1ppt for every additional \$5,000 of adjusted taxable income. d. PC = Productivity Commission.

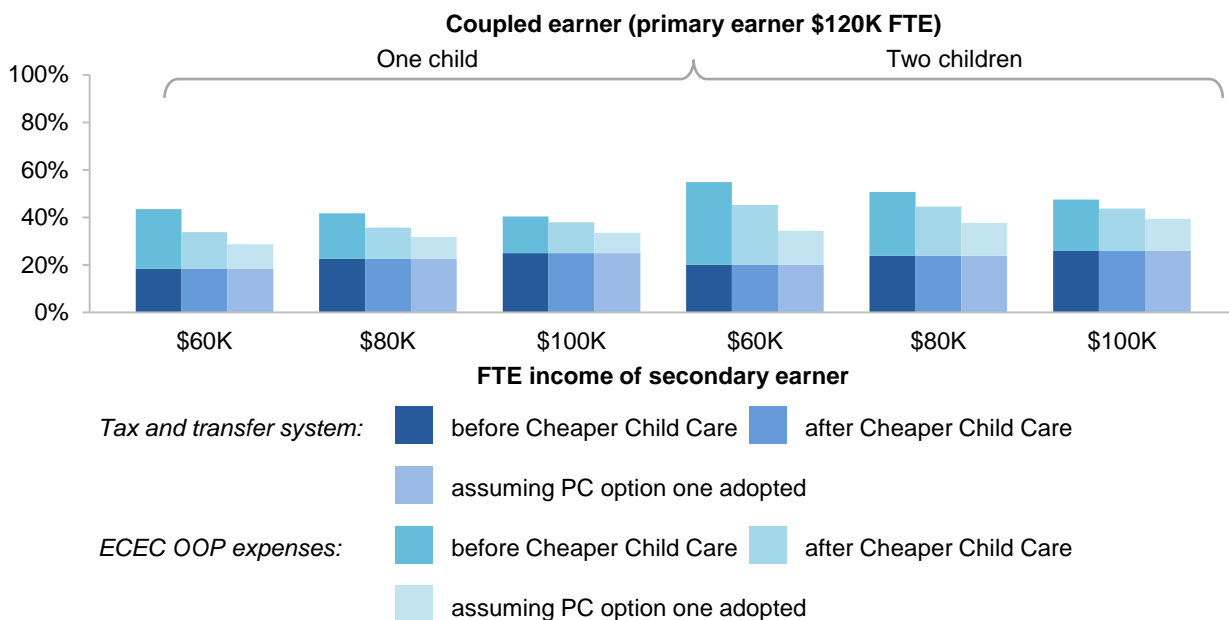
Source: Productivity Commission estimates.

### The contribution of ECEC costs to WDRs is relatively high for secondary earners in higher-income families ...

Generally, average daily WDRs are relatively low for secondary earners in many higher-income coupled families (such as, those where both parents earn an FTE income of \$100,000 or more per year or when the primary earner has a FTE income of \$120,000 and the secondary earner’s FTE income varies) (figures 4.26 and 4.27). But out-of-pocket ECEC expenses are a *relatively* large contributor because these families receive a lower subsidy rate – ECEC expenses account for about 35–55% of average daily WDRs (figure 4.27).

**Figure 4.27 – ECEC expenses remain a relatively large contributor to WDRs for secondary earners in higher income families<sup>a,b</sup>**

**Average of single-day increment WDRs and proportion attributed to out-of-pocket (OOP) ECEC expenses, before and after Cheaper Child Care reform and assuming policy option 1 modelled by the Commission is adopted**



**a.** It is assumed that the primary earner is already earning a full-time salary of \$120,000 per year, with the secondary earner earning the FTE income displayed along the x-axis (their income increases proportionally with the number of days they work). Children are assumed to be aged five and under. **b.** See figure 4.26 notes c and d.

Source: Productivity Commission estimates.

### ... but average WDRs mask some particularly high contributions from ECEC costs for certain days

Looking at daily WDR estimates shows that WDRs can vary significantly with the number of days worked.

Sole parents, in particular, face very high WDRs as they work additional days due to the withdrawal of transfer payments as their income rises. Daily WDRs for sole parents are estimated to typically exceed 65% and are higher than those of most other hypothetical families modelled (figure 4.28, purple quadrants). There is little financial gain and therefore incentive for sole parents to increase days of work. The contribution of ECEC expenses to these high WDRs, however, is low, emphasising the point made above, that it is the withdrawal of transfer payments, in particular Family Tax Benefit A and Parenting Payment Single, and increase in personal income tax that causes these large disincentives to work (figure 4.28, purple quadrants). Others have made

similar findings about disincentives to increase days of work for sole (and some secondary) earners (Bray et al. 2021, p. 280; KPMG 2018, p. 3; PC 2014, p. 220; Wood et al. 2020, p. 25).

A small group of families face both relatively high daily WDRs with a relatively high contribution from ECEC out-of-pocket expenses. These WDRs tend to be associated with the third, fourth and fifth days of work in a week (figure 4.28, red quadrant). The types of families represented in the figure as facing high ECEC contributions to high WDRs are couple families with two children and who have at least one member of the couple with relatively high FTE incomes. These types of families represent about 7.5% of all families with one or two children aged five and under.<sup>26</sup>

Lowering out-of-pocket ECEC expenses by implementing the Commission's recommended changes to the CCS would reduce the WDRs of all parents (figure 4.28, comparing top and bottom panels) but would have a relatively small impact on those facing the highest disincentives to work – sole parents. High WDRs for sole parents would more effectively be addressed through changes to the tax and transfer system than ECEC policy if the aim is to encourage labour force participation. (Lower out-of-pocket ECEC expenses would, however, reduce the financial barriers that all families face to enrolling their children in ECEC.)

There is no simple solution to high WDRs. In general, they exist because of the design elements of the tax and transfer system – a progressive income tax scale and means-tested benefits that phase out gradually as incomes rise. Careful design can address the highest WDRs in the system, but trying to smooth WDRs can have the effect of raising WDRs at another point in the income scale. The Commission has previously noted that changes in the tax and transfer system and other policy areas are likely to have a far greater impact on labour force participation than changes in ECEC policies (PC 2014, p. 16). This remains relevant today.



#### **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.

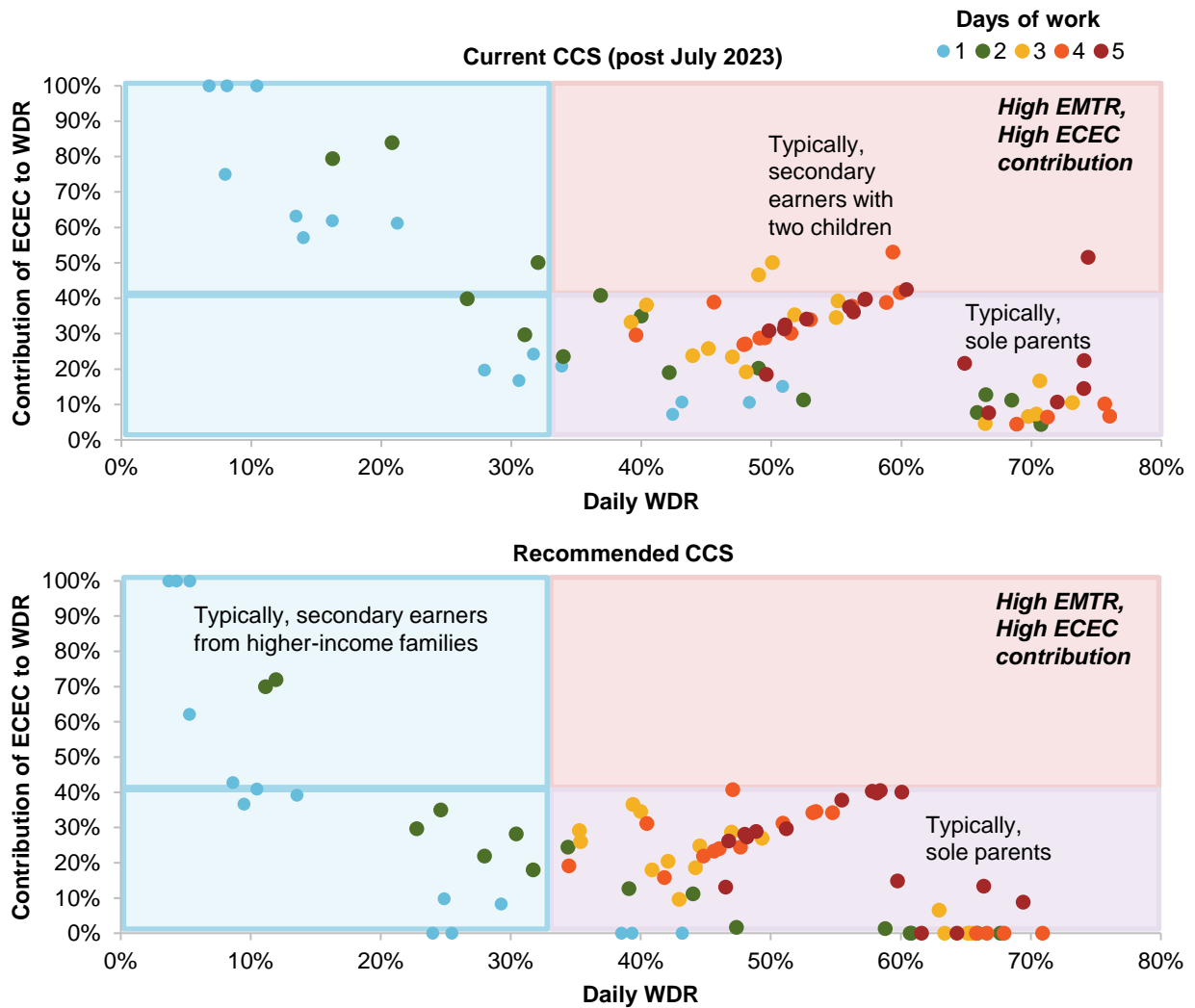
Some families face relatively high daily WDRs with a relatively high contribution from ECEC out-of-pocket expenses. These are typically coupled families with more than one child aged under 5 years and the WDRs are associated with the third, fourth and fifth days of work in a week for the secondary earner.

<sup>26</sup> This figure was estimated as the share of families that are couple families with two children aged five and under, and with both parents earning FTE incomes between \$80,000 and \$120,000, or those with a primary earner with FTE income of \$100,000 and secondary earner FTE income between \$60,000 and \$120,000. These ranges were chosen based on the WDR analysis of select family combinations and income levels showing that families with a relatively high ECEC contribution to high WDRs were coupled families with two children aged five and under, where both parents have a FTE income of \$100,000 or where the primary earner has a FTE income of \$120,000 and the secondary earner has a FTE income of \$60,000, \$80,000 or \$100,000.



**Figure 4.28 – WDRs are high for those working three to five days, but the contribution of ECEC expenses to WDRs is high mainly for coupled parents with multiple children<sup>a</sup>**

**Daily WDRs and contribution of ECEC expenses for hypothetical families**



a. The hypothetical families presented here are those presented in figure 4.26 and 4.27. Daily WDRs are estimated for each additional day of work. The blue quadrants are scenarios with low daily WDRs. The red quadrant are those scenarios with high WDRs and a higher contribution of ECEC expenses to these WDRs. The purple quadrant are those scenarios with high WDRs but a low contribution of ECEC expenses to these WDRs.

Source: Productivity Commission estimates.

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## 5. Availability of ECEC

### Key points

- ✳ **In January 2024, about 19,000 services offered early childhood education and care (ECEC) in Australia.**
  - Nearly half were centre-based day care services (CBDCs), about one quarter provided outside school hours care (OSHC) and about the same proportion were dedicated preschools. Family day care (FDC) and In Home Care services (IHC) accounted for a very small share of the sector.
  - For-profit providers accounted for about half of all services, not-for-profit providers a further 30% or so and schools or state and territory governments the remainder.
- ✳ **The sector has expanded rapidly over the past decade. Service numbers grew by 25% in the 10 years to Q1 2023 and the number of approved places rose by nearly 50% to over one million.**
  - Growth was primarily in CBDC and OSHC; dedicated preschool provision hardly changed and the number of FDC services decreased significantly from 2016 as the government addressed integrity issues.
  - Growth was overwhelmingly delivered by the for-profit sector with a commensurate decline in the share of not-for-profit provision. Providers of all sizes contributed to growth in CBDC, while large providers (who operate 25 or more services) accounted for a marked share of the growth in OSHC. Despite this, there has not been an increase in market concentration in the sector.
- ✳ **Despite substantial growth, many have raised issues with the availability of ECEC services.**
  - ECEC availability, especially for CBDC, tends to be lower in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage. This may reflect a lack of local demand, the inability of an area to support a service or both factors.
  - Including dedicated preschools improves the availability picture. However, places in these services only increase availability for children aged 3–5, and dedicated preschools often have more limited days of operation and/or shorter session lengths than CBDCs so are not perfect substitutes.
  - Only about half of all primary schools in Australia offer OSHC.
- ✳ **Some areas are ‘thin markets’ – where demand is too low or inconsistent to support the competitive provision of services.**
  - If the activity test were removed and affordability improved for lower-income families, demand for ECEC would increase in some areas to the point where additional services would be viable without further government support and supply would expand through market dynamics. Lower socio-economic areas with larger populations (including on the urban fringe), likely have this characteristic.
  - In other areas, prospective providers may still be reluctant to invest, perhaps due to higher costs and challenges of hiring and keeping educators and teachers.

- 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.

**\* Governments should ensure that for families choosing to use ECEC, children aged 0–5 years have access to at least 30 hours or three days a week of high-quality ECEC, for 48 weeks a year.**

- Meeting this benchmark, along with improved affordability, inclusion and flexibility, would enable universal access to ECEC.
- Families should be able to choose the number of days/weeks that are most appropriate for their children or their labour force participation choices.

**\* A significant expansion in supply-side funding programs will be needed to achieve universal access**

- Assuming that all children aged 0-5 attend ECEC 3 days a week, up to 130,000 additional ECEC places could be required to reach universal ECEC – an increase of 15% from current levels of supply. But the required quantum will ultimately depend on family choices.
- The Australian Government should only provide additional support for provision in markets where it is clear that ECEC providers are unlikely to invest, even with the Child Care Subsidy changes recommended in this inquiry.
- Support could take the form of grant funding or low-interest loans to build, repurpose or expand facilities, or block grants where funding for operating costs is needed to sustain service provision.
- Support for operating costs could ensure a baseline level of provision.
- Specific arrangements for Aboriginal community controlled organisations should be co-designed with Aboriginal and Torres Strait Islander communities.
- Consultation with communities and coordination with funding and initiatives from other sources will be important in effectively addressing the challenges in communities. The potential for an ECEC service to be part of an integrated service should also be considered.
- An advisory program within the Australian Government Department of Education should be established that works with community representatives to assist them to access support.

Availability of formal early childhood education and care (ECEC) enables families – particularly mothers – to make choices about their participation in work, volunteering, study or training and about their children’s engagement in early learning. The ECEC sector has grown substantially over the past 20 years and continues to do so. However, research by the Mitchell Institute and the Australian Competition and Consumer Commission (ACCC) reported poor availability in some places – particularly in regional and remote areas. There are also reports of families having difficulty finding ECEC services in their local area and inquiry participants have relayed that ECEC availability is lacking in regional and remote areas and for children aged 0–2.

There are two key issues to be addressed:

- whether the level of availability is sufficient to deliver ‘universal access’ consistent with net community benefits
- how to increase availability in places where the market-based model has resulted, and likely will continue to, result in undersupply.

The paper begins by considering the level of availability consistent with universal access (section 5.1). It then describes the ECEC sector in Australia, including growth in provision and the roles of for-profit and not-for-profit providers, along with the availability issues that inquiry participants and others have raised (section 5.2). The paper then examines the extent to which ECEC is available in different parts of Australia (section 5.3), and considers why some areas appear to be undersupplied, including reasons why providers

are not servicing a particular area (section 5.4). It then turns to the question of how governments might best ensure that all families seeking access to ECEC are reasonably able to do so (section 5.5), and concludes with a brief discussion in section 5.6 of four particular availability issues – the hourly rate cap in regional and remote areas, cross-subsidisation, regulation of entry into a market and planning. This paper also includes a supplementary statement from Associate Commissioner Professor Deborah Brennan.

This paper focuses on the question of whether services are available in an area and not on how well the characteristics of available services (such as the hours and days offered) meet the needs of families. This latter set of issues is considered in paper 7.

## 5.1 All children should have access to ECEC

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

In designing the inquiry’s recommendations, the Commission has considered that a universal system is one that enables all children access to ECEC that support their development and that focuses on meeting children’s needs – while also considering the preferences and needs of their families.

An ECEC system that enables universal access is consistent with the draft National Vision for ECEC, which described ECEC as an essential service and included the outcomes that ECEC is an entitlement that ‘all families who choose to use can access’ and that ‘supports parents and carers, especially women, to work when they want to’ (DoE 2023d, p. 2). Similarly, a universal system aligns with outcome 3 in the *National Agreement on Closing the Gap* which states that ‘Aboriginal and Torres Strait Islander children are engaged in high quality, culturally appropriate early childhood education in their early years’ (Australian Government 2020, p. 24).

Universal, however, does not mean uniform. In a universal system, some form of ECEC would be available to all children regardless of where they live, but the mode of provision would differ depending on location and the needs of children.

But what level of availability would be consistent with universal access?

There is no clear answer to the question of the ‘optimal’ rate of attendance or model of ECEC delivery that would ensure children and families get the most benefit out of ECEC (paper 1). The ‘optimal’ rate may also differ by the age of the child and should be a priority area for future research (paper 1). (Paper 10 notes that the ECEC Commission should oversee a research agenda.)

Families’ decisions about whether children attend ECEC and for how long are influenced by many factors, including views on early education and the roles of mothers and fathers, the preferred balance between caring for young children and other activities, the cost of ECEC and how suitable services are to family circumstances. In 2023, over two-thirds of children who were attending ECEC services did so for up to three days a week – roughly 30 hours (appendix D) – and participation in ECEC increases as children age (paper 2).

Many inquiry participants advocated for an entitlement of up to 30 hours or three days of ECEC a week at no or low cost for all children, with additional days for children experiencing vulnerability and disadvantage.<sup>1</sup> Some inquiry participants advocated for a greater entitlement than this for all children (Chief Executive Women, sub. 142, p. 4; Paul Ramsay Foundation, sub. 148, p. 4).

Other countries are aiming to ensure that all children can access a certain level of ECEC. In 2022, European Union member states adopted the Barcelona Targets for 2030, which feature a set of goals around ECEC access and participation (Council of the European Union 2022, pp. 21–23). The Targets – designed to support a minimum level of participation particularly in EU member states with historically low participation – designate that at least 45% of children below the age of three and at least 96% of children between the age of three and the country’s school starting age should participate in ECEC. They also designate that at least 25 hours per week should be available to each child below 3 years of age and 35 hours per week for children aged 3 years and above (European Commission 2022, p. 22). A lower target rate for children aged under three was chosen to support different states’ policies around parental leave. (International approaches to ECEC are summarised in appendix B.)

Many countries also provide entitlements to ECEC at certain ages, meaning that governments guarantee that a place will be available for any family that requests one. For example, a study of ECEC in European countries found that seven countries – including Germany, Latvia and Denmark – offer guaranteed places for children at very young ages (starting at six months old), and almost half guarantee a place for children from the age of three (European Commission 2018, pp. 10–11).

Ensuring that all children aged 0–5 years have access to some form of high-quality subsidised ECEC for at least three days a week (30 hours) for 48 weeks per year would accommodate the needs of families and the benefits for children from ECEC participation. The goal of 48 weeks aligns with most parents’ annual working patterns of 48 weeks of work and four weeks of paid leave.

That is not to say that families should not be able to choose the number of days/weeks that are most appropriate for their children or their labour force participation choices. And retaining the flexibility for families to choose the level of use and type of service that suits them is important; places will be needed for families who choose to use more than three days.

The Commission’s draft finding 5.1 – outlining a universal entitlement of at least three days a week of high-quality ECEC for 48 weeks a year – was generally well received. The Parenthood (sub. 276, p. 3) submitted that the draft report represented ‘progress towards universal ECEC’. Some inquiry participants (Gordon Cleveland, sub. 278, p. 4; Parkville Institute, sub. 231, p. 6; The Front Project, sub. 227, p. 4) argued for a more ambitious entitlement of five days per week. The Brotherhood of St Laurence (sub. 289, p. 3) argued for three days per week at low or no cost. Australian Children’s Education and Care and Quality Authority (ACECQA) (sub. 256, p. 5) and La Trobe University (sub. 298, p. 2) pointed out that the workforce challenge would be a limiting factor and that access in regional and remote locations needed to be addressed. Yet, increasing access to five days per week would require compelling evidence of the benefits – either for child development or for labour force participation – particularly when considering workforce shortages and cost to government. In the absence of such evidence, the Commission has maintained finding 5.1.

Use of a dedicated preschool should count towards universal access for children who participate in those programs, but given most preschool entitlements are generally 15 hours per week for 40 weeks of the year, these preschool program hours will not fully meet the access goal (even if preschool is delivered over three

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<sup>1</sup> CELA, sub. 92, pp. 4,6; Chief Executive Women, sub. 142, p. 6; ELACCA, sub. 153, p. 4,8, Goodstart Early Learning, sub. 125, p. 34; Lady Gowrie SA, sub. 25, p. 2; Paul Ramsay Foundation, sub. 148, p. 3; The Parenthood, sub. 122, p. 3.



days per week).<sup>2</sup> This means families who wish to use 30 hours or three days of ECEC will likely need to use another service to supplement their preschool hours. In the short term, the Commission's recommendation to support subsidised 'wrap-around care' (paper 7) and reforms to increase preschool entitlements in some states and territories, would help to make it easier for families to access 30 hours or three days a week. In the long term, a move to a single ECEC funding system could help remove the divide between 'education' and 'care' and make it easier to provide continuity of care (paper 9).

A policy setting of at least three days sets a benchmark that governments can consider as a policy goal for universal access to ECEC – ensuring that each child can access at least three days of quality, age-appropriate ECEC. The specific services available will take different forms depending on their location. Major urban centres already have many centre-based day care (CBDC) services, but in regional and remote areas an expansion of family day care or In Home Care might be more in line with local needs (section 5.5).

Alongside changes to subsidy arrangements to increase affordability (paper 6), and improvements in inclusion and flexibility (paper 7), ensuring sufficient availability for all children aged 0–5 of at least 30 hours or three days a week of high-quality ECEC for 48 weeks a year if their families choose to use it, would enable universal access to 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.

## 5.2 Characteristics of ECEC markets in Australia

Most ECEC services are delivered through a 'managed' market-based model in Australia.<sup>3</sup> While governments subsidise ECEC fees and regulate the quality of services, ECEC is delivered to the community primarily on a fee-for-service basis and mostly by non-government providers.<sup>4</sup> These providers decide when and where to set up their services and what fees to charge. This section describes the ECEC sector in Australia and growth in the sector.

<sup>2</sup> Some states and territories have entitlements that are larger than 15 hours per week (appendix E).

<sup>3</sup> A large proportion of preschool programs in Tasmania, South Australia and Western Australia are delivered through primary schools and funded by their state governments.

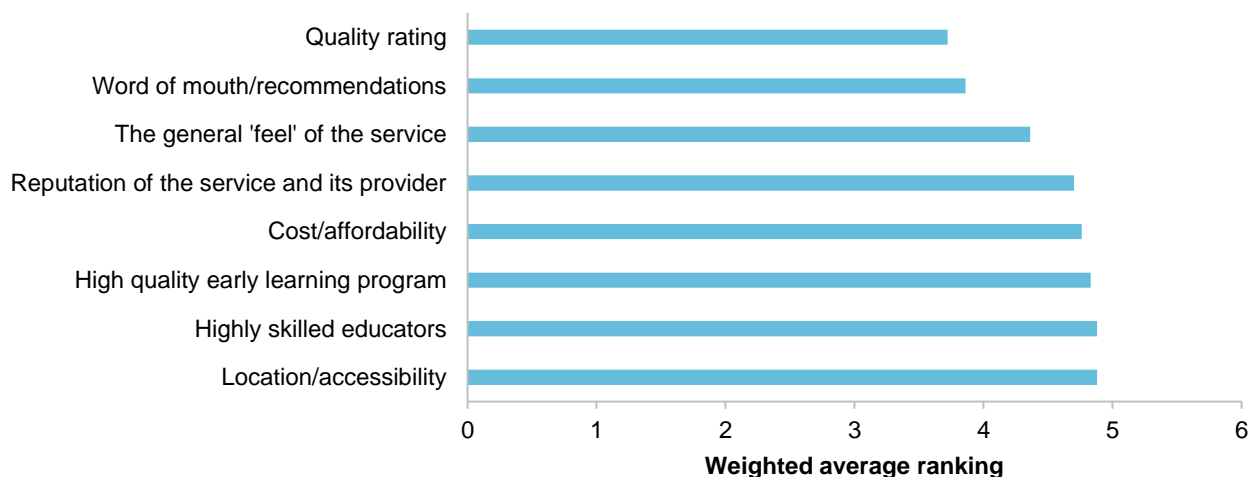
<sup>4</sup> The Australian Government became involved with ECEC provision in 1938 with the establishment of the Lady Gowrie Child Centres in each state (Press and Hayes 2000, p. 17).

## ECEC markets are highly localised

Location is an important consideration in families' choice of an ECEC service. Families tend to prefer a service close to their home (figure 5.1; ACCC 2023b, p. 10). The ACCC (2023b, p. 54) found that the median distance families travel to a CBDC service in major cities is around 2 km, with families in inner and outer regional areas travelling slightly further (between 3.25 and 3.5 km). Families in remote and very remote Australia travel very short distances (between 1 and 2.25 km) reflecting that towns are geographically small, so families attend if there is a service in town near their residence but otherwise do not (ACCC 2023b, p. 54). Commission analysis confirms this (figure 5.2). The ACCC (2023b, p. 9) also found that most families were unwilling to travel for more than 15 minutes to access a service.

The fact that most families use ECEC services that are relatively close to home suggests that ECEC markets are highly localised and that availability of ECEC must be considered at a local level. That said, there are families who travel long distances to ECEC services. For example, about 2.5% (or about 20,500 children) travel more than 30 km to attend CBDC (Productivity Commission estimates based on DoE administrative data). Just under half of these families live in major cities and the distance travelled perhaps reflects use of a service near a parent's place of work. Others live in country areas where the commute more likely reflects travel to the nearest town or the lack of a service in a town closer to home. The Commission heard cases from participants from the Wimmera Southern Mallee, Mallee, Loddon Campaspe and surrounding regions where families travel over 50 minutes to Bendigo for ECEC, with many other families travelling over an hour (transcript, 19 March, online, p. 68). Another family travels two hours morning and night to access daycare (transcript, 19 March, online, p. 68).

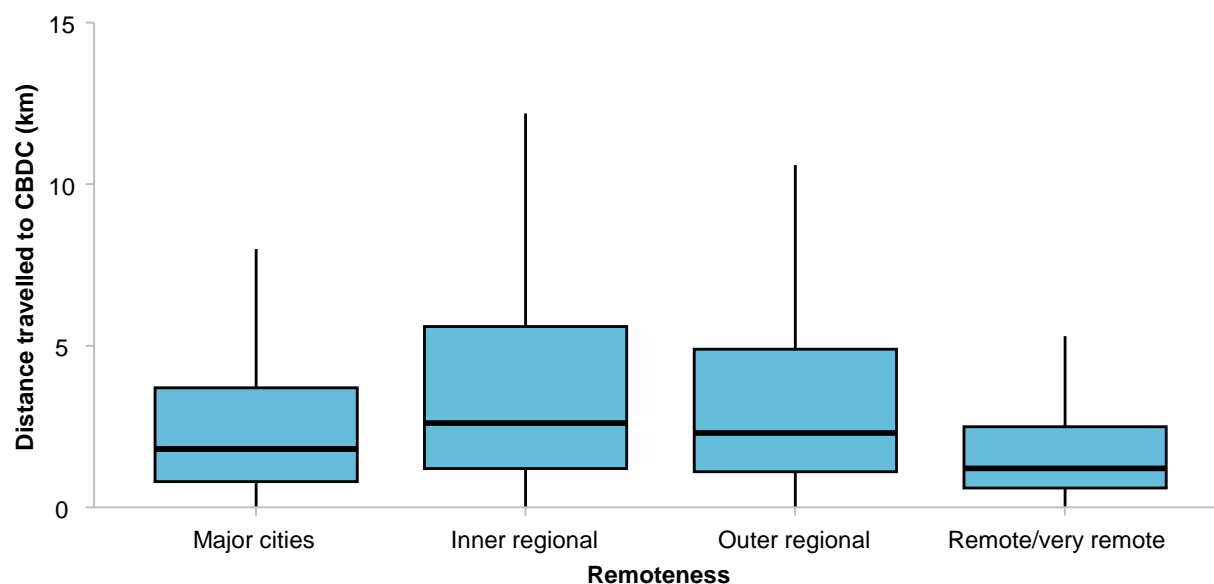
**Figure 5.1 – Location is an important factor in families' choice of an ECEC service<sup>a</sup>**  
**Rankings of the importance of factors that influence choice of service, 2021**



a. There were 4,026 survey respondents who were asked to rank in order of importance to them a range of factors when choosing an education and care service for their child. Higher scores indicate higher relative importance.

Source: ACECQA (2022, p. 49).

**Figure 5.2 – Many children attend a service that is close to home<sup>a,b,c</sup>**  
**Distance travelled to CBDC by remoteness, Q4 2022**



**a.** Boxes capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution – ratios fall below this value in 50% of communities. The ‘whiskers’, or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers and are not represented on the chart. **b.** Children are recorded as attending ECEC if they receive the Child Care Subsidy. **c.** Remoteness areas – major cities, inner regional, outer regional, remote and very remote – are classified based on relative geographic access to services. Information about the criteria used to determine remoteness areas is detailed on the ABS website .

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

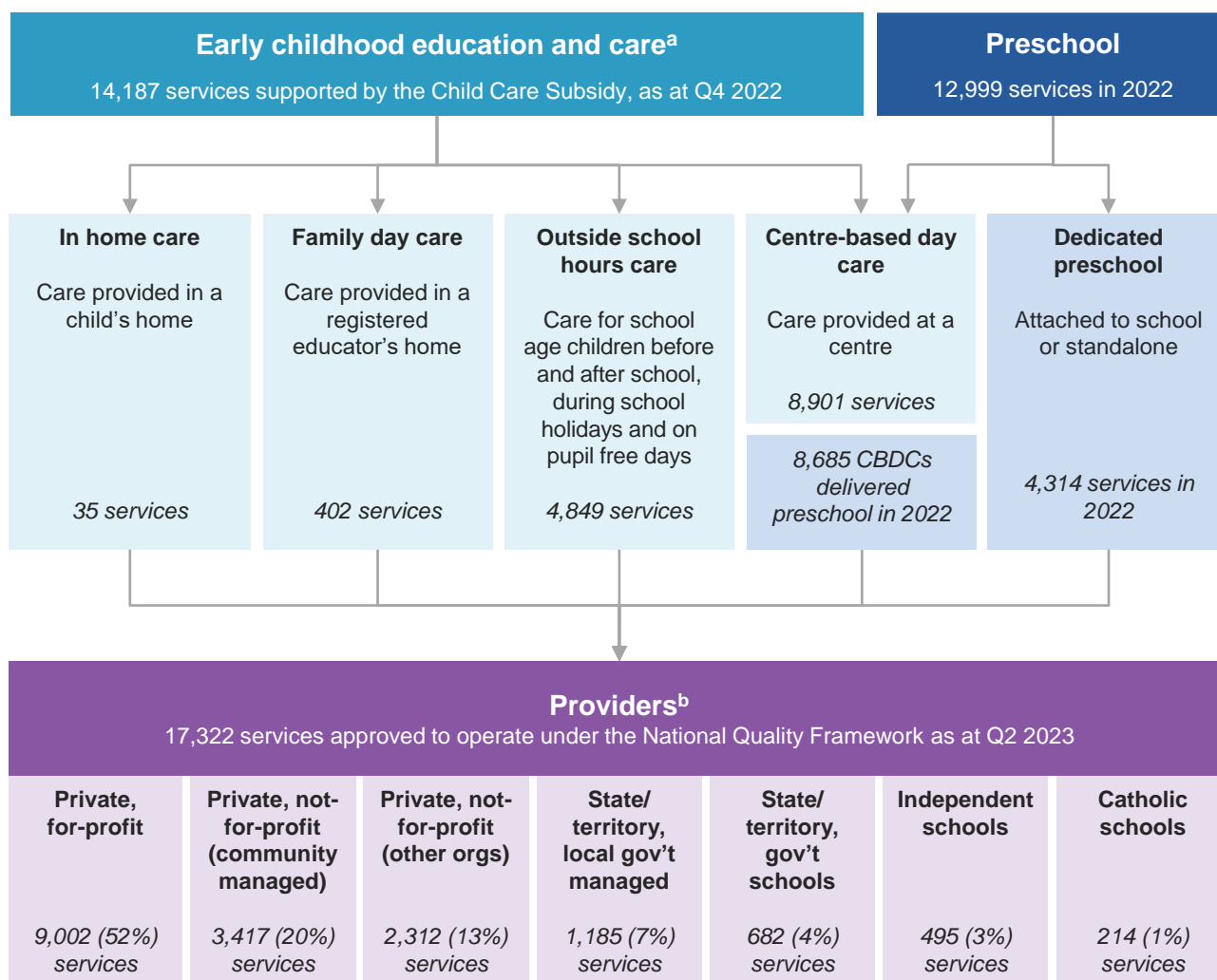
## ECEC is provided through a variety of services and provider types

The formal ECEC sector comprises a number of different service types (figure 5.3).<sup>5</sup> Most are approved to receive the Child Care Subsidy (CCS) on behalf of parents. These include CBDC, family day care (FDC) and In Home Care (IHC) services which primarily cater to children aged 0–5, and outside hours school care (OSHC) services which primarily cater to school aged children.

Preschool differs from other forms of ECEC in that it is an educational program that can be delivered in a range of settings, rather than a service type per se. Programs are delivered in either a dedicated preschool service or a CBDC and funded via a combination of Australian and state and territory government resources (appendix E). In 2023, about 13,000 ECEC services offered preschool programs. One third were dedicated preschools; two-thirds were CBDCs. The CBDC delivery method is most common in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory; provision in dedicated settings is high in Western Australia, Northern Territory and Tasmania.

<sup>5</sup> ‘Informal ECEC markets include services such as those provided by nannies, babysitters, and play groups. Informal care also includes arrangements with grandparents, relatives, and kinship carers.’ (Australian Government Department of Education, sub. 90, p. 7).

**Figure 5.3 – Structure of the ECEC sector**



**a.** State and territory funded ECEC services are excluded from the chart (166 services in 2022). **b.** The majority of providers only operate one service. The difference between the 18,898 services enumerated in the top panel and the 17,461 enumerated in the bottom panel is due to the services not captured in the ACECQA data (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services). There are also 17 unclassified services in the ACECQA data.

Source: ACECQA (2024); DoE (2024); SCRGSP (2024).

A range of other, smaller ECEC services are funded through other government initiatives. While these represent a small segment of the sector, they are likely very important to those who use them. For example, mobile care helps to provide preschool and childcare services in rural and remote towns (section 5.5).

Much of the discussion in this section draws on data collected by ACECQA which covers services regulated under the National Quality Framework (NQF). Most dedicated preschools in Western Australia, all dedicated preschools in Tasmania and all IHC services, sit outside the NQF and are, therefore, not represented in this section's analysis.

### Over half of ECEC services are delivered by for-profit providers

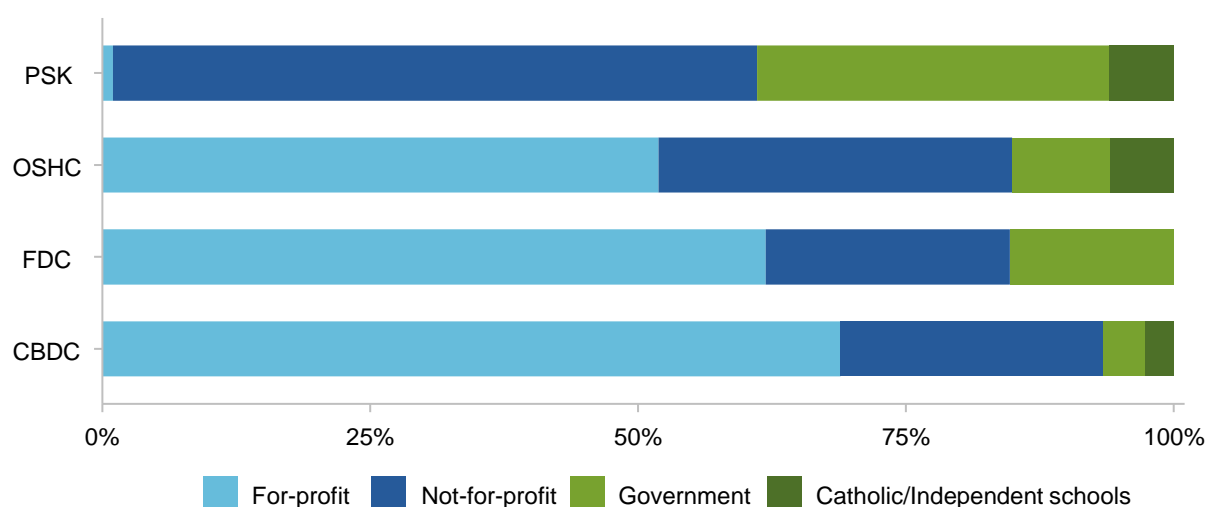
52% of ECEC services (excluding dedicated preschools) are delivered by for-profit providers, but the level of for-profit delivery differs depending on the type of ECEC considered (figure 5.4). Not-for-profit organisations, state

and territory governments and catholic and independent schools are responsible for the remainder. Dedicated preschools are mainly delivered by -not-for-profit organisations and state and territory governments.<sup>6</sup>

The shares of approved places offered by different provider types are similar to their shares of services. For example, in 2023, for-profit providers accounted for 69% of all CBDC services and 71% of approved places.<sup>7</sup> In other words, the average number of places per services does not vary markedly by ownership status.

**Figure 5.4 – The majority of ECEC services are delivered by for-profit providers, with the exception of dedicated preschools<sup>a,b</sup>**

**Share of services by provider type, Q1 2023**



a. CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool (standalone or in a school). b. ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services).

Source: ACECQA (2023b).

**A small number of providers operate a significant share of ECEC services**

Only a handful of providers are classified as large – that is, just 1% operate 25 or more ECEC services (figure 5.5). These large providers account for just over one-third of all services (ACECQA 2023b, p. 9) and approved places, but their market share differs by type of ECEC service (figure 5.5). Some large providers operate multiple types of ECEC services. For example, the Y Australia (sub. 127, p. 7) noted that they operate 430 services across OSHC, CBDC and dedicated preschools. This is unsurprising as larger firms may find it easier to raise or obtain funds to expand or have greater capability in opening and operating new services.

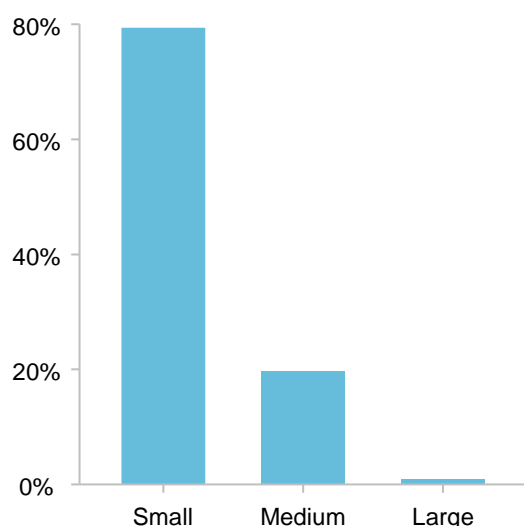
The share of services operated by large providers has increased over time – from 19% to 23% over the decade to 2023 for CBDC, and from 47% to 60% for OSHC. For CBDC, the number of large providers grew much more markedly over that period – from 23 to 38. Large provider numbers in OSHC remained steady, medium-sized providers grew in both sub-sectors.

<sup>6</sup> Most dedicated preschools in Western Australia and Tasmania are part of the school system. If those services were captured in the ACECQA data the share of dedicated preschools run by governments and schools would be higher.

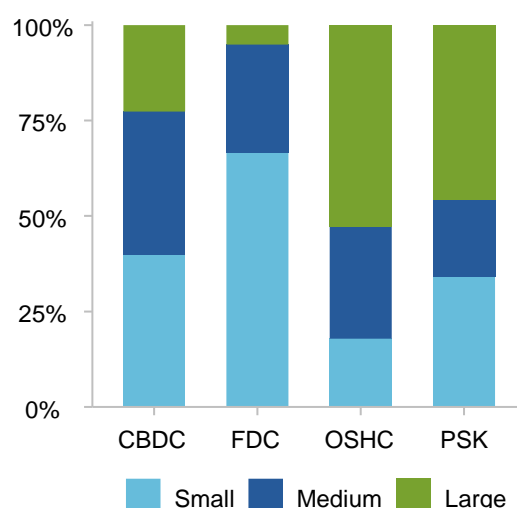
<sup>7</sup> The market shares are slightly lower than those presented in figure 5.8 because government and school providers are included in the calculation.

**Figure 5.5 – 1% of providers operate 25 or more services, but they account for significant shares of all services<sup>a,b,c</sup>**

**a) Per cent of providers by provider size, Q1 2023**



**b) Per cent of services by type and provider size, Q1 2023**



**a.** CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool (standalone or in a school). **b.** A small provider is defined as operating one service, a medium-sized provider operates between 2 and 24 services, and a large provider operates 25 or more services. **c.** ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services). Source: ACECQA (2023b).

Growth in provider numbers explains why the level of market concentration – the extent to which market shares are concentrated between a small number of providers – in both CBDC and OSHC has decreased rather than increased. The Herfindahl–Hirschman Index (HHI) is a common measure of market concentration of an industry<sup>8</sup>, and it shows that the concentration in both CBDC and OSHC services decreased from 114 in 2013 to 79 in 2023. This is well below the thresholds considered ‘concentrated’ in US antitrust law: a HHI between 1,500 and 2,500 is interpreted as moderate concentration and over 2,500 is indicative of high concentration (US Department of Justice and Federal Trade Commission 2010).

## The supply of ECEC has increased significantly over time

The number of ECEC services has grown considerably over the past two decades. Service numbers rose by nearly 60% between 2002-03 and 2012-13 (PC 2014, p. 349). While growth slowed over the following decade, the total number of ECEC services (enumerated in ACECQA data) increased by about 25% to over 17,300 in Q1 2023. Supply has responded to demand increases from population growth and rises in maternal labour force participation (paper 4).

The rate of growth varied markedly by service type (figure 5.6). Service numbers in both CBDC and OSHC expanded, the number of dedicated preschool services did not change and the number of FDC services

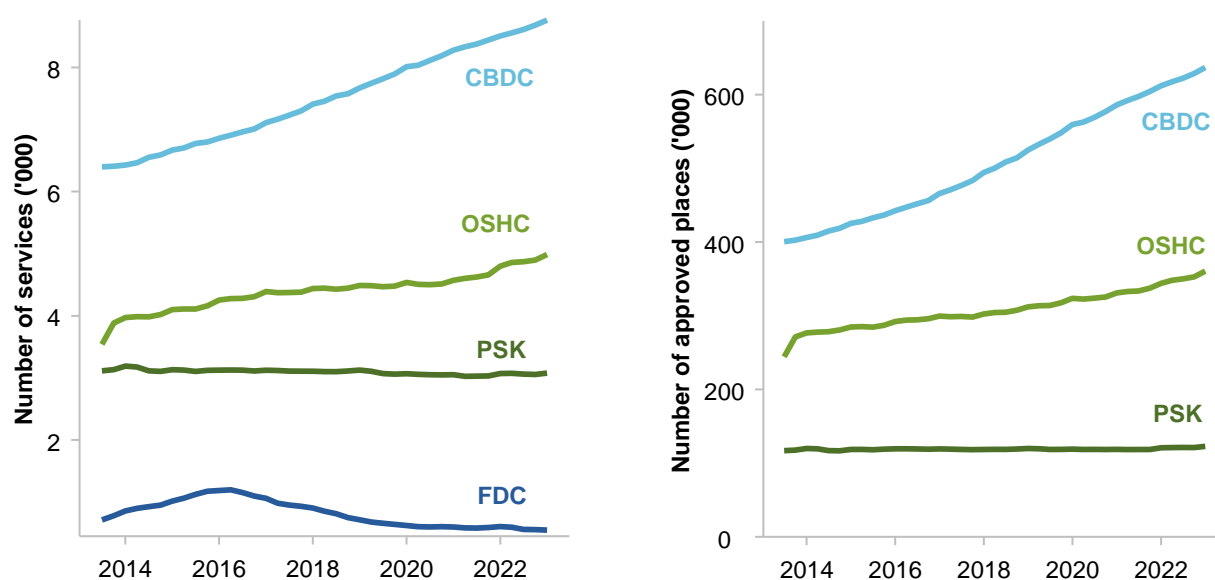
<sup>8</sup> The HHI summarises information about both the number of providers and their respective market shares (in terms of number of services). It is calculated as the sum of the square of the market shares of each individual provider. The HHI ranges from zero (not concentrated) to 10,000 (extremely concentrated).

decreased post 2016 following a rapid expansion (box 5.1). Further, more OSHC services are offering vacation care – in 2013, 63% of OSHC services offered vacation care; this had increased to 74% by Q1 2023 (Productivity Commission estimates based on ACECQA data).

Growth in the total number of approved places (excluding places within FDC due to a lack of data) outstripped expansion in service numbers over the decade to Q1 2023, rising from about 760,000 in 2013 to 1.1 million – an increase of nearly 50%. Mirroring changes in service numbers, this growth occurred in CBDC (59% increase) and OSHC (48% increase). Faster growth in approved places than services is consistent with CBDC and OSHC services becoming larger and offering more places on average.

**Figure 5.6 – The ECEC sector has grown significantly<sup>a,b,c</sup>**

**Number of services and approved places by service type, Q3 2013–Q1 2023**



**a.** CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool (standalone or in a school). **b.** ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services). **c.** The ACECQA data does not provide the number of approved places for FDC. The ratio in family day care is one educator for a maximum of seven children, and there can be no more than four children who are preschool age or under (per educator) (Boyd 2020).

Source: ACECQA (2023b).

### **Box 5.1 – Integrity concerns, not a lack of demand, are a key reason for the decline in family day care service numbers**

FDC service numbers peaked at 1,100 in 2016 and had fallen to 391 by June 2023. An evaluation of the 2018 Child Care Package noted that the then Department of Education, Skills and Employment was actively addressing compliance issues, particularly in FDC (Bray et al. 2021, p. 303). This caused a 'marked decline in Family Day Care, with 79.6 per cent of exits in this sector being associated with government compliance activity' (Bray et al. 2021, p. vii). The Australian Government Department of Education (sub. 90, p. 14) similarly noted that the integrity measures 'aimed at addressing fraud and non-compliance in the FDC sector ... have resulted in the cancellation of more than 200 FDC services'.

### **Box 5.1 – Integrity concerns, not a lack of demand, are a key reason for the decline in family day care service numbers**

The Department of Education remains concerned about integrity risks in FDC provision. During the 2022-23 financial year, the Department received 35 applications to approve new FDC services for receipt of CCS, of which 4 were approved and 31 were refused. The Department is undertaking a FDC capability trial in part to improve financial integrity (section 5.5). They are also receiving funding from the Australian Government to perform activities to help safeguard the CCS program from fraud and non-compliance (Australian Government 2023a, p. 98).

Inquiry participants noted that FDC demand remains strong. For example, the NSW Family Day Care Association (NSWFDCA, sub. 89, p. 6) submitted that ‘demand for Family Day Care from families has not contracted’ and that their ‘members report extensive waiting lists’.

Inquiry participants also noted the challenges services were having in recruiting staff – another potential reason for the decline in service numbers. The Commission has recommended that a bespoke traineeship pathway is developed for FDC educators to support the growth of the workforce and, in turn, will improve the availability of FDC for children and families (paper 3).

### **For-profit providers accounted for most of the growth in CBDC and OSHC services**

Growth in for-profit provision of CBDC and OSHC services outstripped growth in not-for-profit provision by a considerable margin over the decade to Q1 2023 (figure 5.7). (Government, Catholic and Independent schools, and other unclassified provider types are excluded from this section as they have small shares of the sector.)

- In CBDC, the number of for-profit services increased by 60%; the number of not-for-profit services increased by only 4%. Consequently, the for-profits also accounted for the bulk of the increase in the number of approved CBDC places.
- In OSHC, the number of for-profit services increased by 95%; the number of not-for-profit services increased by 27%.

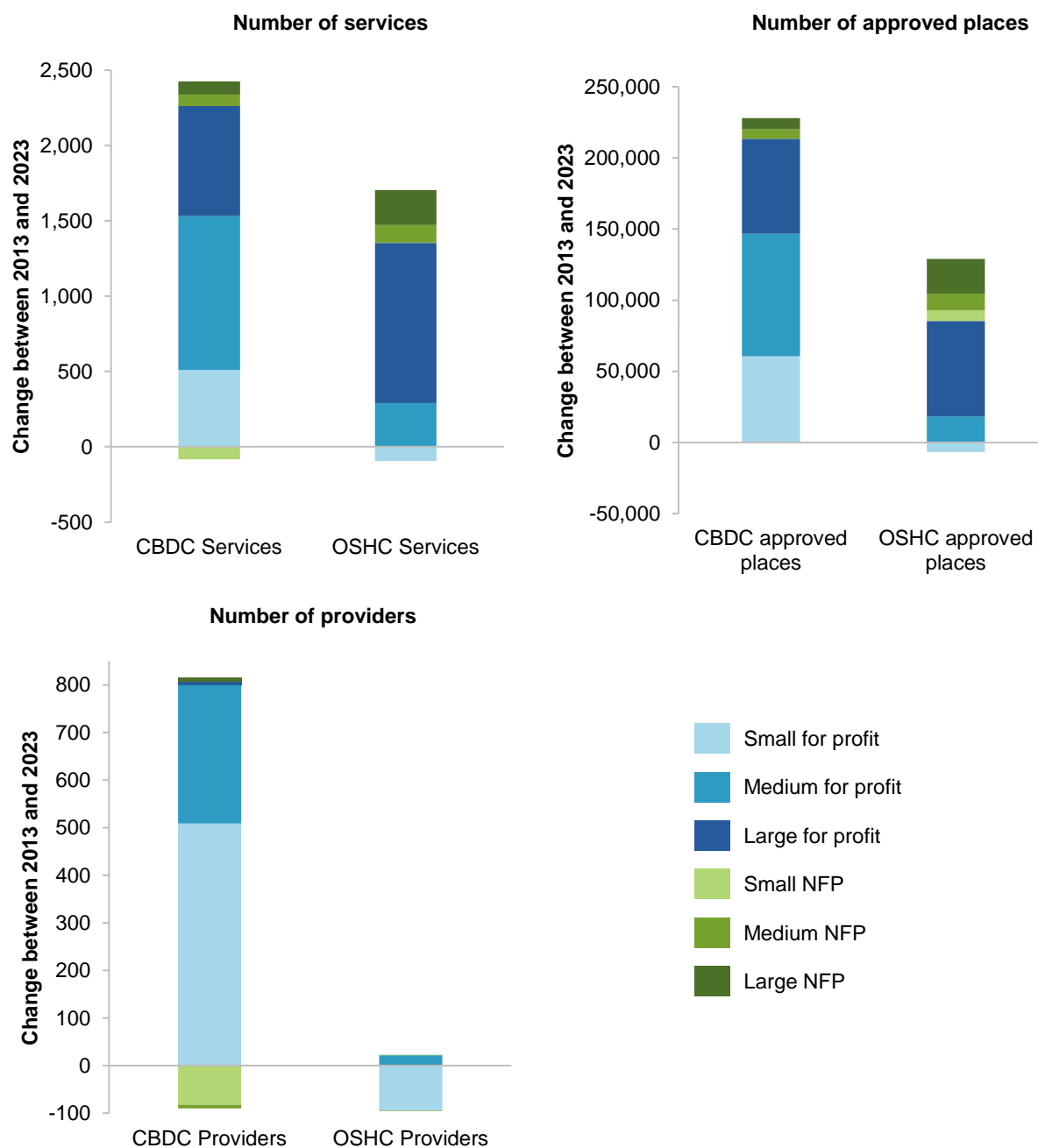
The growth in CBDC services came from for-profit providers of all sizes, not just large ones (figure 5.7).

Growth in OSHC was dominated by large for-profit providers (figure 5.7). Some schools that had small OSHC providers (such as those run by school governing councils) made the switch to contracting with large providers, such as Camp Australia (a for-profit provider). Between 2013 and 2023, about 421 schools (12% of schools with OSHC in 2013) changed their provider from a small one to a medium or large one – an average of 9 schools switching in each quarter over the period (Productivity Commission estimates based on ACECQA data). This switching helps to explain the decrease in the number of small OSHC providers (figure 5.7). Further, about 230 schools kept the same provider but the provider grew from a small to medium or large one over the period.

As a result of strong growth in for-profit provision, the market share of for-profit providers has increased (figure 5.8). In CBDC, large for-profit providers increased their market share from 3% in 2013 to 11% in 2023, to reach a similar market share to large not-for-profit providers (12%). The largest market share was still held by small for-profit providers (33%). In OSHC, large for-profit providers have increased their market share from 28% to 42%, squeezing the shares for small for-profits and not-for-profits.



**Figure 5.7 – For-profit providers of all sizes contributed to the increase in supply<sup>a,b,c</sup>**  
**Change in the number of services, approved places and providers by provider type, between Q3 2013–Q1 2023**

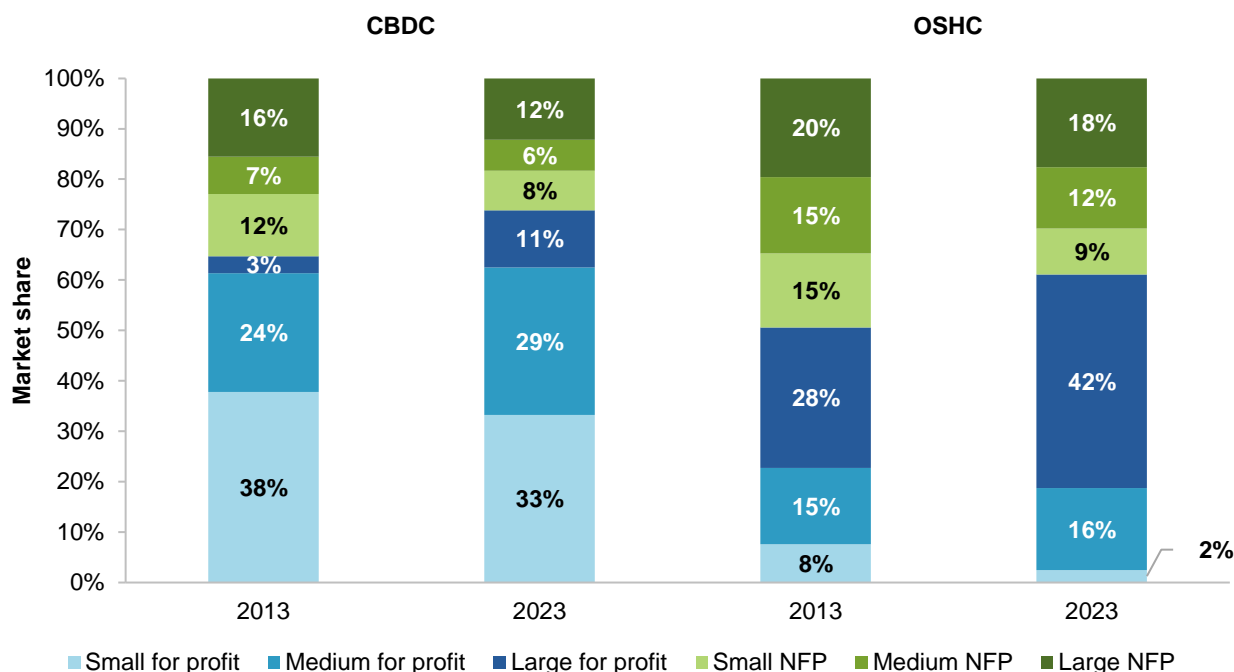


a. A small provider is defined as operating one service, a medium sized provider operates 2 to 24 services, and a large provider operates 25 or more services. NFP = not-for-profit. b. Some changes are so small that they cannot be seen in the chart. c. Government, catholic and independent schools, and other unclassified provider types are excluded as they have small shares of the sector and are therefore only small contributors to any growth.

Source: ACECQA (2023b).

**Figure 5.8 – The market share of for-profit providers has grown<sup>a,b</sup>**

**Change in market share (as measured by number of services) by provider type, between Q3 2013–Q1 2023**



a. A small provider is defined as operating one service, a medium sized provider operates 2 to 24 services, and a large provider operates 25 or more services. NFP = not-for-profit. b. Government, catholic and independent schools, and other unclassified provider types are excluded as they have smaller shares of the sector.

Source: ACECQA (2023b).

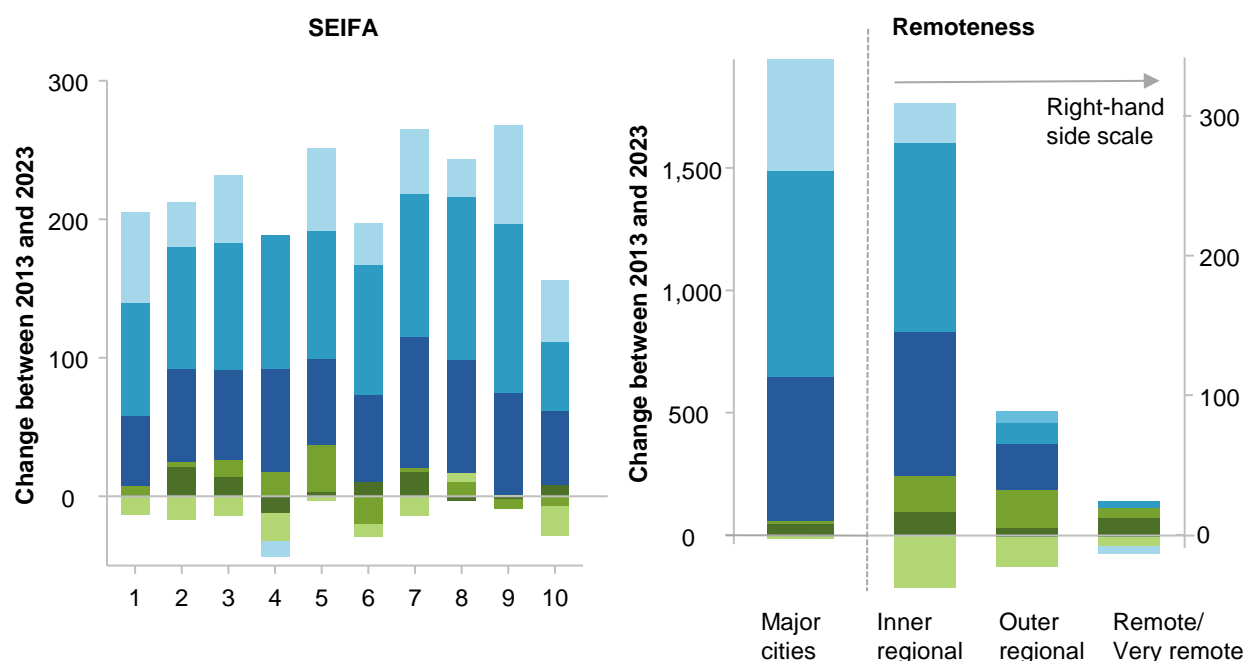
### Growth in CBDC has been evenly spread across communities of varying socio-economic disadvantage, but concentrated in major cities

Expansion in for-profit services in CBDC occurred across all socio-economic areas. The ACCC (2023a, p. 160) noted that providers are incentivised to supply services in areas of greater socio-economic advantage because demand – and capacity to pay – is higher in those areas which makes services more viable. But the growth in for-profit provision between 2013 and 2023 occurred in all areas of socio-economic advantage and was quite evenly spread (figure 5.9). Moreover, the market share of the for-profits is similar across areas of different socio-economic advantage, although the not-for-profits have a slightly higher market share in disadvantaged markets. This suggests that the for-profit sector will help to fill ECEC needs in disadvantaged markets so long as demand makes it viable.

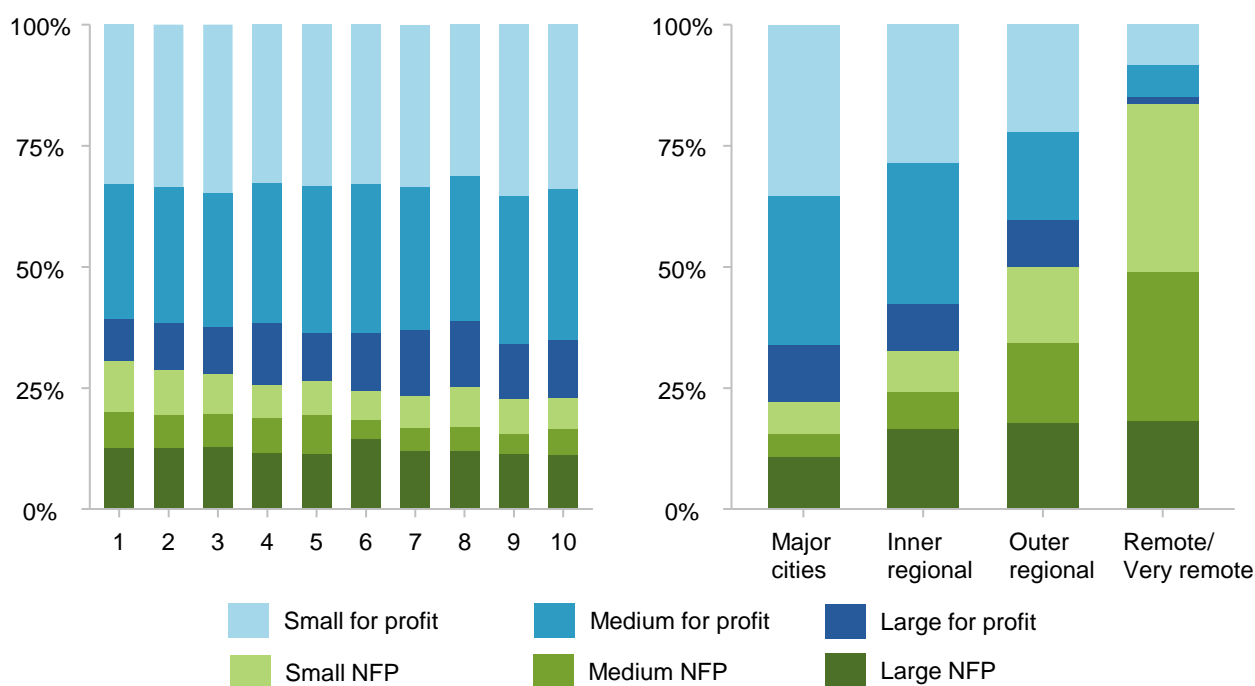
Not-for-profit provision of CBDC is particularly important as the level of remoteness increases. The market share of the not-for-profit sector is about 50% in outer regional areas and over 75% in remote areas (figure 5.9). And almost all of the growth between 2013 and 2023 in remote areas was delivered by the not-for-profit sector. This is perhaps not surprising as for-profits may consider remote markets unviable as demand tends to be more variable, and there is the additional challenge in attracting and retaining staff (2023a, p. 158) meaning the cost to deliver CBDC is higher than other areas (ACCC 2023c, p. 74). This highlights the important role that not-for-profits play in servicing markets that are typically difficult to serve, and the potential role of government grants in helping to establish and operate ECEC in remote areas (section 5.5).

**Figure 5.9 – For-profit provider growth has been evenly spread across socio-economic statuses of areas; not-for-profit provision is important in remote regions<sup>a,b</sup>**

**Change in number of CBDC services by SEIFA and remoteness by provider type, between Q3 2013 and Q1 2023**



**CBDC market shares by SEIFA and remoteness by provider type, Q1 2023**



a. A small provider is defined as operating one service, a medium sized provider operates 2 to 24 services, and a large provider operates 25 or more services. NFP = not-for-profit. b. Government, catholic and independent schools, and other unclassified provider types are excluded as they have smaller shares of the sector. c. Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged and 10 being the most advantaged).

Source: ACECQA (2023b).



### 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.

### Not-for-profits have not expanded due to capital and skill constraints

While both not-for-profits and for-profits have access to the same CCS arrangements, not-for-profits can receive additional support from charities or local governments – for example, a higher proportion of not-for-profits owned a site (12%) or had a donated site (1.4%) or paid lower rents (ACCC 2023c, pp. 62, 73), and almost 80% are charities themselves and receive some tax advantages. For-profits have greater access to capital markets than not-for-profits.

There has been little expansion in not-for-profit provision of ECEC over the past decade. Inquiry participants have raised three main reasons for this.

The first is limited access to capital needed to expand (C&K, sub. 155, pp. 7–8; ECA, sub. 302 p. 34; Goodstart Early Learning, sub. 277, p. 97; KU Children’s Services, sub. 303 p. 5; NSW Government, sub. 312, p. 6; SVA, sub. 247, p. 10; SA Government 2023b, p. 104). Not-for-profits have difficulty borrowing from banks ‘largely due to financial criteria related to the ability to borrow [being] a multiplier of an organisation’s earnings before interest, taxes, depreciation, and amortisation’, which is lower in not-for-profit organisations (Goodstart Early Learning, sub. 277, p. 97). Further, for-profits have more options for accessing capital, such as borrowing from investors, including through public or private equity, which not-for-profits do not. Not-for-profits can also have lower risk appetites and therefore be less inclined to expand (ECA, sub. 302 p. 35; SVA, sub. 247, p. 10).

The second is that not-for-profits have different motivations that inform their investment decisions and growth strategies (C&K, sub. 155, pp. 7–8; Goodstart Early Learning, sub. 277, p. 97; KU Children’s Services, sub. 303 p. 5; SVA, sub. 247, p. 10). Goodstart Early Learning noted that they:

prioritise investment in supporting children with additional needs, evidence-based tools and professional development for teachers, and ensuring the services [they] already have are of a high quality and delivering inclusive practice in their communities. (sub. 277, p. 99)

Therefore, not-for-profit providers tend to channel surpluses into service delivery, for example, by paying staff above award wages or having higher staff to child ratios (ACCC 2023c, p. 53; Press, sub. 135, p. 4; SA Government 2023a), or by using surpluses at profitable services to cross-subsidise unprofitable, but socially important, services (such as those serving vulnerable or remote communities) (ACCC 2023a, p. 25). This use of surplus funds aligns with the ethos of these providers but means that there are limited funds remaining for expansion. Conversely, large for-profit providers tend to pay closer to award wage and hire less experienced educators (ACCC 2023a, p. 111), potentially increasing their operating surplus. Further,

some smaller community-based not-for-profits focus on serving their local community, and might not wish to expand into other communities.

The third is limited skills and capacity to support growth (ECA, sub. 302, p. 34; Goodstart Early Learning, sub. 277, p. 97; SVA, sub. 247 p. 10). SVA (sub. 247, p. 11) recognised that some not-for-profits have ‘insufficient staff resources or funds to procure services to undertake strategic business, financial and legal skills to identify opportunities, locations, review contracts, recruit, train and oversee staff that would be require to consider expansion’. Smaller providers might face additional challenges due to the short tenure of their committee members and, in some cases, their directors’ liability. This is unlike many for-profit providers which tend to build specialist and experienced capabilities for identifying and actioning expansion opportunities. Goodstart Early Learning (sub. 277, p. 100) also noted the application process for government funding programs such as the Community Child Care Fund (CCCF) can be prohibitive for some not-for-profit providers due to the cost and time required to apply. This critique of the CCCF is discussed further in section 5.5.

In discussing not-for-profit providers difficulties in raising capital, many inquiry participants called for low-interest government loans (ECA, sub. 302 p. 35; Goodstart Early Learning, sub. 277, p. 102; KU Children’s Services, sub. 303 p. 5), or government funding grants dedicated to not-for-profits (C&K, sub. 155, p. 8; SVA, sub. 247, p. 11).

Nevertheless, not-for-profits, like for-profits, receive the CCS via the families that use their services and could lease a new ECEC premises; they would not need to necessarily build a new centre or acquire new land. Indeed, over 80% of not-for-profit CBDCs have a leased site (ACCC 2023c, p. 62). The Early Learning Association of Australia (sub. 237, p. 18) recommended that ‘ECEC providers should be supported to provide access to ECEC in areas that are not typically financially viable, valuing social impact over profitability’, but it is unclear exactly how social impact will be measured or accounted for in support for those providers.

But while not-for-profit providers can lease, some small not-for-profit providers still face barriers to expansion including because they do not have sufficient skills or capacity. The Commission recommends that an advisory function be established to help overcome these capacity barriers.

Issues pertaining to not-for-profit providers are discussed further in a supplementary statement by Associate Commissioner Professor Deborah Brennan, which is included at the end of this paper.



### **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.

## Subdued competition in some ECEC markets creates a case to monitor fees and market health

### Some inquiry participants expressed concerns about for-profit providers

Some inquiry participants expressed concern about excessive fee increases by for-profit providers (Goodstart Early Learning, sub. 277, p. 14; The Parenthood, sub. 122, p. 8). However, on the basis of data supplied by providers and from Australian Tax Office records, the ACCC found that 'most childcare entities or businesses did not appear to be making excess profits, and approximately 25% of childcare providers structured as companies are making almost no profit or suffering a loss' (ACCC 2023a, p. 111). Whilst fees have been increasing, so too have costs: labour costs, which account for almost 70% of total costs, increased by 28% for CBDCs between 2018 and 2022 (ACCC 2023a, pp. 35, 111) (paper 6). The ACCC (2023a, p. 127) also observed that:

There were some indications of partnerships earning significant profits, with 25% of these childcare businesses having profit margins over 50%. Where these partnership businesses have high profits this likely reflects owners' wages, where owners work at the childcare centre and take part of the profit as their effective wage.

That said, in the context of the Commission's recommendations that would lift subsidies, paper 6 observes that reducing out-of-pocket expenses for some families could reduce their sensitivity to fee increases. As a consequence, some providers might take the opportunity to raise fees more rapidly than they might otherwise have done, particularly in areas where lower-income families are concentrated (or where there are few higher-income families who may change services if fee rises are excessive). Paper 6 provides more detailed discussion of this issue.

Some inquiry participants also expressed concern about the extent of growth by for-profit providers due to differences in for-profits' quality of provision relative to not-for-profits (CCC, sub. 111, p. 17; WEET; online hearing, 21 February 2024, p. 43). While the Commission acknowledges that for-profit providers are less likely than not-for-profit providers to be rated as Exceeding the National Quality Standard and more likely to be rated as Working Towards the standard, growth in for-profit provision does not necessarily result in low-quality ECEC. A large majority of for-profit providers (87%) are at least Meeting the National Quality Standard. This share is not that much lower than the shares (91% and 93%) of not-for-profit other organisations and not-for-profit community managed services, respectively, that at least meet the standard.

That said, the composition of a market has the potential to affect the quality of provision and this creates a case for monitoring and, in some cases, management of, market health.

### Market 'health' should be monitored

As noted above, ECEC markets are highly localised. Competition between services exists at this local level where demand is sufficient to support multiple services. The ACCC noted that, for centre-based day care:<sup>9</sup>

price plays a less influential role once households have chosen how much childcare to use and found available services. Where providers compete to attract and retain children and families, they do so on the basis of quality. (ACCC 2023a, p. 6)

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<sup>9</sup> In the case of OSHC, the ACCC concluded that providers compete, on both price and quality, for the opportunity to run a service (ACCC 2023a, p. 6).

Given this, the presence of several service providers has the potential to lift quality in a local area. This has important implications for children's outcomes and overall sector quality including wages and conditions as the composition of a local ECEC market can affect service quality.

That said, quality is not a straightforward issue in ECEC markets. Paper 1 notes that for markets to ensure high quality, parents' perceptions of quality need to align with recognised quality, but there are limits to the information provided by available measures. A lack of understanding and concerns about the accuracy or recency of National Quality Standard ratings may be limiting their use (paper 8). And quality is difficult for parents to observe. Where there are few services and/or vacancies within a market, parents might also struggle to move between services if they discover that quality is low at their service. All of this has the potential to mute incentives for providers to compete on quality.

Moreover, where parents have little or no service choice, promoting quality is harder. In this circumstance, the core incentives of different types of service providers – namely, whether a provider is for-profit or not-for-profit – become more significant. Where a lower-quality service can be offered without risk to demand, lifting quality requires additional investment that, from a commercial perspective, for a for-profit provider is unlikely to be justified. This is why an enduring focus on quality regulation must be a key aspect of sector governance.

Not-for-profit services, by definition, are not operating to make a profit. Although making a surplus is regarded as good practice. Instead, their motivation for operating is to deliver a service for the children, their parents, their community and the educators and teachers at the service. Not-for-profit service providers may have different objectives and face different incentives, and this may explain why they are more likely to record a rating of Exceeding the National Quality Standard in regulator assessments and less likely to be rated as Working Towards the Standard (paper 8). Ultimately, it is not necessarily the case that not-for-profits are inherently better at delivering quality ECEC. Instead, due to their ethos they tend to channel the financial advantages they receive into delivering higher-quality ECEC rather than expansion.

These observations point to the need for careful monitoring and evaluation of the 'health', or quality levels, of ECEC markets. This should form part of the ECEC Commission's assessments of the performance and outcomes of the ECEC system (recommendation 10.2). Steps can be taken to improve quality levels if they are lacking (paper 8).

An extension of this discussion is that specific focus is needed for persistently thin markets where competition by comparison (at least from a parental choice perspective) will not be possible. This sub-sector of the ECEC market needs to be prioritised to ensure that providers are chosen for their capacity and 'expected likelihood' that they will deliver a high-quality service that meets the National Quality Standard. This point is taken up in section 5.5.

## **ECEC availability is a concern for many**

Despite substantial growth in the sector, many parties have raised issues relating to the availability of ECEC, including a lack of supply in rural and remote areas and extensive waiting lists in many places. These issues suggest a lack of physical services or capacity to meet current demand (that is, at the current price and quality supplied) in some parts of the country. Planning, building and staffing a new service can take a number of years (PC 2014, p. 352). As supply takes time to expand, any additional increases to demand (such as in response to an increase in subsidies) could worsen availability issues.

The Mitchell Institute for Education and Health Policy at Victoria University (The Mitchell Institute) authored a report in 2022 that analysed the availability of CBDC in Australia. The work measured the supply of CBDC (the number of approved places in each service) and the potential demand for CBDC (the number of children

aged 0–4 in a neighbourhood) to determine where ‘childcare deserts’ and ‘oases’ were located. The Mitchell Institute found that 568,700 children aged 0–4 years (or 36.5% of children in this age group) live in neighbourhoods classified as ‘childcare deserts’ (Hurley, Matthews and Pennicuik 2022, p. 25). Many inquiry participants cited this analysis and the report is discussed further in section 5.3.

Further, case studies have highlighted limited CBDC availability in some regional areas. The Regional Australia Institute, for example, compared the availability of ECEC in Maranoa and Western Downs in Queensland. CBDC services in Maranoa would only be able to accommodate 39% of children aged 0–4 and those in Western Downs, 23% of children aged 0–4, if children in that age cohort attended full time (Regional Australia Institute 2023, p. 3). The study also found that among childcare users accessing care in Maranoa, the largest proportion had waited between 4–6 months for a place, while in the Western Downs the wait was 12 months or more (Regional Australia Institute 2023, p. 3).

Similar reports and observations have been presented to the Commission (box 5.2). Many inquiry participants reported problems with the availability of childcare in regional and remote areas. This is likely due to the lower demand spread across a large geographic area causing ‘thin markets’ – where demand for ECEC is too low or inconsistent to support the competitive provision of services (discussed in section 5.4). Some families also spend long periods of time on waiting lists.

### **Box 5.2 – Inquiry participants have raised concerns about the availability of CBDC**

#### **A lack of availability in regional and remote areas**

The Victorian Government Department of Education (sub. 146, p. 7) submitted that:

in the Loddon Elmore region, north of Bendigo, there were 34 children under 4 for every childcare place.

Regional Development Australia Loddon Mallee (sub. 15, p. 1) submitted that:

over 19,000 children under the age of 4 live in rural areas in Victoria’s Loddon Mallee Region ... there are approximately 100 children per childcare service.

The Pathways in Place Research Program (sub. 130, pp. 53–54) submitted that, while ECEC is currently sufficient to meet demand in Logan, Queensland:

the predicted increase of children living in the Jimboomba SA3 suggests that the current ratio of childcare places is likely insufficient in the future.

Many other inquiry participants also noted ECEC availability issues in regional and remote areas (BBY, sub. 85, p. 7; BHP, sub. 136, pp. 2–3; Costin, sub. 26, p. 1; RDA BSW, sub. 112, p. 2; WA Government, sub. 162, p. 4).

#### **A lack of services and capacity at existing services, contributing to long waiting lists**

Many inquiry participants have pointed to a lack of services and capped capacity at existing services leading to long waiting lists.

For example, Lady Gowrie Child Centre Inc (sub. 25, p. 10) noted that:

high-quality [not-for-profit] ECEC services can have extensive waiting lists – the waiting list at Gowrie SA is 370 families with an average 2-year wait.



### Box 5.2 – Inquiry participants have raised concerns about the availability of CBDC

Regional Development Australia Kimberley (sub. 1, p. 1) submitted:

Currently there is no access to any childcare service in the Kimberley region, despite only one centre operating at their licenced capacity. Kimberley childcare centres have capped numbers, closed rooms and services, with a minimum 18-24 months waiting period for all centres.

BHP (sub. 136, p. 3) noted similar concerns in the Pilbara:

data collected in 2021 and 2022 confirmed waitlists of approximately 200 children in Newman and 600 in Port Hedland, with the wait for a childcare place averaging between six months and two years.

And in regional NSW one participant commented that:

'Waitlisted friends have waited on several lists for 12-18 months.' (Brief comment 45)

Many other participants raised similar issues (BBY, sub. 85, p. 7; BHP, sub. 136, pp. 2–3; Costin, sub. 26, p. 1; Gowrie Australia, sub. 79, p. 12; Tessier, sub. 17, p. 1; Lawson Grains and Rural Regional Remote Women's Network, sub. 134, p. 2; NSWFDCA, sub. 89, p. 6; Phillip Island Early Learning Centre, sub. 5, p. 1; RDA BSW, sub. 112, p. 6; WA Government, sub. 162, p. 14).

### There are also availability issues in OSHC

Not all primary schools have an OSHC service on site or close by – only 53% have an OSHC service within 500 meters (Productivity Commission estimates based on published latitude and longitude of school and OSHC service addresses). The provision of OSHC also differs by the state and territory (table 5.1). For example, for the 116 primary schools in the Australian Capital Territory there are 104 OSHC services – almost 90% of schools have an OSHC – while in Tasmania this rate is much lower at 40%.

Some families also face problems with accessing OSHC where services have insufficient places to fulfill demand and waiting lists prevail. Data collected by the Commission from a sample of large OSHC providers showed that most services have either no waiting list or a waiting list of 1-5 children, but there are some services where waiting lists are much larger (for example, over 30 children).

**Table 5.1 – Rates of OSHC provision vary markedly between states and territories<sup>a</sup>**

	NSW	Vic	QLD	SA	WA	Tas	NT	ACT
<b>Number of schools</b>	2,788	2,233	1,592	672	1073	234	175	116
<b>Number of OSHC</b>	1,578	1,490	790	387	490	91	54	104
<b>Per cent with OSHC</b>	56.6%	66.7%	49.6%	57.6%	45.7%	38.9%	30.9%	89.7%

a. Analysis is restricted to primary, combined and special schools – secondary schools are excluded. The percentage of schools with an OSHC is calculated as the number of OSHC services divided by the number of schools.

Source: ACARA (2023); ACECQA (2023b).

There are concerns about OSHC availability in regional and remote areas. For example, the Victorian Government (sub. 146, p. 7) submitted that a 'shortfall of available childcare in regional Victoria ... affects

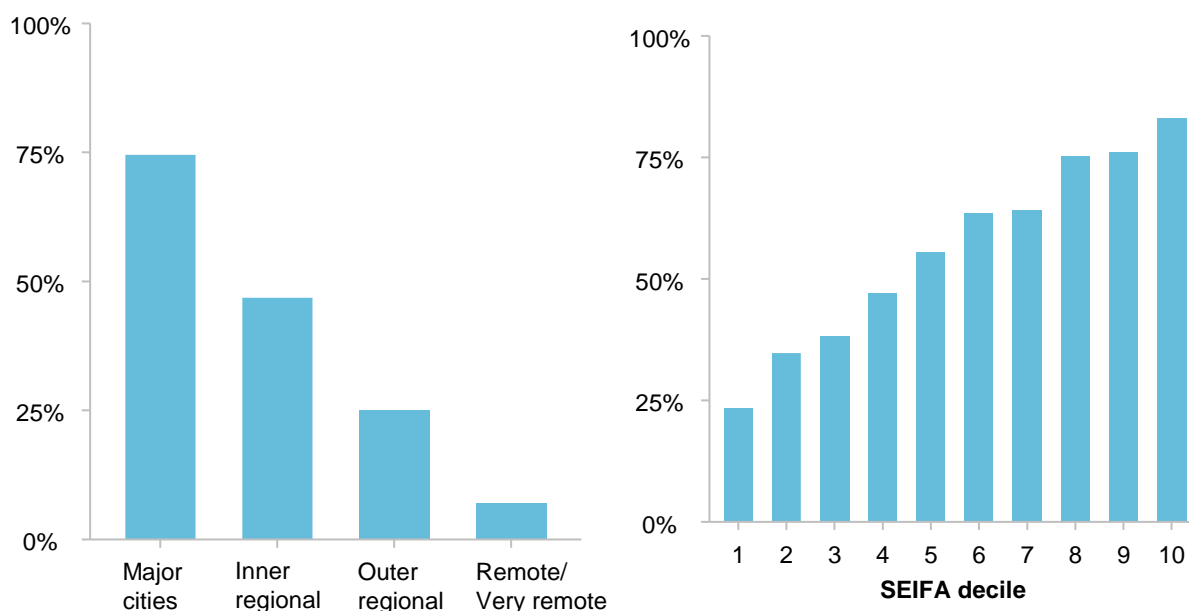
children of school age. In 2021, only 30% of schools in regional Victoria had an onsite OSHC service, compared to 77% of schools in metropolitan Melbourne'. And the South Australian Government (2023a, p. 179) has noted that because schools are smaller and people are spread across long distances it can be hard to establish a financially viable service.

OSHC provision is indeed more common in urban areas; it is also more common in high socio-economic areas (figure 5.10). The likelihood of OSHC provision decreases as:

- the remoteness of the school's location increases
- the level of disadvantage of the school's location increases.

**Figure 5.10 – OSHC is more likely to be provided at schools located in major cities or high-socio-economic areas<sup>a,b,c</sup>**

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



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

Source: ACARA (2023); ACECQA (2023b).

Issues were also raised with the availability of vacation care. The Shop, Distributive and Allied Employees Association (sub. 72, p. 14) submitted that some services 'will only accept children for vacation care if they also attend before and after school care'. A lack of vacation care is an issue for families who require care during school holidays.

### 5.3 ECEC is not readily available in all parts of Australia

As noted above, the Commission has made a finding that governments work towards ensuring that sufficient ECEC is available such that every child has access to at least 30 hours or three days a week of ECEC for 48 weeks of the year, where that fits with families' preferences and needs.

This section considers the extent to which families across Australia might face a barrier to accessing ECEC due to a lack of availability.

The analysis considers the potential supply of, and potential demand for, ECEC in local areas to determine the extent to which places are available for children aged 0–5. While this is useful for determining local areas that *may* have issues with ECEC availability – and the characteristics of those areas – it does not reveal imbalances in *actual* supply and demand. As such, results should not be interpreted as revealing areas where demand outweighs supply, or where families are competing for too few ECEC places.<sup>10</sup>

## An overview of the Commission’s approach

The Commission’s analysis is similar to work undertaken by the Mitchell Institute (Hurley, Matthews and Pennicuik 2022) (described above), but with different assumptions and methodologies. Key differences are outlined in box 5.3.

### Box 5.3 – Differences between the Commission’s work and the Mitchell Institute’s analysis of ‘deserts’ and ‘oases’

In contrast with the Mitchell Institute study the Commission has:

- included family day care (FDC) and dedicated preschools as forms of ECEC supply alongside CBDC. The Mitchell Institute did not include FDC and adjusted potential demand to reflect time spent in preschool rather than explicitly including preschool as a form of supply. They did so because they did not have location data on FDC services and dedicated preschools
- included 5–year-olds in the analysis who had not yet started full-time school because these children may still require ECEC, whereas the Mitchell Institute only included children aged 0–4
- analysed markets using standard geographic areas (produced by the ABS), whereas the Mitchell Institute used a method that captured travel times from neighbourhoods to ECEC services.

These differences make direct comparisons of the results difficult, and as such only broad comparisons are drawn where possible.

Details of the Commission’s method, data sources and key definitions are summarised in box 5.4. Key caveats that mean availability might be poorer than the results suggest are discussed after the results.

In the presentation of results, availability of CBDC places is considered in isolation and in combination with places in FDC and dedicated preschools because of differences between the two larger service types.<sup>11</sup> CBDC services cater to all children aged 0–5.<sup>12</sup> In contrast, places in dedicated preschools primarily support

<sup>10</sup> This section does not consider a range of other issues that may affect demand for ECEC, such as preferences on whether to use ECEC, out-of-pocket expenses that are higher than families are willing to pay, families having difficulties securing a place at their preferred centre, or lack of information for families to help them find available places. These barriers to using ECEC are discussed elsewhere in the report.

<sup>11</sup> FDC accounts for a relatively small number of places (about 35,000 in contrast with 150,000 in dedicated preschools and 630,000 in CBDC).

<sup>12</sup> In 2021, 22% of all CBDC places offered were for children aged 0–1, 25% for children aged two, 50% for children aged 3–5, and 3% for children aged six and over (Productivity Commission estimates based on the National Workforce Census, 2021).

children aged 4–5 and sometimes 3-year-olds. Furthermore, CBDC services typically offer places five days a week and operate for at least 10 hours a day. In contrast, about 30% of dedicated preschools captured in the ACECQA data run programs on fewer than five days a week, many run programs for different cohorts of children over a subset of days in a week and most operate for fewer than 10 hours a day (ACECQA 2023a). As a consequence, about 15% of children attend both a dedicated preschool and CBDC in their year before full-time school (ABS 2023b). Places in dedicated preschools are not, therefore, equivalent to those in CBDC (or FDC). Nonetheless, those places add to ECEC supply.

Effectively, results for CBDC alone represent a lower bound on the quantum of formal ECEC available in an area; the combination of CBDC, FDC and dedicated preschool places can be thought of as an upper bound.

#### **Box 5.4 – Data sources and key definitions used in the Commission’s analysis**

##### **Data sources**

Information on:

- local population and demographic characteristics was sourced from the ABS Census
- approved places in CBDC and dedicated preschool covered under the National Quality Framework (NQF) was sourced from ACECQA
- preschools in Western Australia and Tasmania was sourced from the relevant departments of education
- FDC supply was sourced from the Department of Education administrative data.

##### **Key definitions**

**Local markets** are approximated by Statistical Area 2 (SA2) and Statistical Area 3 (SA3) areas.<sup>a</sup> In dense urban areas, families might reasonably travel beyond their SA2 to access ECEC. SA3s are therefore used to represent local markets in major cities, and SA2s are used for regional and remote areas. This measure does not account for families who use an ECEC service in a neighbouring SA2 or SA3, nor those who use services closer to a parent’s workplace or along their journey to work. Using a locally defined market captures the *majority* of the users but may miss families who travel from other areas for ECEC services. By this method, there are 1091 local markets in Australia.

**Potential demand** is captured by the population of children aged 0–5 within each local market. A proportion of children aged five are excluded as it is assumed that they have started primary school and no longer require ECEC services. Given some families do not wish to use ECEC services (paper 4), this measure can be seen as an upper bound on potential demand.

**Potential supply** is calculated as the total number of approved places across CBDC, FDC and dedicated preschool services available for children aged 0–5 in local markets.<sup>b,c</sup>

**a.** Statistical Areas Level 2 (SA2) are medium-sized general-purpose areas designed to represent a community that interacts together socially and economically – they generally have a population range of 3,000 to 25,000 persons. Statistical Areas Level 3 (SA3) are geographical areas that cluster groups of SA2s that have similar regional characteristics and are designed to provide a regional breakdown of Australia. SA3s generally have a population of between 30,000 and 130,000 people (ABS 2023a). **b.** OSHC is excluded as it is not a substitute for CBDC, FDC or preschool for children aged 0–5. IHC services are excluded as they are not included in the ACECQA data and only support a small number of children across Australia – about 2,090 (DoE 2023c). **c.** FDC services can only have up to four children of preschool age or under. The Commission has attributed four approved places to each FDC service which would overestimate the number of approved places if an FDC service used some of those places for children beyond preschool age.

## A ratio measure is used to summarise availability

The ratio of approved places per child in an area is calculated to provide a measure of how well potential ECEC supply is meeting potential demand. For example, an area with 100 approved ECEC places and 200 children aged 0–5 would have a ratio of 0.5, representing 0.5 approved places per child. In other words, there are enough places for each child to attend for half the week.

The ratio gives a broad number that can be easily compared to a benchmark. For example, if the goal were to enable every child to access three days of ECEC per week, every local area would require a ratio of 0.6.

The ratio does not, however, account for practicalities such as whether a family can access the particular days or hours they need, the types of ECEC they need or variation in availability for different age groups.

The ratio adds to the evidence on ‘deserts’ or ‘oases’ – a concept used by the Mitchell Institute. In the literature, an area is considered a:

- ‘desert’ if there are fewer than 0.333 places per child
- ‘oasis’ if there are more than 0.6 places per child (Centre for Policy Development 2021, p. 1; Hurley, Matthews and Pennicuik 2022, p. 18).

These benchmarks can be useful but considering the distribution of the ratio – rather than whether it is above or below certain benchmarks – provides more information about the distribution of ECEC availability across areas. For example, a ratio enables identification of areas that appear relatively underserved compared to others without having to make a judgment about the benchmark that indicates that an area is ‘sufficiently’ supplied. Using a ratio of 0.333 to select ‘deserts’ misses other relatively poorly serviced areas that have a ratio just above this threshold.

## Availability of ECEC services varies across Australia

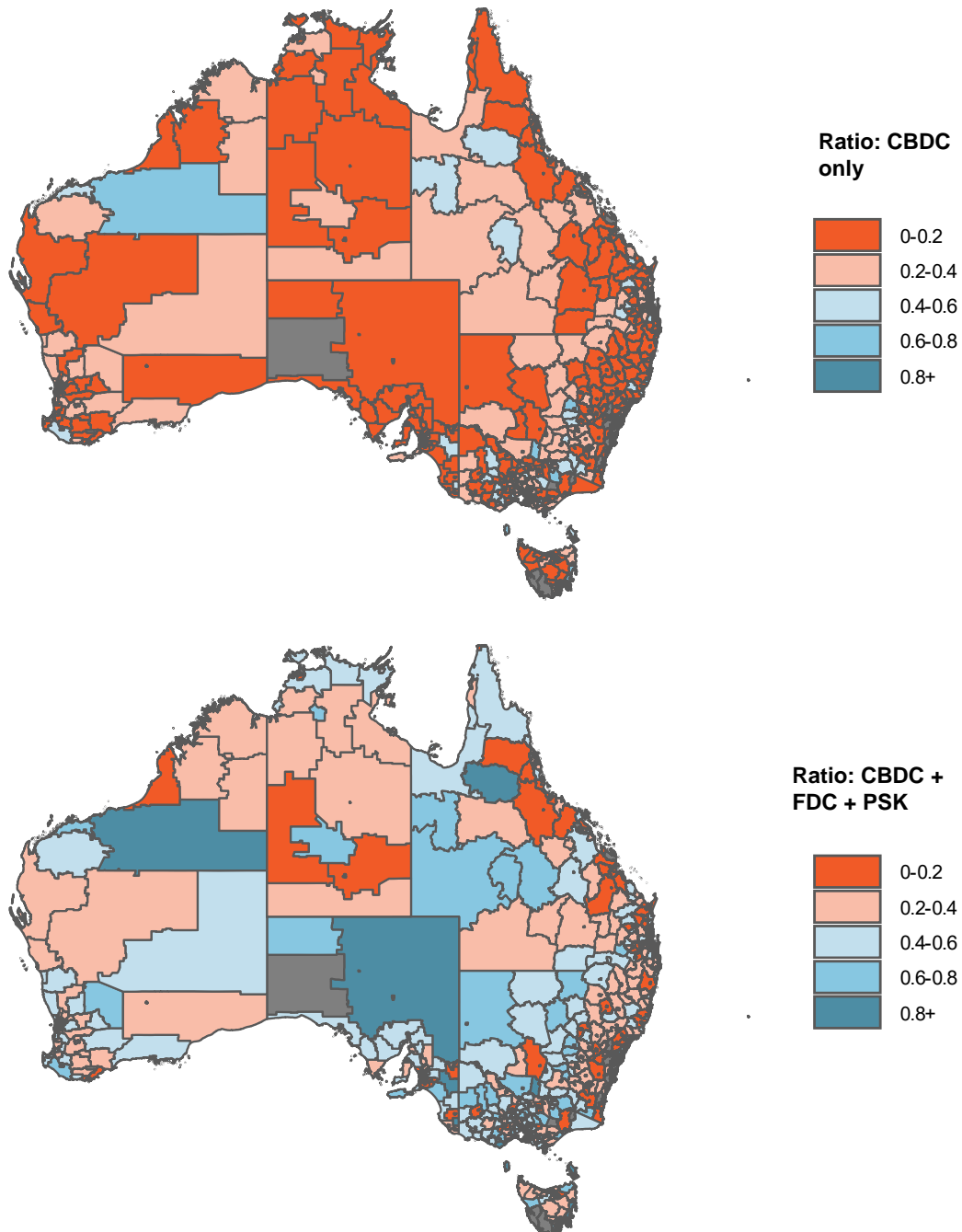
The ratio of approved ECEC places per child varies across Australia. ‘Heat maps’ provide a way to view the extent of variation in availability across the country (figure 5.11).

The ratio of approved ECEC places per child ranges from zero to about two, but for presentational purposes the ratio has been capped at one. There are 54 areas (of 1091) that have a ratio greater than one – these areas and the areas that surround them highlight the importance of in-depth analysis of areas. For example, some areas with a high ratio (greater than one) of approved places in CBDC to children aged 0–5 are surrounded by areas with poorer availability (box 5.5).

Variation in ratios between neighbouring areas means that while the Commission’s analysis might indicate problems with supply, it should not be used in isolation to identify areas where a CBDC or other forms of ECEC might be needed. Information on employment hubs, regional traffic flows and ECEC demand, for example, is required to build a more complete understanding and make more informed decisions about whether additional places are needed.

ECEC supply would need to expand to enable universal access. The supply gap is estimated to be as high as 130,000 places, or 15% of the number of existing places. However, this upper bound estimate assumes that all children aged 0–5 would require three days of ECEC. 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 necessary to address availability gaps for different age groups. 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, albeit still assuming that all children aged 0–5 years would require three days of ECEC per week.

**Figure 5.11 – ECEC availability varies widely across Australia<sup>a,b,c</sup>**  
**Ratio of number of approved ECEC places to 0–5 population**



**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.

Source: Productivity Commission estimates.

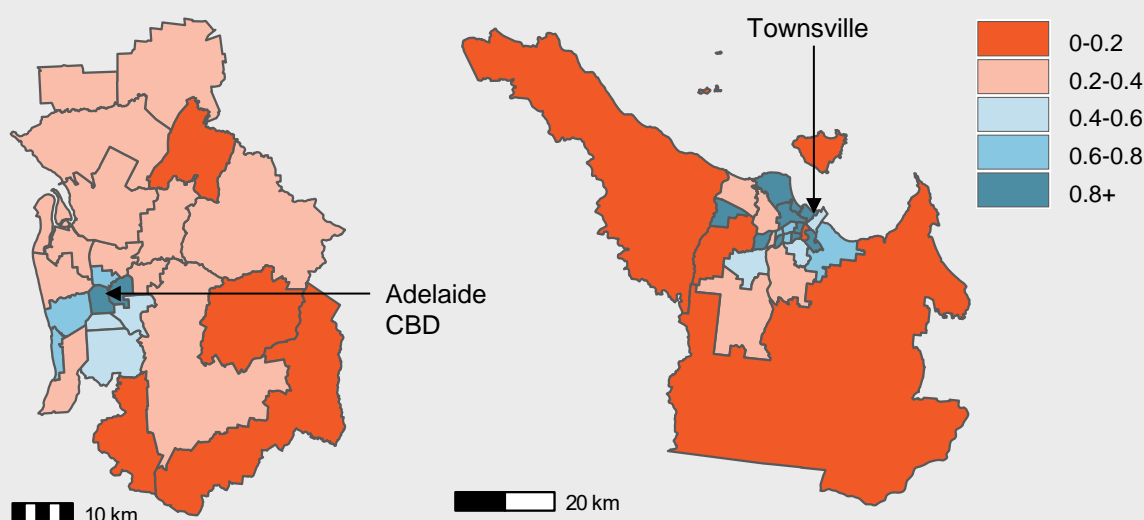
### Box 5.5 – Areas of relatively high availability of CBDC can be adjacent to areas of low availability

Ratios of approved places per child for geographic areas do not tell the full story. The heat maps below show areas where the ratio of CBDC is relatively high (greater than one) and the surrounding areas have poorer availability. (A ratio greater than one indicates that there is more than one approved place for each child living in an area.) These areas might include employment centres such as universities or airports that have onsite CBDC but have small or no local child populations and areas within city centres and regional cities where many people concentrate for work.

These examples highlight the challenges with defining markets and the importance of investigating geographic areas in more detail. Due to spillovers between local areas, it is difficult to fully capture and define a 'market' and therefore while some markets appear 'undersupplied' it may be that the adjacent area is considered relatively 'oversupplied'.

#### Examples of 'high supply' areas and the areas that surround them<sup>a</sup>

##### Ratio of approved CBDC places per child in the Greater Adelaide and Townsville (Queensland), and their surrounds



a. The availability picture improves when approved places in family day care and dedicated preschools are included in the analysis.

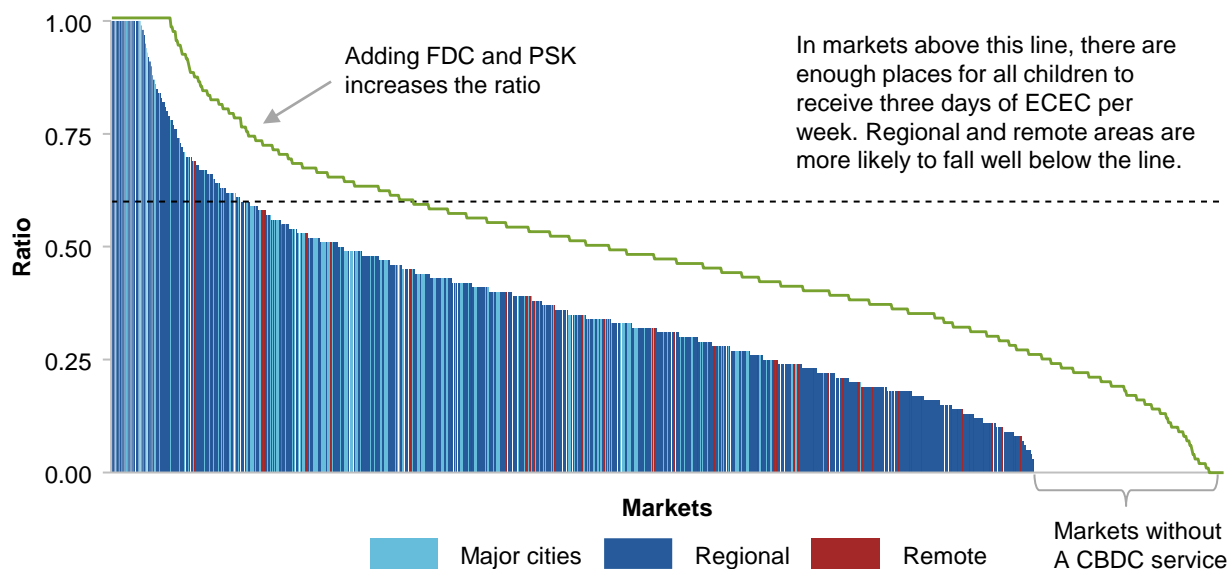
Source: Productivity Commission estimates.

### Availability tends to be lower in regional and remote areas

Looking only at CBDC, the distribution of ratios reveals considerable variation between local markets across the country (figures 5.12 and 5.13), with lower ratios more likely in regional and remote areas. In fact, 4 in 5 children living in remote areas are in a market with a ratio less than 0.333 (which indicates there is one CBDC place per three children) (table 5.2). (Reasons why ECEC availability may be poorer in regional and remote areas are discussed in section 5.4.)

**Figure 5.12 – Availability of CBDC varies widely across Australia<sup>a,b</sup>**

**Distribution of the ratio of CBDC places per child by geographic area and remoteness**



**a.** Ratio is calculated as the number of approved places per child aged 0–5 in a local area. The number of approved places are as at Q4 2022 and population as at the 2021 ABS Census. **b.** When adding FDC and dedicated preschools to the ratio the order of the areas changes. The green line depicts the new distribution.

Source: Productivity Commission estimates.

Including FDC and dedicated preschools markedly improves the picture of ECEC availability – particularly in regional and remote areas (figures 5.12 and 5.13). Reflecting the relatively small number of places in FDC, much of that improvement comes from places in dedicated preschools. The Early Learning Association Australia (ELAA) (sub. 48, p. 16) made a similar observation about the effect of preschool. After adding dedicated preschools to the Mitchell Institute’s deserts mapping for Victoria, ELAA concluded that ‘whilst not completely remedying the issue of deserts, it shows that the areas of limited availability to ECEC would decrease’.

Reflecting the different approaches to delivery of preschool programs around the country, adding places in dedicated preschools increases the number of places per child by a larger margin in Western Australia, South Australia and Tasmania than in states and territories where program delivery through CBDC is more common.

The slightly larger increases in the ratio observed in regional and remote areas when FDC is added suggests that FDC is *relatively* more important in these areas compared to major cities. And the fact that median ratios are similar across remoteness areas when dedicated preschools are included in the ratio suggests that preschool availability tends to be considerably less of a problem in many communities than CBDC availability.

Of course, dedicated preschools do not address the ECEC needs of families with children aged under three, nor those of parents of older children looking for ECEC outside the hours that preschool programs run.

While availability improves with the inclusion of FDC and dedicated preschools, ratios in most communities remain well below a level consistent with all children being able to access three days of ECEC a week – were that something that families were looking for.



**Table 5.2 – 4 in 5 children in remote Australia live in areas with fewer than one CBDC place per three children**

**Number and proportion of children aged 0–5 living in an area with a ratio of places to children of less than 0.333 by remoteness**

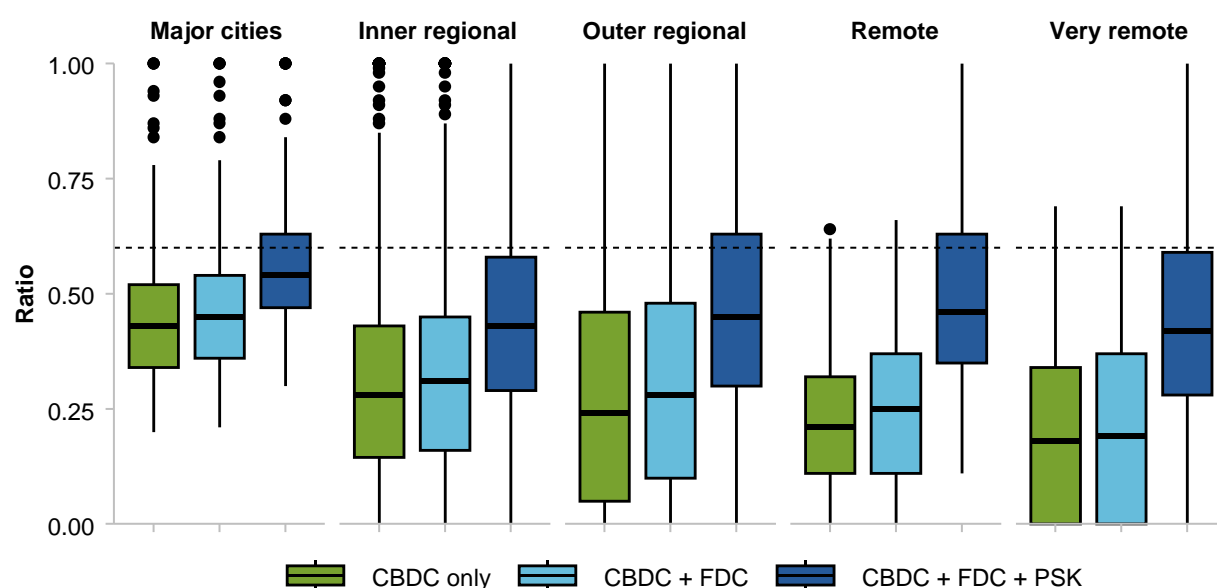
	CBDC ratio<0.333		ECEC ratio<0.333 <sup>a</sup>	
	Number of children	Per cent of children	Number of children	Per cent of children
Major cities	368,082	31.0	31,682	2.7
Inner regional	137,194	52.9	59,278	22.9
Outer regional	68,219	58.1	36,395	31.0
Remote	15,482	80.7	2,993	15.6
Very remote	10,662	81.3	3,417	26.0
<b>Total</b>	<b>599,639</b>	<b>37.6</b>	<b>133,764</b>	<b>8.4</b>

a. ECEC ratio = CBDC + PSK + FDC.

Source: Productivity Commission estimates.

**Figure 5.13 – Preschool markedly improves availability in regional and remote areas<sup>a,b,c</sup>**

**Distribution of ratios for CBDC (green), CBDC and FDC (light blue) and CBDC, FDC and dedicated preschools (dark blue) by remoteness**



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

Source: Productivity Commission estimates.

About 8% of children live in areas with a CBDC ratio above 0.6 and 38% of children live in areas that have a CBDC ratio below 0.333 (table 5.2). When approved places in FDC and dedicated preschools are added to the analysis, 21% of children live in areas with a ratio above 0.6 and 8% in an area with a ratio below 0.333.

In comparison, the Mitchell Institute found that 13% of children live in oases (ratio above 0.6) and 37% live in deserts (ratio below 0.333) (Hurley, Matthews and Pennicuik 2022, pp. 4, 28). However, as mentioned above, the Mitchell Institute counted children aged 0–4 instead of 0–5, did not include counts of approved places in FDC and dedicated preschools and characterised local markets slightly differently so these figures are not directly comparable.

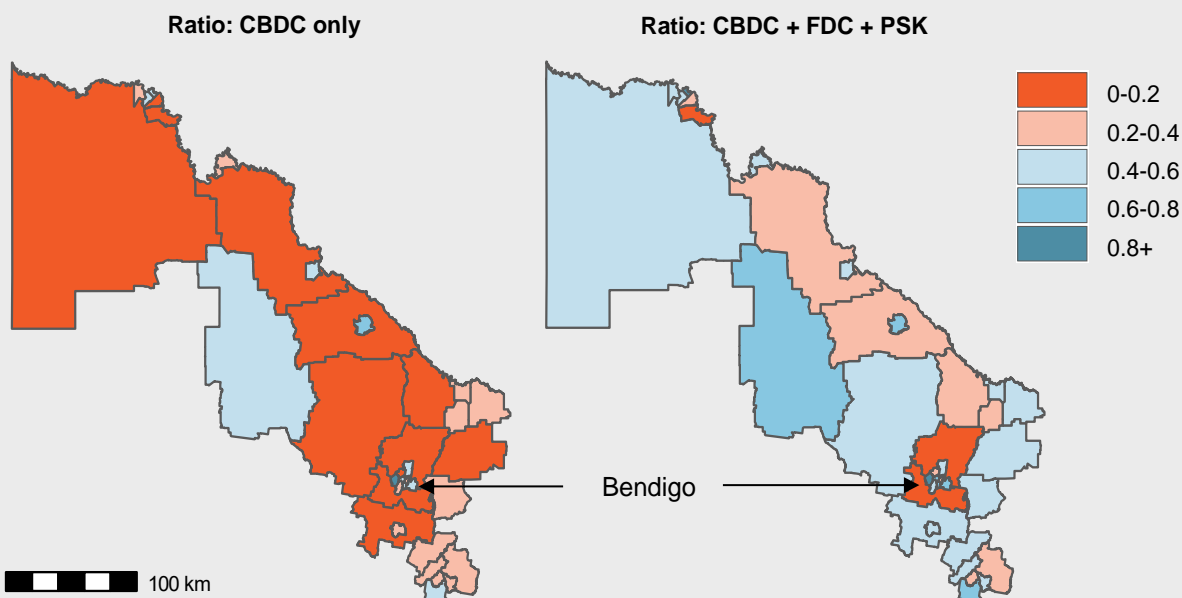
A case study of the Loddon Mallee region (box 5.6) illustrates the pattern of availability in one group of regional communities for which availability concerns were raised in this inquiry.

**Box 5.6 – Case study of the Loddon Mallee region**

Inquiry participants noted poor ECEC availability in the Loddon Mallee region (box 5.2). Ratio analysis illustrates the issue. The population aged 0–5 years in the region was about 20,800 at the 2021 Census, and CBDC places numbered 6,654 and total places – including FDC and dedicated preschools – numbered 10,485 at Q4 2022. These data produce a ratio of 0.32 CBDC places per child (or 3 children for every CBDC place), and 0.50 places per child when FDC and dedicated preschools are included (or 2 children for every ECEC place). Availability varies substantially across areas, and is higher in the more densely populated Bendigo area (figure below).

**There are two children for every approved ECEC place in the Loddon Mallee region<sup>a</sup>**

**Ratio of approved ECEC places per child in the Loddon Mallee region**



a. The Loddon Mallee region is defined as per the approach taken by Regional Development Australia Loddon Mallee (sub. 15, attachment 1, p. 12).

Source: Productivity Commission estimates.

**Availability also tends to be worse in lower socio-economic areas**

Looking at the distribution of ratios by the socio-economic status of communities, lower socio-economic areas fare worse, particularly in terms of CBDC and FDC availability (figure 5.14). For example, about

60 markets (or about 20%) in the bottom quintile do not have a CBDC service compared with only 6 markets (9%) in the top quintile.

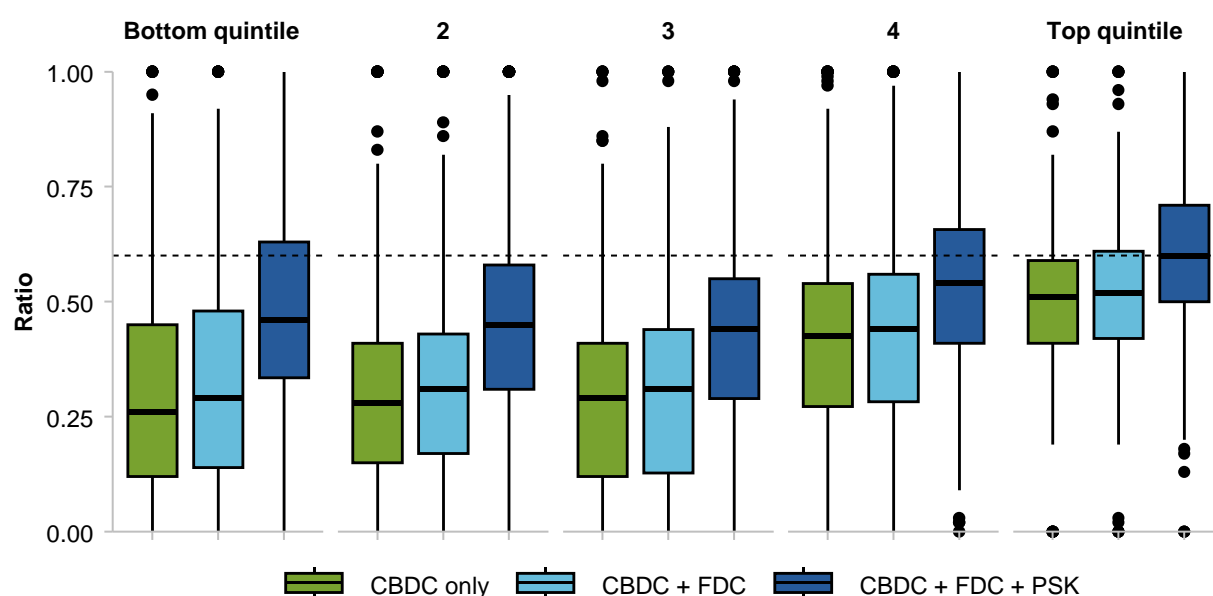
The Commission has also used regression analysis to look at the factors correlated with lower ratios. Other things equal, availability is also more likely to be worse (in the form of lower ratios of approved places to children) in communities with:

- lower labour force participation rates among mothers
- higher labour force participation rates among fathers
- higher rates of part-time work among mothers
- a higher proportion of Aboriginal and Torres Strait Islander people.<sup>13</sup>

Similar findings have been observed in other studies that have focused on characteristics associated with children's enrolments and attendance in ECEC in the year before school (which could also reflect poor availability and/or a lack of demand) (Restacking the Odds, sub. 149, p. 6).

**Figure 5.14 – Communities in lower socio-economic areas are more likely to have poor availability of CBDC<sup>a,b,c</sup>**

**Distribution of ratios for CBDC (green), CBDC and FDC (light blue) and CBDC, FDC and dedicated preschools (dark blue) by SEIFA**



a. Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged). The Commission used quintiles rather than deciles for this analysis. b. Boxes capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution. The 'whiskers', or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers represented as dots. c. The horizontal dashed line represents a ratio of 0.6, the benchmark where every child in a local area would have access to three days of ECEC a week.

Source: Productivity Commission estimates.

While it is clear that low socio-economic areas have poorer availability of ECEC services generally, the direction of causality is unclear. For example, poorer availability might reflect a lack of local demand or inability of the market to support an entrant or both. For this reason, the analysis can be used to identify areas where

<sup>13</sup> While these characteristics were associated with poorer availability, not all were found to be statistically significant in the regression analysis.

supply may look relatively low, but is not a roadmap for where building new services should necessarily be prioritised – communities need to be consulted so that actual local demand can be taken into account.



### 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.

## Availability in some areas is likely less than the analysis suggests

### Some services cap enrolments below their number of approved places

As noted above, the number of ECEC places included in the analysis represents the maximum number of places a centre is approved to offer to families. In reality, the number of places offered is sometimes lower. Hence, for some areas, the availability of ECEC is likely worse than the Commission's analysis suggests.

In 2021, the number of places offered by almost one quarter of CBDC services was below their approved capacity (Productivity Commission estimates based on National Workforce Census, 2021). While it is unclear whether this reflects vacancies or a capping of enrolments there is evidence that capping is occurring. In South Australia in early 2023, for example, 16% of CBDC services surveyed offered a capped number of places, and some services did so to maintain quality or provide more space for children (Deloitte Access Economics 2023b, p. 15).

Inquiry participants pointed to some services capping enrolments or places offered because of staff shortages and the inability to meet required staff–child ratios (Bermagui Preschool, sub. 49, p. 2; BHP, sub. 136, pp. 2–3; Cr. Graham Costin, sub. 26, p. 1; RDA BSW, sub. 112, p. 3; Phillip Island Early Learning Centre, sub. 5, p. 1). An Australian Childcare Alliance (sub. 150, p. 38) survey from May 2023 showed that 56% of their member services were capping enrolment numbers due to lack of staff. Similarly, One Tree Community Services (sub. 121, p. 8) submitted that their 'organisation currently operates as low as 64% capacity because [they] cannot meet staffing requirements'.

Staff shortages, and capping of enrolments, are likely more common in regional and remote areas because of greater challenges in attracting and retaining staff (paper 3; WA Government, sub. 162, pp. 14–15). In regional NSW, for example, one participant reported:

a lack of qualified staff for all the current centres ... Most centres are running at below capacity ... because they do not have enough educators to cover ratios for a full centre ... (Brief comment 95)

Regional Development Australia Kimberley (sub. 1, p. 1) also reported that 'Kimberley childcare centres have capped numbers, closed rooms and services ... predominantly due to workforce shortages and centres unable to meet staff/children ratios'.

### Availability may be worse for families with children aged 0–2

Evidence from inquiry participants and others suggests families with younger children might struggle more to find ECEC. For example, in the eastern suburbs of Sydney ‘many under 2s rooms in Centre Based care remain either closed or limited in capacity because of the sector wide staffing crisis’ (Tessier, sub. 17, p. 1). There are also reports of families with a child aged 0–2 having difficulties finding care (Waverley Council, sub. 132, pp. 3, 6). Some survey evidence from 2019 suggests that waiting lists were higher for children aged 0–2 than other age groups at that time, even though the proportion of children aged 0–2 on waiting lists had declined over time (Australian Community Children’s Services 2020, p. 42). And the ACCC’s Childcare report showed that waiting lists are far greater for children aged 0–2, with the average waiting list being about 150% of the offered places for children aged 0–2 compared to about 20% for children aged above three years at large CBDCs (ACCC 2023a, p. 149). Though estimates of waiting list data likely overstate demand if children are placed on multiple waiting lists, particularly for children aged 0–2.

Providers may have less incentive to cater for children aged 0-2. Costs of delivery are higher due to the higher staff to child ratios required for this group (ACA, sub. 150, p. 37; ACCC 2023b, p. 101; PC 2014, p. 383). And many centres’ uniform pricing practices – reflecting the Child Care Subsidy’s uniform hourly rate cap – mean that the price charged to families of children aged 0–2 may not fully recover the cost of delivery (PC 2014, p. 383). Some services might choose to limit, or not offer, places to this age group, or offer fewer places than their local community is looking for, rather than increase fees to reflect the higher costs of providing ECEC for younger children. (The longer-term risks of any cross-subsidisation are covered in section 5.6.)

Survey evidence is also consistent with some CBDC services preferencing older children. While almost all services offered places for children aged 3–5 in 2021, and 95% offered places for children aged two, and 88% offered places for children aged 0–1 – a slight increase on the proportion in 2016 (85%). For-profit and not-for-profit services were equally likely to offer care to children aged 0–1 in 2021, but for-profits were slightly more likely to offer places for children aged two (Productivity Commission estimates based on the National Workforce Census, 2021 and 2016). To some extent, these numbers might reflect demand for ECEC for young children. Families of children aged under two may have a stronger preference to care for them at home compared with families with older children (and many families also use Paid Parental Leave entitlements). For example, only 6% of all children under one used CCS-approved ECEC at the December quarter of 2022 (DoE 2023c).

### Every local market has different preferences for ECEC

Even where two markets have the same ratio, differences in demand can translate into differences in availability. If one market has much higher *actual* demand for ECEC services compared to the other, then availability would likely be poorer in the market with higher demand. The market with higher demand might be characterised by services with longer waiting lists, while services in the market with lower demand might have more vacancies.

Further, preferences for high-quality ECEC services *within* local markets, for example, might mean that some ECEC services are not fully utilised (and have vacancies) while others have extensive waiting lists.

Data on waiting lists and vacancies are limited and pose a range of issues in interpretation. For example, families tend to put their name on multiple waiting lists but do not remove it once they find a place. As a result, waiting lists can be overstated and out of date. Similarly, not all services report on their waiting lists or vacancies for children, or do not change their vacancy status once places are filled. While websites like Starting Blocks and Care for Kids<sup>14</sup> can help families in finding ECEC, they provide no indication of waiting

<sup>14</sup> <https://www.startingblocks.gov.au/> and <https://www.careforkids.com.au/>

lists, and vacancy data, while reported, may be out of date. Nevertheless, the Commission has drawn on a range of sources to provide some insights into these issues.

### **Waiting lists can be a sign of availability issues ...**

Markets where many services have long and extensive waiting lists have poorer availability even if the ratio of approved places per child is relatively high. Many inquiry participants have reported evidence of long waiting lists at ECEC services (box 5.2).

Although there is limited data on waiting lists from services, survey evidence from not-for-profit providers in 2019 showed that waiting lists were longer for CBDC than other forms of ECEC and that major cities and inner regional areas tended to have longer wait lists than other regional areas (remote areas were not included), especially for CBDC and preschool (Australian Community Children's Services 2020, p. 42).

ECEC providers benefit by using waiting lists – they have a ready list of self-identified customers to use their services as soon as places become available.

For families, the value of waiting lists is greatest if they are transparent and timely. Information on waiting lists and the realistic prospects of obtaining care can provide a better basis for families to plan their working lives and organise their ECEC requirements. In particular, families would benefit if providers were to publish:

- information on fees charged to families wishing to be added to the waiting list
- information on the number of families on the waiting list, ideally broken down into suitable age categorisations
- the number of places offered to children from their waiting lists. This information should be updated regularly (PC 2014, p. 406).

Paper 6 recommends that a 'one stop shop' website be established to provide better information to families including vacancy information (recommendation 6.9).

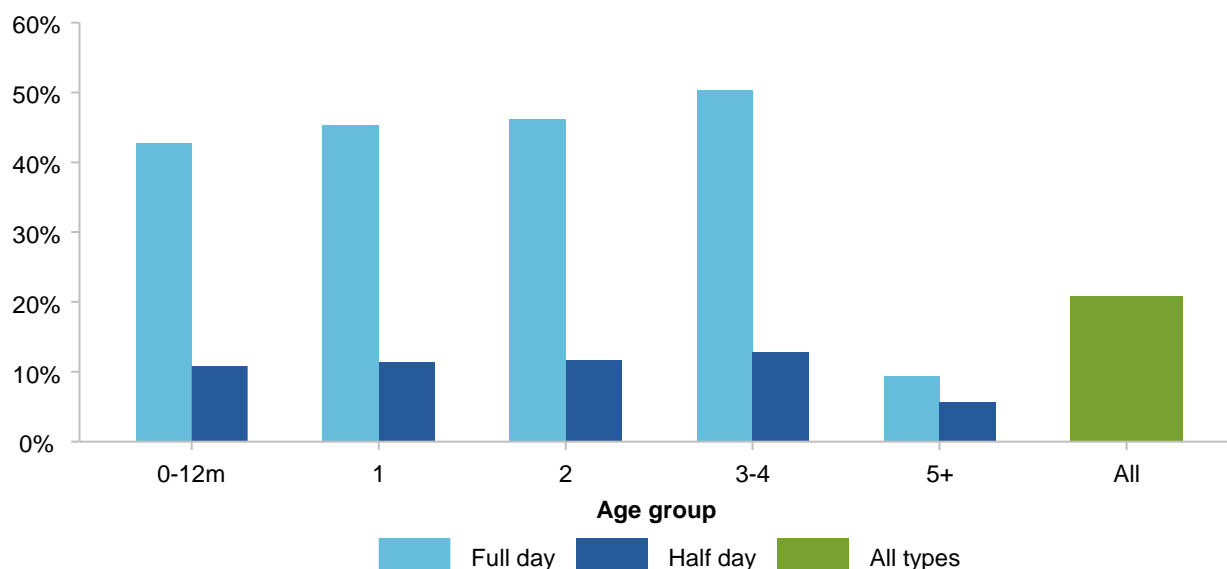
### **... but the existence of vacancies can signal higher availability**

Advertised vacancies by many centres in a market generally indicate better availability of ECEC, even if the ratio of approved places per child is relatively low. An advertised vacancy implies that a service has the capacity to take on a child if there is a match between the vacancy characteristics and the needs of the family.

Websites such as Starting Blocks and Care for Kids publish information on vacancies by service (and sometimes age, session type, permanency and day of the week) (ACECQA, sub. 6, p. 3). But services do not always update this information regularly (especially once a vacancy is filled) and some services do not report on vacancies at all, as reporting is not a requirement. Therefore, information on vacancies found on these websites may not be very informative for families looking for care.

Nevertheless, the information from these websites suggests that vacancies in ECEC services are reasonably common. For example, for children aged two, about 45% of CBDC services reported a vacancy for a full day and 10% reported a vacancy for a half day in a reference week in November 2022, while one-in-five CBDC services nominated having a general vacancy for any age, any session type and that it was on a permanent basis (figure 5.15).

While useful, this vacancy data does not present a granular picture of availability of ECEC places. Families with children of particular ages, or in particular locations, may find it difficult to access ECEC even if vacancies are present. For example, a family with a 1-year-old child cannot use a service that has vacancies for children aged 3–4 years. Similarly, vacancies tend to be more common for Mondays and Fridays, so families who require care on Tuesday, Wednesday or Thursday may face more difficulties in accessing ECEC (Productivity Commission estimates based on DoE Starting Blocks data).

**Figure 5.15 – Vacancies are quite common in CBDC services<sup>a,b</sup>****Per cent of CBDC services with a vacancy for a weekday by age and session type, 2022**

**a.** Data is for a random week in November 2022. 6,400 CBDC services recorded information on vacancies for the given week, about 70% of all CBDC services. A service is recorded as having a vacancy if they had a vacancy on any weekday that was permanent (not casual). **b.** The category 'All' represents CBDC services that nominated that they had a vacancy for any age group and for any session type during the week.

Source: Productivity Commission estimates based on DoE Starting Blocks data (unpublished).

## 5.4 Why do some markets have poorer availability of ECEC?

Well-functioning markets provide services where there is demand for them. The observation of areas with poor availability of ECEC around Australia – and more so in regional and remote areas – suggests two things:

1. there is a lack of sufficient and consistent demand to support ECEC centres at prices that families are willing to pay in some areas (also known as thin markets) and/or
2. there are impediments to supply responding to demand. Such barriers to entry, where they are the result of government regulation, are discussed in papers 3 and 8.

### ECEC markets can be thin markets ...

A range of motivations can prompt a provider to establish a service, but that decision is ultimately based on whether the service will be viable. This is not a requirement exclusive to for-profit firms; not-for-profit providers also need to cover their costs. (Though the ACCC (2023a, p. 25) notes that some providers with multiple services may use surpluses from one service to cover losses in unprofitable services.)

For the most part, the CCS has enabled significant service expansion in metropolitan areas, with services responding to increasing demand from working parents. In many other areas, however, the story is different, reflecting high costs of provision, low capacity to pay (a consequence of low income and limited access to subsidised care due to the activity test) or a combination of both. These areas are often referred to as thin markets – that is, where demand for ECEC is too low or inconsistent to support the competitive provision of

services. Delivering appropriate services in such markets will generally require additional forms of government support such as subsidised care or direct provision (section 5.5).

Many regional and remote areas, for example, have poorer availability of ECEC due to the higher cost of delivery. Regional Development Australia Loddon Mallee (sub. 15, attachment 2, p. 4) has outlined the unique barriers to running and accessing ECEC services in rural areas including:

- Demand is spread across wide geographic areas making services unprofitable. Commercial services cannot generate the economies of scale and higher fees that promote business development and investment in urban areas
- There are not enough early educators to keep services open. Victoria has a shortfall of 2,916 early years educators, and workers are hard to attract due to the low pay. Workers in rural areas cannot work across a number of services to increase hours
- Regulatory barriers (arising from the disconnected funding systems across the Commonwealth and State) hinder the development of the novel joint-use solutions<sup>15</sup> required in rural areas
- Families face higher travel costs and the current funding arrangements leave them out of pocket.

In most markets, higher cost of delivery is recovered through higher prices. But the hourly rate cap element of the CCS provides a benchmark for prices – prices *can* be higher than the cap but families will not get any subsidy beyond that point. Hence, families in regional and remote areas may not be willing or able to pay the higher out-of-pocket expenses that would induce greater supply in these areas. Indeed, the ACCC (2023a, p. 1) found that ‘market forces alone are not meeting the needs of all children and households’.

The ACCC uses the terms ‘under-served’ and ‘unserved’ to refer to both areas and cohorts with varying levels of poor ECEC availability:

- ‘under-served’ markets are those with limited availability of places based on geography (that is, regional and remote communities with workforce shortages and areas of relatively socio-economic disadvantage) or for cohorts of children (that is, children with disabilities, aged 0–2 or complex needs or Aboriginal and Torres Strait Islander children)
- ‘unserved’ markets are those with one or no providers willing to supply (even with existing government supply-side funding) and very high supply costs. These are typically remote–very remote markets and relatively disadvantaged areas. (ACCC 2023a, p. 204)

While these terms describe the current level of availability, they do not consider the varying levels of demand for ECEC.

The Commission uses the term ‘thin markets’ because it provides a clear definition of what *causes* poor ECEC availability and therefore what the solution should be. Thin markets – not necessarily under-served markets – should be prioritised for supply-side funding (section 5.5). Thin markets are most similar to the ACCC’s ‘unserved’ markets.

Under-served *cohorts* – such as families with unique ECEC needs, children with a disability, or Aboriginal and Torres Strait Islander communities – are covered in paper 2 and non-cost barriers faced by families are covered in paper 7. Recommendations to increase the CCS rate for low-income families and remove the activity test (paper 6) and expand the Inclusion Support Program (paper 2) should support increased availability for these cohorts.

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<sup>15</sup> Joint use could include running an ECEC service in underutilised physical space. Section 5.5 discusses joint-use for ‘in-venue’ family day care services.



### ... but in some areas, low supply may reflect low demand

In some areas, lower relative ECEC availability might reflect lower demand for ECEC. For example, some areas might have lower maternal labour force participation rates – or indeed higher maternal part-time work rates – due to a lack of jobs, preferences related to cultural beliefs or weaker financial pressures on secondary income earners because of lower costs of living. This is consistent with the ACCC’s (2023a, pp. 161–162) finding that demand – as measured by waiting lists – is lower in areas of lower socio-economic advantage.

The population in a thin market is also important for determining the appropriate solution to addressing poor availability. Very remote areas with low populations that do not currently support a centre would likely never support centre-based care but services could be provide in other ways.

Exploration of community preferences for ECEC, and consideration of place-based needs, should happen as part of any response to low levels of availability (paper 7).

Potential strategies for developing ECEC in different areas are discussed in section 5.5.

## 5.5 What might be done to address availability issues?

This paper has presented evidence of availability issues in some ECEC markets (section 5.3) and discussed possible reasons why these issues might exist and persist (section 5.4). This section explores whether current policy measures would be sufficient to support an expansion of ECEC availability in thin markets. The section focuses on policies associated with physical capacity and operating expenses. Policies related to addressing workforce shortages, also a constraint on provision, are covered in paper 3.

This section only considers ECEC services other than dedicated preschools and OSHC. High levels of preschool enrolments for children in the year before full-time schooling (SCRGSP 2023), and planned growth as a result of state governments’ policy announcements (appendix E), suggest preschool availability does not need further focus. Consideration of improved access to OSHC is included in paper 10, as part of recommendations for a new national agreement on ECEC.

Improving ECEC availability requires different solutions in different communities.

In many parts of Australia, the ECEC market offers services that cater for the needs of many children and families. Nonetheless, there are communities where supply of services is far lower than what would be required for all local children to receive three days a week of ECEC and, in some places, no services are available. These communities are generally:

- in regional towns, where demographic and economic fluctuations can make ECEC provision unviable
- in remote communities, where the population is dispersed over a large area and service delivery is challenging
- in Aboriginal and Torres Strait Islander communities, where Aboriginal community controlled organisations may face particular challenges – particularly parental disengagement from the CCS – in delivering services
- on the outskirts of major cities.

But there are other markets that possess none of these characteristics but supply is below the level that would be required for local children to receive at least three days a week of ECEC. It is likely that some these markets will experience an increase in the supply of services if the Commission’s demand-side recommendations are adopted and therefore may not need any supply-side support. Recommendation 6.1,

for example, increases the rate and eligibility of the CCS for many families and this could result in growth in demand that is accommodated by the market in many areas (box 5.7).

Potential supply-side solutions for situations where ECEC availability is poor and will remain poor are canvassed below. The section analyses current grant (or block-based) funding arrangements, family day care and In Home Care. The important role of Aboriginal community controlled organisations, programs like the Early Years Education Program and the funding mechanisms that can support them are discussed in papers 2, 7 and 9.

**Box 5.7 – Which markets may see increased provision through market forces with the Commission’s recommended changes to the CCS?**

Recommended changes to the CCS subsidy rate and activity test may increase demand in markets such that there would be an expansion of supply in response (without government supply-side support).

The Commission estimated the maximum potential increase to numbers of children using ECEC resulting from two components of recommendation 6.1 (paper 6) – a 100% CCS rate for families with incomes less than \$80,000 and removal of the activity test. The estimate includes *all* children who would be affected by these policy changes. In other words, the maximum increase in potential demand, is the number of children aged 0–4 not using ECEC and who:

- have a gross family income below \$80,000 per year or
- are not entitled to at least 30 hours per week of subsidised ECEC due to their parents not satisfying the activity test.<sup>a</sup>

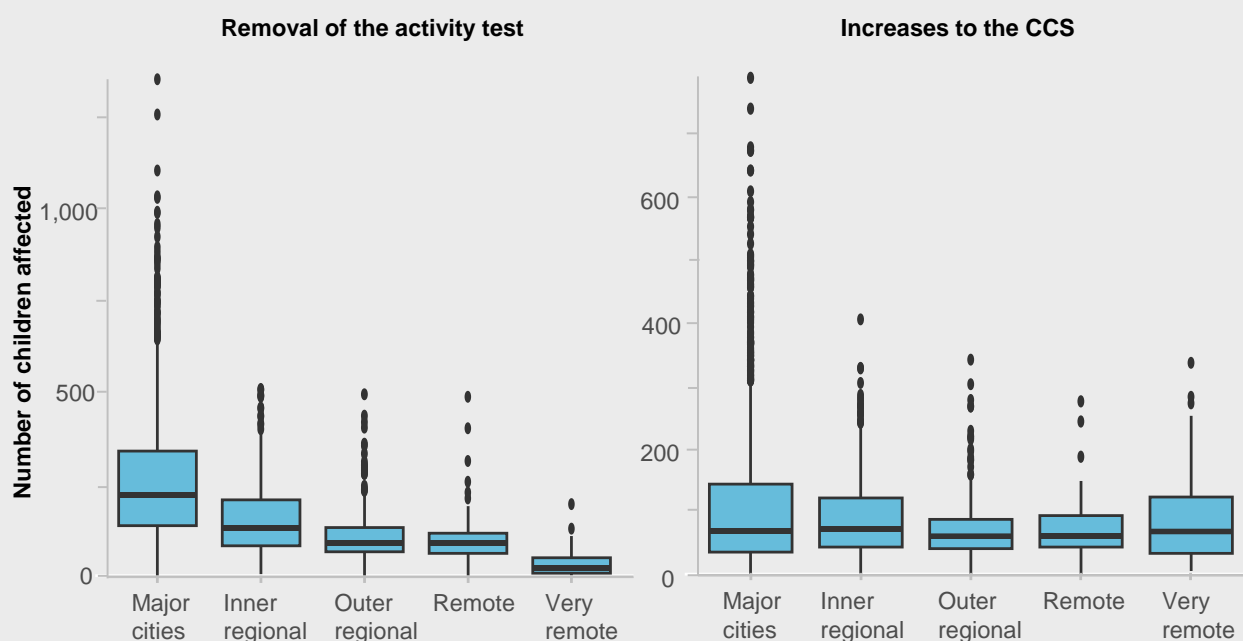
Assessing where these young children live can shed light on where new ECEC services would likely enter. For example, if the increase in potential demand is large enough to support a service, then providers may set up new services in these markets without any government supply-side support.

Removal of the activity test will make many children eligible for subsidised ECEC, most of whom live in major cities (figure below). Across the roughly 1,500 markets in major cities, the median number of children who do not currently use ECEC and would be eligible following removal of the activity test is about 250 – totalling about 400,000 children. It is therefore likely that services would enter these markets as the average CBDC service has an average of 87 children attending in a given week (Productivity Commission estimates based on DoE administrative data). The extent and swiftness of the market’s response would depend on workforce and any other supply constraints. There may also be entry into some regional and remote areas, but there will still be markets what will not see a large enough increase in potential demand to induce a market response. These markets require other solutions, such as government supply-side funding.

Increases to the CCS for low-income families may also increase demand in markets, but would affect a smaller number of children than the removal of the activity test.

### Box 5.7 – Which markets may see increased provision through market forces with the Commission’s recommended changes to the CCS?

The Commission’s recommended changes may prompt a market response in major cities and some regional markets<sup>a,b</sup>



a. Population data from the 2021 Census were linked with CCS administrative data in the ABS DataLab environment via a 'spine' dataset (ABS 2024). This linked data was used to identify the population of children aged 0–4 who were not attending ECEC in 2020–21 (by excluding those who were attending for at least four weeks) and the characteristics of these children and their families. Not all children who attend ECEC could be identified (for example, those in dedicated preschools) and consequently the analysis overestimates the number of non-users. Gross family incomes reported in the Census were used as a proxy for adjusted taxable income used to determine families' CCS rates. Work hours of the parent with fewer work hours was used as a proxy for activity hours under the activity test. Markets are defined as SA2-level areas in this analysis. b. These box and whisker plots show the median (black horizontal line), two hinges at the 25<sup>th</sup> and 75<sup>th</sup> 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.

Source: Productivity Commission estimates.

## Governments run grant funding programs

The Australian Government already has a supply-side funding program to support provision – the Community Child Care Fund (CCCF). The program supports 'service providers to reduce barriers to accessing child care' (Australian Government Department of Education, sub. 90, p. 23). The CCCF runs alongside the CCS to support services:

- where the CCS is insufficient to ensure viability or
- to fund expansion in areas of limited supply or
- to address barriers to ECEC participation within a community (paper 7).

Support is provided through a range of grants (box 5.8).

Relatively speaking the CCCF is small, but it is a crucial part of the ECEC system. As at February 2023, CCCF open competitive grants supported 1,051 services – or about 7% of all services – via \$180 million in funding and restricted grants supported 161 services via \$225 million in funding (Productivity Commission estimates based on DoE administrative data). By comparison, expenditure on the CCS is forecast to be \$55.3 billion between 2023-24 to 2026-27 (Australian Government Department of Education, sub. 90, p. 5).

### **Box 5.8 – What is the Community Child Care Fund?**

The Community Child Care Fund (CCCF) provides five types of grants: open competitive, restricted, restricted expansion, special circumstances and Connected Beginnings.<sup>a</sup> The CCCF also covers a business support program. CCCF grant recipients are required to provide financial statements including a final financial acquittal, and financial declaration or an independently audited financial statement as required by the Department of Education.

#### **Open competitive grants**

Open competitive grants are available for three types of support: sustainability (keeping a service viable), capital (supporting the building or extending of physical centres), and community (addressing community-level barriers to participation such as disengagement or cultural safety concerns).

To be eligible for open competitive grants a service needs to be a Child Care Subsidy (CCS) approved operator and be either:

- located in, or servicing families from a ‘CCCF priority’ area or
- servicing regional, remote or very remote areas or
- providing specialised childcare services to a vulnerable or disadvantaged sector of a community.

CCCF priority areas are published for each round, and can change between rounds, but are generally related to the socio-economic characteristics of a community and levels of child vulnerability.

Four rounds of CCCF open competitive grants have been run. Results from round 1 were announced in April 2018, round 2 in August 2019 and round 3 in July 2021. Round 4 applications closed on 8 March 2024.

In the 2022-23 October Budget, an additional \$18 million was allocated to support the establishment of up to 20 services in areas of limited supply. This was a projected estimate based on the maximum amount of funding available per service. A service is eligible for a maximum of \$900,000 over two years: \$600,000 for establishment and sustainability support and \$300,000 for capital support. Establishment support might, for example, cover costs of attaining Family Assistance Law approval while capital support covers some of the costs of building a new centre or extending or modifying existing buildings. Applicants must make a capital contribution of at least 50% of the total cost of the project, though this can be waived on a case-by-case basis.

Grants can be for new centre-based day care or family day care services in areas experiencing disadvantage in regional and remote Australia where there are no or limited services. Grants are for the 2-year period covering financial years 2023-24 and 2024-25. Based on the applications received and assessed, total funding of \$16 million was recommended to support the establishment of 47 new services (Department of Education, pers. comm., 27 October 2023). Of the 47 grant recipients, 34 were FDCs (which helps to account for the larger number of services funded and smaller budget than anticipated).

### Box 5.8 – What is the Community Child Care Fund?

Two hundred priority areas in regional and remote Australia were listed for the limited supply round. Areas were identified on the basis of Australian Early Development Census data, Socio-Economic Indexes for Areas from the ABS and the ratio of children to approved services in an area (not approved places).

#### Restricted grants

Restricted grants are primarily for former Budget Based Funded (BBF)<sup>b</sup> services and are intended to supplement the fee income of these services to ensure they remain viable. Funding is related to previous service funding levels and is adjusted for expected fee income and subsidies from the CCS. In 2022-23, sustainability grants were projected to be \$35 million compared to \$250,000 for capital grants. The funding is designed to be tapered over time such that services can eventually be entirely supported by CCS and the Additional Child Care Subsidy.

A review of the CCCF restricted program is underway and due to be completed in 2024.

#### Restricted expansion

The CCCF restricted expansion is a \$29.9 million program over four years from 2021 for up to 20 new services. The expansion is aimed at increasing the participation of Aboriginal and Torres Strait Islander children in CCCF restricted services as part of the Commonwealth's *Closing the Gap Implementation Plan*. The new services will be delivered by Aboriginal community controlled organisations.

#### Business support

Within the CCCF, the Department of Education provides advice without charge to grant recipients who need support to improve service viability or sustainability. The Government has allocated \$1.1 million per year from 2022-23 to 2025-26 to deliver business support and has engaged BDO Services Pty Ltd to deliver the support.

**a.** Special circumstances grants are one-off grants following an emergency or natural disaster and are not relevant to supporting persistent thin markets. Connected Beginnings primarily supports Aboriginal and Torres Strait Islander families' access to health and family support services and is not the focus of this section. **b.** Budget Based Funded services were non-mainstream services – including centre-based day care, outside school hours care and Multifunctional Aboriginal Children's Services – that were block-based (or grant) funded. This program preceded the CCCF.

Source: AIFS (2023, pp. 4–6); Bray et al. (2021, p. 308); Commonwealth of Australia (2023b, p. 55); DoE (2022, 2023a, pp. 8–9, 2023e, 2023b; sub. 90, p. 23).

## State governments are also expanding early learning services

A number of state governments have committed to establishing early learning centres. For example, the NSW Government announced \$20 million for new not-for-profit early childhood education centres to be built in high-growth and regional areas and another \$20 million under the Flexible Initiatives Trial with one aim being supporting FDC provision in regional and remote areas (NSW DoE 2023). The Western Australian Government announced grants of up to \$100,000 to local governments to improve early childhood outcomes (Winton 2023). Similarly, the Victorian Government announced that 50 government-owned and operated early learning centres will be established from 2025. And the South Australian *Royal Commission into Early Childhood Education and Care* recommended that the South Australian Government could consider capital funding to support the establishment of new services or the expansion of existing services (SA Government 2023a, p. 12).

The establishment of early learning centres by federal, state and territory governments is not necessarily coordinated. The Commission recommends that federal, state and territory governments' responsibilities should be clarified through a new national agreement on ECEC (paper 10).

## **Changes to the CCCF would be needed to support universal availability**

### **Communities have different support needs – the CCCF only partially meets them**

The nature of support needed by communities can vary.

A community might consider it has sufficient demand to support a service and be keen to establish one but be unsure of how to go about it. In cases like this, provision of information through an advisory service may be sufficient.

Another community might have sufficient demand to cover the operating costs of a service (such as wages, rent and other overheads) via CCS and the Additional Child Care Subsidy (ACCS), but a service is unviable without further support because expected earnings would not cover the capital costs of building or expanding physical facilities. Funding to support the establishment of a service might be a solution.

A smaller number of communities will likely need intervention because the level of demand is too low or variable to support all of the costs of operating a service or the population has significant cultural barriers to accessing CCS or ACCS. If these areas also struggle to recoup capital expenses, they would then require funding for capital *and* at least some operating expenses.

Variable demand that discourages providers from establishing a service has implications for families' labour force participation. Families without other sources of support need the certainty of secure ECEC provision (that is, that a service will continue to be available if numbers fall below a viable level) before taking on paid work. Secure ECEC also has the broader benefit for communities of attracting workers to other sectors – for example, health practitioners.

Both the capital support element of the general CCCF open competitive grant rounds and the 2023 limited supply round could provide adequate commercial incentive for a provider to enter a persistently thin market. The former might lower the hurdle for entry in communities that only require capital support. The latter addresses situations where demand might be below the level needed to cover the costs of both establishing and operating a service.

But as they currently stand, neither program would adequately address needs in persistently thin markets if the policy goal were to ensure that every child aged 0–5 has access to at least 30 hours or three days of ECEC a week for 48 weeks of the year. A baseline level of funding will also be required in thin markets to meet the goal of universality. This section discusses potential program changes before considering the need for advice in some communities and for some provider types.

### **Box 5.9 – Principles to guide any trials of alternative funding approaches**

As discussed in paper 9, improvements to the current funding architecture would be the most efficient and effective approach to delivering a universal ECEC system, but the expansions in supply-side funding represents an opportunity to run trials of alternative funding approaches.

A trial can be a useful way of discovering information. The Productivity Commission's (2022a, p. 43) 5-year Productivity Inquiry, for example, recommended that trials can identify worthwhile programs when supported by quality evaluation.

To ensure that trials provide useful information, they need to be implemented carefully. Principles that should guide the design of any trial conducted in conjunction with the ECEC Development Fund follow.

- A wide sample of services should be selected that represents many different areas so that the results can be relevant across Australia.
- Areas should be randomly assigned so that they can be analysed as a randomised controlled trial – where the outcomes in trial areas are compared to outcomes in comparable non-trial areas.
- There should be ex-ante agreement on which outcomes are to be measured, and how success will be determined. As part of its research agenda, the ECEC Commission should consider the results and evaluations of the trial (paper 10).
- Trials should be strictly time limited. Trials of this nature may be met with resistance when unwound and there needs to be prior agreement of the consequences if the trial is unsuccessful.
- Costs should be closely monitored. And the funding mechanism must be designed such that each centre is receiving the amount they need to provide ECEC and that there are incentives to deliver efficiently.

## **CCCF open competitive grants would be inadequate if the policy goal were availability of at least 30 hours or three days a week for all children for 48 weeks of the year**

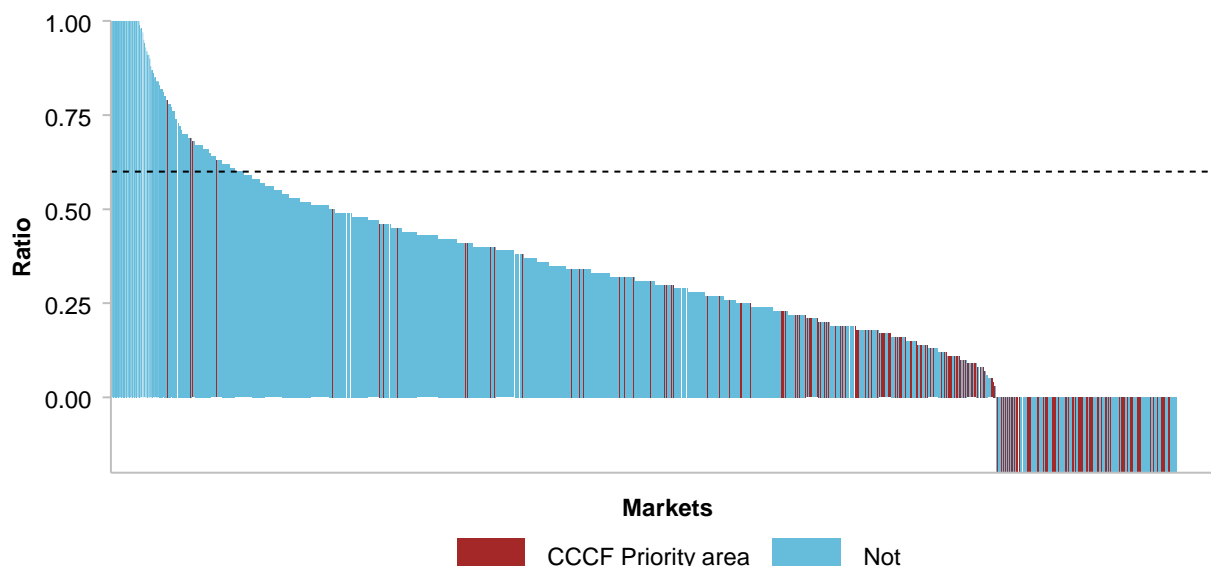
### **Eligibility criteria do not identify all thin markets**

Inclusion of the ratio of children to approved services in the criteria for priority areas for the 2023 limited supply round is aligned with the goal of addressing persistently thin markets. By comparison, previous rounds only considered Australian Early Development Census data and Socio-Economic Indexes for Areas from the ABS which are not necessarily proxies for thin markets but instead target disadvantage.

The priority areas identified for the limited supply round tend to be those with particularly low ratios of approved CBDC places to children (figure 5.16). And taking into account preschool and FDC places, the difference between the number of approved places in Q4 2022 and the number that would be required for every local child to access three days (or 30 hours) of ECEC per week is far greater in priority areas. Priority areas have a median deficit of 87 approved places in comparison with a median of 52 places across all regional and remote SA2s.

**Figure 5.16 – Priority areas for the CCCF limited supply grant are generally the areas with the least number of places per child<sup>a,b</sup>**

**Distribution of the ratio of CBDC places per child by CCCF priority area**



**a.** Ratio is calculated as the number of CBDC approved places per child in a local area. The number of approved places are as at Q4 2022 and population as at the 2021 ABS Census. **b.** Markets with no approved places (a ratio of zero) are shown as negative values so the CCCF priority areas (red lines) are visible.

Source: DoE (2023e); Productivity Commission estimates.

But there are many areas with low levels of availability that are not on the priority list (section 5.3). As previously noted, some areas might become viable locations for non-government providers if demand increased following removal of the activity test and a lift in subsidies for lower-income families (box 5.7). Non-government providers would likely respond just as they have responded to past increases in demand in these areas. Other areas are likely to remain thin markets that would not be attractive to non-government providers without further support.

If the CCCF open competitive grant program were to be used to lift availability in persistently thin markets, the eligibility criteria should include the ratio of approved *places* (rather than approved services) per child and be expanded to ensure all persistently thin markets were identified.

**Funding levels are likely well below what would be needed**

Looking at provision within the priority areas identified for the limited supply round (including preschool places), the Commission estimates that about an extra 20,000 places would be required to ensure sufficient availability to enable every child to attend three days (or 30 hours) of ECEC per week. Though some of these places will be provided through private expansion rather than the CCCF. If dedicated preschools are not included in the current place count, an additional 30,000 or so places could be needed. Moreover, as noted, there are areas of low availability in regional and remote areas that are not on the priority list. Looking at all regional and remote areas, the ‘places gap’ is about 45,000 (when dedicated preschools are included in current availability), and about 110,000 (when dedicated preschools are excluded).

And, while not all families in these areas would seek to use three days of ECEC a week, it could be assumed that many would. The estimates suggest that there is likely a sizeable gap between potential demand and available places in many of these areas.



Under Round 3 of the CCCF open competitive program, only 25 applicants received capital support (DoE 2021). (It is unclear whether this is because funding was capped or the terms of the grant mean it was unattractive to providers.) Assuming these services provide 70 places each (the average size of a CBDC service, Productivity Commission estimates of ACECQA data as at Q4 2022), this funding will translate into an additional 1,750 places. It is difficult to calculate how many additional places will be provided by the CCCF limited supply grant of \$16 million to 47 services, but Productivity Commission estimates using Department of Education administrative data suggests that the annual budget of \$150 million supports about 57,000 places. (Though these places are primarily funded by the CCS – the CCCF funding is in addition.)

This additional capacity will likely fall well short of what would be needed if the policy goal were to make at least 30 hours or three days a week of ECEC available to all children aged 0–5 whose families wanted to access it. While expansion of the CCCF restricted program would also address some of the ‘places gap’, funding for other programs would likely need to be significantly boosted.

### Grants as they stand are unlikely to attract providers to some thin markets

CCCF open grants require that both the provider applying for a grant *and* the service for which a grant is sought are approved under Family Assistance Law. Essentially, no new services can receive grants. But persistently thin markets would have very few, if any, incumbent services eligible for grants. This restriction might explain why only 25 applicants received capital funding under Round 3 of the CCCF open.

The 2023 limited supply round goes some way to remedying this as only the *provider* needs to be approved under Family Assistance Law. This approach should be continued for further initiatives targeting persistently thin markets.

Yet, there is some evidence that the expanded eligibility criteria used for the limited supply round are still insufficient. One case study in the Parenthood’s (2023, p. 9) *Choiceless* report details how a volunteer working group in the South Australian town of Crystal Brook struggled to attract grant funding due to it only being available to approved service providers.

Additional potential deterrents for applicants, as noted in box 5.8, are that grants in the limited supply round are for two years and providers must contribute at least 50% to the total cost of the project. This can be a large deterrent for prospective service providers. Outside the context of the CCCF, others have pointed to the difficulties not-for-profits have in accessing capital (C&K, sub. 155, pp. 7–8; ECA, sub. 302 p. 34; Goodstart Early Learning, sub. 277, p. 97; KU Children’s Services, sub. 303 p. 5; NSW Government, sub. 312, p. 6; SVA, sub. 247, p. 10; SA Government 2023b, p. 104).

As Deloitte Access Economics (2023a, p. 52) noted, time-limited CCCF grants can be a large impediment to service providers if grants represents a large part of their funding. Goodstart Early Learning (sub. 125, p. 68) submitted that CCCF grants have been inadequate ‘particularly where funding supports service establishment but there is insufficient demand in the community to rely on a demand-driven subsidy like the CCS for long-term service viability’. And C&K (sub. 306, p. 12) submitted that ‘short-term funding agreements ... are onerous and place additional requirements on staff in centres that are already experiencing significant staffing and workforce challenges’.

### An enhanced and expanded funding program should be considered for persistently thin markets

A program of government grant funding will be essential to achieving a universal ECEC system. Even if policy changes led to significant increases in demand (box 5.7), thin markets will likely remain across many areas in regional and remote Australia – that is, markets that would be unable to support the competitive

provision of services. Some markets also might not adjust quickly enough to meet governments' objectives for the ECEC sector.

The areas that should be targeted for immediate support are those with relatively small populations and low ratios of approved places per child (such as small regional and remote towns) (section 5.3). Any government funding beyond regular supports available to families and services (including the CCS and inclusion support funding) should be prioritised in the first instance to areas where an analysis of likely demand indicates that services would not otherwise be viable.

If private investment does not follow quickly enough after increases to demand (box 5.7) to satisfy governments' goals in markets with larger populations and concentrations of children experiencing vulnerability and disadvantage, then more support could be considered to meet universal access.

While supporting ECEC provision for disadvantaged populations has a larger payoff (paper 1, Borland, sub. 94, p. 4; Borland, sub. 235, pp. 2–3), areas with sufficient population density such as major cities or regional town centres are less likely to be persistent thin markets. Funding – beyond CCS, ACCS, inclusion support and existing CCCF open supports<sup>16</sup> – to disadvantaged and vulnerable communities outside persistent thin markets should only be considered if there is strong evidence that the existing supports have failed to meet the needs of a community. Grant funding and tendering should be reserved for markets that are likely to remain unviable.

Any grant funding of new service provision needs to be coordinated with other government investment, such as expansion of preschools and early learning services – as well as potential philanthropic and private investment – in determining the amount and type of funding.

The potential for an ECEC service to be part of an integrated service should also be considered (recommendation 7.8). Effective community consultation will be needed to ensure service provision meshes with communities' preferences and needs.

### **CCCF-type funding is the best way to address thin markets**

Thin markets are uniquely difficult from a service perspective and will likely persist. Funding targeted to provision in these markets should generally be ongoing to recognise this. But there should be periodic review to determine if a service can be self-sustaining with CCS, ACCS and inclusion support funding.

As mentioned above, the CCCF limited supply round required only that the *provider* to be approved under Family Assistance Law, not the service. This approach removed a barrier from providers entering a market and should be continued for all grants programs within the CCCF. Once this barrier is removed the CCCF is an appropriate framework to address thin markets.

Different supports will be needed in different types of thin markets.

In some cases, community representatives will be able to establish ECEC services that fit local needs. Service provision will likely be viable in some of these communities without further government support. In others, grant funding might be needed for the community representatives to establish a service which could then be viable without further support or block-based funding (recurrent lump sums) could be sought if support for both capital and ongoing operating costs was needed. Low-interest loans could also be considered where capital support is needed (including where expansion or repurposing of other facilities

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<sup>16</sup> Existing CCCF open supports include grants for disadvantaged and vulnerable communities and areas of limited supply of ECEC.

might meet a community's needs). Community representatives could also be granted CCCF funding for repurposing unutilised capacity in schools to deliver ECEC.

Some communities will not have local representatives to manage the development of ECEC capacity and will need more support. In these communities, the Australian Government could tender out the building and operation of services, creating competition to provide services in persistently thin markets where providers do not put forward competitive grant applications. The Australian Government should retain ownership of these facilities.

Where no providers respond to an invitation to tender, commissioning could be used to attract providers to an area.

While the Australian Government Department of Education is currently the primary decision-maker about where and how much funding to allocate for grants for ECEC services, the ECEC Commission would be an appropriate body to provide guidance on the needs of ECEC markets in their role supporting stewardship (paper 10). However, the Department of Education should retain the responsibility of administering funding and acquitting it. Efforts to ensure integrity and accountability for funds received will need to step up in proportion to the increase in funding (paper 6).

Low-quality providers should not receive CCCF grants. Paper 8 notes that approval of prospective service providers that have demonstrated poor quality elsewhere should be limited. And this should extend to CCCF recipients. If grant applicants do not have a record of provision to demonstrate their ability to provide quality, they should include information within their application about how they will meet the National Quality Standard. Further, not-for-profit providers should be strongly preferred where a service is completely or substantially funded by government support.

Some communities will have fluctuating demand. Grants or tenders in these communities should ensure a baseline level of ECEC provision to ensure that families can make decisions about their labour force participation secure in the knowledge that ECEC will remain available even if demand sometimes falls below the level needed for service viability. In these services, the fees charged to families should not be greater than the hourly rate cap, given that the services will effectively be receiving a higher level of average funding per child when numbers are below the viable limit.

In the draft report, the Commission recommended the expansion of the CCCF to support universal access to ECEC in persistently thin markets (draft recommendation 5.1 now recommendation 5.2). The draft recommendation was generally supported. Inquiry participants valued the flexibility of the recommendation and the consideration for different forms of ECEC beyond CBDC (ACA sub. 255, p. 33; Regional Education Commissioner, sub. 188, p. 1). Inquiry participants also supported the specific arrangements for Aboriginal community controlled organisations to be co-designed with Aboriginal and Torres Strait Islander communities (ACA, sub. 255, p. 33; Minderoo, sub. 288, p. 13; Parkville Institute, sub. 231, p. 6; SNAICC, sub. 290, p. 9).

Some participants noted that delivering universal access is not without its challenges, particularly in regional and remote areas (ACECQA, sub. 256, p. 5; ARACY, sub. 268, p. 4; La Trobe University, sub. 298, p. 3; Regional Australia Institute, sub. 229, p. 6). Recommendation 5.2 goes some way to addressing the expense issue through the suggestion of a competitive tender process.

The boundaries of what is classified as a thin market for the purposes of this recommendation received comment. Guardian (sub. 254, p. 3) cautioned that support should be targeted to markets where supply is persistently thin. In contrast, Minderoo (sub. 288, p. 13) submitted that undersupplied outer metropolitan areas should also be supported. The Commission's suggested principles for how funding should be targeted, give immediate priority to areas where an analysis of potential demand indicates that services would not otherwise be viable. As a guide, there is a gap of about 18,500 places in outer regional, remote and very

remote Australia that would be needed to support three days a week – or 30 hours – for every child in those areas. If markets beyond those high priority areas – such as outer metropolitan markets – remain undersupplied over time, or the market does not respond as quickly as government wants, then broader support could be considered.

Draft recommendation 5.1 (now recommendation 5.2) has largely remained unchanged. The rest of the paper refers to the enhanced and expanded CCCF as the ECEC Development Fund (the Development Fund).

### **Some communities' needs for advice are not being met**

As noted above, there is a business support program within the CCCF but it only provides advice to services that have received grants. There is likely an unmet need for advice in communities and for potential providers that have not applied for funding. The Parenthood's (2023, p. 9) *Choiceless* report noted that a volunteer working group who wanted to apply for funding 'had to become politically savvy, read complex and technical reports, and understand grant eligibility – all time consuming and arduous work for already busy parents and grandparents'. In Taroom, Queensland, community members found the 'application process ... extremely difficult' and with tight deadlines (The Parenthood 2023, p. 44).

Participants from the Wimmera Southern Mallee, Mallee, Loddon Campaspe and surrounding regions (online hearing, 19 March 2024, p. 76) stated similar views:

it's a real challenge to actually get the expertise that you need, but they don't just wear one hat. They're managing – trying to run a number of different services, ... you could employ almost one person full-time just to keep to date with all the changes in the structure, and the opportunities to ... access additional funding, or making sure that we're capturing the funding that we need. It's just impossible.

In communities such as these, the case for advice and support around the grant process is strong.

An advisory service should be established to support community representatives – parent groups, local governments, schools or Aboriginal community controlled organisations for example – in finding and attracting the type of support needed. This could also help a potential service through the steps to become approved under Family Assistance Law.

An effective way to institute the advisory service would be for the agency tasked with providing the advice to reach out to identified priority areas to assist them first-hand. This would target the service to where it is most needed.

The nature of the advice would go well beyond the current scope of viability and sustainability provided by the business support program – the service should offer in-depth knowledge of the Development Fund and the varying needs of thin markets. As such, this service should be run within the Department of Education.



#### 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



### Recommendation 5.2

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

- 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.

## Family day care can be a solution in thin markets

Family day care has fewer barriers to entry than CBDC. Set up costs are lower, and the number of children required to make a service financially viable is much smaller. Family day care is also an appropriate form of ECEC for families with specific preferences – such as children who need a close and stable relationship with a single educator, for example some babies and children with additional needs – or specific cultural needs (paper 2). Inquiry participants have suggested that family day care can be part of the solution to ensuring that families have access to ECEC in thin markets where there might be low and variable demand. For example, the Western Australian Government (sub. 162, p. 4) submitted that family day care is important to ECEC availability particularly in regional and remote areas.

Yet, the full potential of family day care is not being realised due to integrity concerns. To address this, the Department of Education noted the following.

The Family Day Care (FDC) model has a number of benefits that are not being fully realised due to systemic financial integrity risks that are particular to the FDC model. This includes the oversight challenges where care is provided from an educator's home; and wide-spread business practices that create further oversight challenges such as educators collecting gap fees as an agent of the approved provider.

The inherent integrity risks and significant fraud on non-compliance in the program have contributed to a decline in educator numbers, meaning the benefits such as FDC's potential to improve ECEC supply in regional areas are not being fully realised.

The department is undertaking a FDC Capability Trial (the Trial) to test approaches to inform potential systemic changes to the current FDC model to improve financial integrity, combined with supports and incentives to attract new educators in regional areas. A key benefit of building capability and strengthening the FDC model is that a quality FDC can be set up with a reduced lag time and without the larger costs associated with establishing the infrastructure needed for centre-based care. Further to this FDC can offer local employment opportunities and non-standard hours of care for shift or seasonal workers.

The Trial will be delivered over three years. If the trial outcomes can achieve systemic integrity improvements that can be adopted in the FDC model, it is anticipated FDC could play a greater

role in meeting the need for quality, flexible ECEC in regional areas experiencing limited supply and more broadly across the whole FDC sector. (Department of Education, pers. comm., 27 October 2023)

The Commission's recommended advisory program could assist an expansion of family day care by providing support for potential providers.



### **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.

Feedback on draft finding 5.5 was generally positive. ACECQA (sub. 256, p. 6) agreed that family day care plays an important role in the ECEC system, particularly for families in regional and remote areas. The Front Project (sub. 227, p. 5) agreed with the finding and also noted that the integrity concerns must be addressed.

While Uniting Early Learning (sub. 275, p. 1) and NSWFDCA (sub. 209, p. 3) agreed with the finding, they had a wider view of the potential role of FDC in the community and submitted that there is insufficient support for family day care to service thin markets. The Commission's view, however, is that recommendation 5.2 acknowledges family day care should be considered for funding alongside CBDC. And FDCs receive CCCF funding to service thin markets. Indeed, of the 47 grant recipients of the limited supply round, 34 were FDCs (DoE 2023e).

In the contexts where family day care is more appropriate to deliver for a thin market this should be reflected in the result of their grant application or competitive tender. While family day care can be an appropriate solution in some markets, it must be noted that it is not a complete solution to addressing thin markets because they cannot deliver preschool (La Trobe University, sub. 298, p. 3).

### **Family day care operating 'in-venue' should be expanded**

Family day care can also be licensed to operate in a venue other than an educator's home such as underutilised public buildings. However, only one family day care service is permitted in each venue regardless of whether a venue could hold two services – this may constrain family day care expansion and underutilise existing facilities (Education and Care Services National Regulations – 2011 (SA 653)) (NSW).

Allowing two services to be run at one venue could lead to a more productive use of suitable venues and encourage the expansion of family day care, particularly in regional and remote areas. This observation has been supported by inquiry participants (FDCA, sub. 240, p. 14; ICPA, sub. 297, att. 1, pp. 1–2).

The Commission's view is that expanding access to in-venue care through a legislative change would help reduce some barriers to family day care expansion while maintaining quality and oversight.



### 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.

### A higher hourly rate cap for family day care will encourage provision

There is some evidence to suggest that the family day care hourly rate cap is too low. The ACCC (2023a, p. 79) found that family day care margins are very low and they are unlikely to be making significant profit, which may not attract new entrants to the market. Indeed, Family Day Care Australia (sub. 66, p. 21) stated that ‘a significant reason for educators exiting the sector over recent years is that the work is often underpaid, which is in part a result of the CCS fee hourly cap not being set at an appropriate level’. Further, ‘the time-intensive impact of regulatory compliance requirements and associated onerous administrative burden’ contributes to the decision of educators to leave the sector (FDCA, sub. 240, p. 6).

The Commission has found that a large majority of family day care services have average fees that exceed the hourly rate cap, including in lower socio-economic status areas (paper 6).

Services charging above the hourly rate cap also points to a high level of demand from families. The gap between the hourly fee charged by a service and the hourly rate cap is unsubsidised for all families. Some families are willing to pay this gap – as suggested by the existence of services charging above the cap – suggesting the service is valued more than what the rate cap is.

A higher hourly rate cap would encourage the supply of family day care services that are currently unviable under the lower rate cap. Paper 6 includes a recommendation that the hourly rate cap be reviewed to determine a level that would better reflect operating costs and hence support affordability, while maintaining integrity.

### In Home Care can support families – but faces challenges

The In Home Care (IHC) program provides care in a family’s home where standard ECEC services are not suitable or available. To be eligible, families must either be working non-standard or variable hours, geographically isolated or have complex or challenging needs. In 2023, the program provided for 3,200 places, with a place defined as 35 hours per week. A family is not required to use a full place, and some families may use more than one place for a child. About 44% of families using IHC had complex and challenging needs, 35% worked non-standard hours and 21% were geographically isolated (DoE 2023f, p. 6).

The program is under-subscribed relative to the number of capped places. During the December 2023 quarter, 1,730 children from 960 families used IHC – this is well below the 3,200 places offered (DoE 2024). Waiting lists for IHC increased by 43% between 2018 and 2022 (DoE 2023f, p. 6). This suggests that there were not enough educators to meet demand or to ensure that the 3,200 places offered could be realised.

IHC is an important part of ensuring the universal access of ECEC. IHC can provide ECEC for families living in geographically isolated areas, for example, those families working on a remote and isolated farm or



workstation. These families are generally too isolated from any town centres or establishments to be able to use other forms of ECEC.

But IHC in geographically isolated areas faces challenges. In particular, the supply of IHC for geographically isolated families is not keeping up with demand – the waiting list for families for this stream increased by 141% between 2018 and 2022, while waiting lists for the other streams only increased by up to 36% (DoE 2023f, p. 6). Difficulties in attracting educators to remote areas is a key reason for this. Delivering IHC to geographically isolated families is also expensive (ACCC 2023a, p. 194; DoE 2023f, p. 32).

### **The In Home Care program should be better tailored for each different group that it serves**

The three streams of the IHC program – non-standard work hours, geographic isolation and complex needs – should be separated and tailored to meet the different needs of each group. The Department of Education’s IHC review found that:

While the current IHC program treats all families equally, a more appropriate model may be to recognise the very different needs of the three cohorts and tailor the IHC program to the specific needs of each of the three cohorts. (2023f, p. 24)

For example, under current guidelines an educator can only provide IHC to a single family. This makes sense for families with children with complex and challenging needs but may be too restrictive in other situations, such as where geographically isolated families work in close proximity and where an educator could care for children from both families. Separating the streams could allow for changes to these guidelines and lead to better availability outcomes for geographically isolated families.

Separating the streams may also allow for differential hourly rate caps to be set and for consideration of a relatively higher hourly rate cap for geographic isolation. The Australian Government Department of Education (2023f, p. 47) noted that the hourly rate cap ‘is applied consistently to all three family cohorts despite the different needs and underlying costs to deliver the services’. The average out of pocket expense for IHC is highest in remote and very remote areas at \$49 per session compared to \$27 in major cities (DoE 2023f, p. 32), which is evidence that costs to deliver are higher in these areas.

Families using IHC to address geographic isolation might also incur additional costs that are not captured in the fees charged by IHC services and would not be subsidised. For example, the Isolated Children’s Parents’ Association submitted that geographically isolated families may face costs such as board and lodging (sub. 58, p. 3). The ACCC Childcare inquiry roundtable (2023d, p. 3) heard about similar barriers. The Department of Education’s IHC review (2023f, p. 18) found that ‘the current rate cap is often too low to cover ... additional costs to access IHC in rural/remote areas’.

There have been calls to increase the hourly rate cap for IHC to better reflect the high costs of provision (ACCC 2023a, p. 9; DoE 2023f, p. 47). The Commission recommends a review into the hourly rate caps and for them to be increased such that they better reflect cost of provision (paper 6, recommendation 6.3).

## The In Home Care program could also support workforce participation by parents of multiples

Parents of multiples (defined as three or more children (*A New Tax System (Family Assistance) Act 1999*)) can face particular challenges in accessing ECEC. The Australian Multiple Births Association noted that many parents of multiples would like to work or work more but cannot access places in traditional ECEC services. The Association explained that:

competing with families to find two or more placements in ECEC services on the same days is extremely difficult for parents of multiples especially when their multiples are less than 12 months as there is usually less availability due to the ratio requirements. (sub. 182, p. 7).



### 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.

## 5.6 Four other issues relating to availability

### Changing the hourly rate cap for CBDC would not be the most effective way to increase supply in thin markets

Some inquiry participants have supported the idea of a higher hourly rate cap for CBDCs in regional and remote areas (One Tree Community Services, sub. 121, p. 20; Rural and Regional Remote ECEC in Victoria, sub. 88, p. 9; Western Australian Government, sub. 162, p. 5).

It would be difficult to find an hourly price cap that would be high enough to attract supply in all markets without overshooting in other markets.

The Commission's view is that an expanded supply-side funding program – combined with changes to subsidies for lower-income families and the activity test – would be more effective at addressing thin markets than increasing the hourly rate cap for services operating in regional and remote areas relative to major cities (with the possible exception of IHC for geographically isolated areas noted above).

### Higher costs of delivering ECEC for younger children pose a risk to ECEC availability

As noted above, the costs of providing ECEC for very young children are higher, mainly reflecting higher staffing ratios. Many centres charge a fixed fee regardless of the child's age. This suggests that the common costs of running centres (for example, administration and maintenance) are being recovered mainly from the fee charged for older children who are generally more profitable because of lower staffing ratios. It is also possible that fees for younger children do not cover their marginal costs, implying some level of cross subsidisation (ACCC 2023c, pp. 172–173).

Cross-subsidisation likely occurs because a uniform price is simple for families to understand and lowers the administrative burden for the provider. Providers may also believe that once younger children attend they are likely to remain at the service until school age. (That said, some providers do charge different rates depending on the age of the child.) Waiting list data from the ACCC's Childcare report suggests that cross-subsidisation has limits, however, as profitability will be adversely affected at some points – resulting in too few places for children aged 0–2 and substantially larger waiting lists compared to children aged 3 years and over (ACCC 2023a, pp. 147–149).

Cross-subsidisation could become less viable as government preschool provision expands, posing substantial future risks for the availability of places offered at CBDCs. If providers can only afford to deliver services for the 0–2 age group by cross-subsidising using revenue from children aged 3–4, then the expansion of fee-free preschool in dedicated centres might risk the availability of places for children aged 0–2 (SA Government 2023b, p. 85). The ECEC Commission would be well placed to monitor this risk (paper 10).

## **The case for regulating whether services can enter a profitable market is not compelling**

Some inquiry participants argue that the clustering of services in areas where provision is more profitable pulls scarce resources – particularly workforce – from other providers and amplifies availability issues in disadvantaged areas. As a consequence, many inquiry participants have called for greater planning around the establishment of ECEC services (Berry Cottage Childcare, sub. 141, p. 4; C&K, sub. 155, p. 8; ELACCA, sub. 153, p. 5; Goodstart Early Learning, sub. 125, pp. 97–98; KU Children's Services, sub. 83, p. 5; Rebecca Swainson, sub. 114, p. 4; Shirley Cornelius, sub. 75, p. 4). In a similar vein, Berry Cottage Childcare (sub. 141, p. 4) recommended that the number of approved places be capped to address perceived oversupply in some areas.

A central theme of these submissions is that ECEC provision left to the market will undersupply in less profitable areas – regional and remote, low SEIFA – and oversupply in more profitable areas.

While the Commission acknowledges that availability *is* worse in disadvantaged areas (section 5.3), the entry decisions of non-government ECEC providers ultimately rest on service viability. Providers will enter markets where they can generate an operating surplus. That said, figure 5.9 shows that for-profit providers have entered markets at all levels of socio-economic disadvantage as measured by SEIFA. (Paper 8 notes that waivers are disproportionately held by for-profit providers and this might not be appropriate in areas of concentrated disadvantage.) Thin markets, however, will not be profitable regardless of whether there is oversupply in advantaged areas and the challenges of providing ECEC in remote or sparsely populated areas will remain.

Capping entry and places in certain markets would risk generating excess demand and upward price pressure, increasing profitability for incumbent services. Parents crowded out from their local market might seek ECEC services in other less convenient areas, use informal care or reduce their working hours.

Moreover, there are several mechanisms at play in the market to contain oversupply. As the ACCC (2023c, p. 18) pointed out, enrolment levels are critical for centre profitability and viability. Providers will enter a market if they can make a profit or surplus but if entry increases and enrolments per service decline, profitability will also decline, sending a signal to other potential providers that the market is less lucrative to enter. (That said, higher subsidy rates combined with user capacity to pay high fees might lead to services becoming profitable at lower levels of utilisation in some areas.) As such, provided a surplus is being made in a market, it is unlikely that services are being overprovided.

## Planning processes can affect availability

Providers need approval to set up an ECEC centre. Obtaining approval involves the lodging of an application with the relevant authority (usually a local government), the assessment of this application (often involving a referral to other agencies for consideration and/or a public notification and consultation process), and a decision on whether the development can proceed which may also include conditions on that development. This decision may be appealable (PC 2022b, p. 489).

Even when approval is ultimately granted, this process can increase the time it takes before a service can start operating and the costs that providers face in setting up a new service, making expansion less likely to be financially viable. Differences in processes between local governments may make applications harder to navigate, particularly for smaller providers.

Local governments can take an active approach in supporting the availability of ECEC (for example, City of Sydney, sub. 65, p. 3; Municipal Association of Victoria, sub. 115, pp. 6–7), but proposals for the construction of ECEC centres may also be denied by local governments. Often, this is due to concerns from some residents over impacts from the construction or operation of the centre, for example on noise or traffic. Some centres have been denied approval after objections including that the presence of an ECEC centre was outside the character of the neighbourhood, that parents may slam car doors while dropping off their children, or that the number of children the centre could support was excessive (City of Ipswich 2021; Trembath 2017; Western Australia Department of Planning, Lands and Heritage 2023).

There are trade-offs between potential amenity costs for residents of an area and the benefits of ECEC for children and families, but the groups who will be advantaged and disadvantaged by a proposal may not have an equal voice in the approval process. Local governments can face pressure from a vocal minority of opposed residents. Parents of young children, on the other hand, may struggle to find the time to speak in support of a proposed new centre (and, ironically, may not be able to access the ECEC they would need to do so). Some who may need the service in the future but do not yet have children may be unaware that they would benefit from speaking in support of one. And families who are not residents of the area but wish to use the potential service (for example, because they work nearby) may not have their interests represented at all.

In the draft report, the Commission requested information from inquiry participants of the extent to which planning processes are a possible impediment to ECEC availability. C&K (sub. 306, p. 11) submitted that ‘inconsistency between councils is an ongoing challenge’ and provided examples of CBDC development applications not going ahead – either deferred or abandoned – partly due to growing uncertainty regarding service approval. ACA (sub. 255, p. 92) submitted that planning can affect a service’s hours of operation, create complexities when operating across jurisdictions and cause delays in establishing new services.

Some have called for greater centralisation of planning to address this. ACA (sub. 255, p. 96) submitted that ‘an effective planning system is crucial to address the barriers posed by delays, inconsistencies, and complexities in the development assessment process’ and recommended a streamlining of approval processes. The NSW Small Business Commissioner (2022, p. 7) recommended ‘a joint State-Federal project team to review, streamline and coordinate approval requirements, processes and timeframes’.

There may be a case for streamlining the planning process. More standardised provisions and processes that led to greater consistency, clarity and certainty for providers may encourage further expansion of ECEC services. An example to consider may be the template for planning provisions and processes set out by The Victoria Planning Provisions that promote clarity and consistency in local government development assessment processes (Victorian Department of Transport and Planning 2023).

But an overhaul of the planning system at all levels of government requires a high degree of centralised decision-making, and the appropriate role of government cannot be known without evidence of how planning

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might impede the expansion of the ECEC sector. It is unclear whether these planning impediments are unjustified, and indeed, whether streamlining planning and approvals processes *is* justified. This judgement requires more information about the extent to which planning is an impediment to ECEC expansion and a broader assessment of the costs and benefits of streamlining the planning system. The Department of Education – through its expanded role outlined in recommendation 5.2 – should monitor the extent to which planning is an impediment to ECEC expansion.

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## Supplementary statement by Professor Brennan

### **The operation and adequacy of the market, including types of care and the roles of for-profit and not-for-profit providers<sup>1</sup>**

**By Professor Deborah Brennan, Associate Commissioner**

It has been a privilege to serve as Associate Commissioner on the Productivity Commission Inquiry into Early Childhood Education and Care and to participate in developing recommendations that will move Australia towards a universal, accessible, high quality early childhood education and care (ECEC). I endorse the report's recommendations, the priority given to children and families experiencing vulnerability and disadvantage and the staged approach to reform. In my view, however, aspects of Australia's highly marketized approach to ECEC will work against equitable, high quality provision unless moderated. Accordingly, I suggest measures to strengthen and expand not for-profit provision, attention to the financial strategies of large investor-backed and private equity companies, and regulatory strategies to discourage providers whose business models and labour practices do not align well with the National Cabinet vision.

#### **Limits of the market**

As acknowledged in this report, market-based policy approaches will not be sufficient to deliver universal, high quality ECEC. Several recommendations address market failure, including support for supply in thin markets, measures to strengthen quality and to weed out underperforming providers and the establishment of an Early Childhood Education and Care Commission to act as a system steward. However, even if these measures were adopted, current trends suggest that growth would occur overwhelmingly in the for-profit sector while the not for-profit share would continue to decline. For-profit businesses, a growing number of which are accountable to overseas investors and shareholders, would assume an even larger role in deciding the location of new services, setting fees and determining workplace conditions. There is room for a variety of business models within ECEC, but regulatory and funding settings should prioritise providers that deliver high quality, affordable ECEC to families and offer fair pay, decent jobs and supportive working environments to educators.

Australia's shift to demand-side funding in the early 1990s was accompanied by withdrawal of the modest capital and operational assistance that previously supported community-based and not for-profit long day care providers.<sup>2</sup> As a result, the structure of the sector changed radically. Close to three-quarters (73%) of long day care centres and more than half (52%) of outside school hours care services are now run by commercial providers.<sup>3</sup> Just 1% of service providers manage 36% of approved services in 2024 compared with 28% in 2013.<sup>4</sup> The five largest for-profit providers operating in Australia are backed by private equity or listed on stock exchanges in Australia, Hong Kong or New York. The ethical and financial imperatives that drive different types

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<sup>1</sup> Terms of reference, Inquiry into Early Childhood Education and Care.

<sup>2</sup> Brennan 2016; Hill and Wade 2018; Stebbing 2022.

<sup>3</sup> ACECQA 2024.

<sup>4</sup> ACECQA 2013 and 2024.



of providers and the outcomes they deliver for children, families, educators and taxpayers will need to be closely monitored as the sector moves towards universal provision underwritten by public investment.

The 'for-profit' category encompasses a variety of business models ranging from standalone owner-operated services (which may be similar to not-for-profits in terms of ethos and service delivery) to large corporate chains established by property developers and backed by overseas investors.<sup>5</sup> ACECQA data show that no provider type has a monopoly on either excellence or poor quality; nevertheless, large differences between provider types at the aggregate level are well established in Australian and international research.<sup>6</sup>

## The not-for-profit advantage

The Australian Competition and Consumer Commission (ACCC), the South Australian Royal Commission into Early Childhood Education and Care and the NSW Independent Pricing and Regulatory Tribunal (IPART) have all highlighted differences in the operating models and service outcomes of for-profit and not-for-profit providers. Not-for-profits have higher quality ratings and lower fees;<sup>7</sup> spend a higher proportion of revenue on wages; offer more secure and more full-time employment; retain educators and teachers for longer; have fewer staffing waivers and lower staff vacancy rates.<sup>8</sup> About 40 percent of large for-profit providers of centre based day care charged above the hourly rate cap in the September quarter 2023, compared to about 15 percent of large not-for-profit providers.<sup>9</sup> Administrative expenses are lower in not-for-profits and they plough surpluses back into the sector, investing not only in their own staff but in the sector as a whole.<sup>10</sup> Analysis undertaken for the South Australian Royal Commission found similar patterns in relation to staffing and inclusion. The Commission observed 'meaningful differences in the workforce tenure, workforce pay, and fees charged by different long day care provider types and provider sizes. On average, not-for-profit providers perform better on these metrics, as do standalone providers.'

Concerns about quality and value for money have led governments and advocates in other jurisdictions to turn to not-for-profit providers to drive growth.<sup>11</sup> Under the Canada Wide Early Learning and Care Program, for example, expansion is to occur predominantly through not-for-profit providers. In the United Kingdom, the Rowntree Foundation has advocated 'social licensing' of ECEC providers, an approach that would require them to meet ambitious standards in return for receipt of public funding. In addition to the quality of service provision and inclusion of children with special needs, these standards could relate to educator pay and conditions, financial transparency, and profit caps. An inquiry into ECEC funding in Ireland noted that subsidies linked solely to increasing affordability limit the ability of governments to influence broader policy goals such as improved quality and make it more difficult to regulate parent fees. It recommended 'an

<sup>5</sup> ACECQA data distinguishes 'private not-for-profit community managed' from 'private not-for-profit other organisations'. 'State/Territory and local government managed services' are a category, and schools are separated into those run by State/Territory governments, independent schools and Catholic schools). The large category of 'private for-profit' services is not disaggregated.

<sup>6</sup> Cloney et al. 2016; Sosinsky 2012; Sosinsky 2012; Lloyd and Penn 2012; Rush, 2006; Press and Woodrow 2009; Thorpe et al 2021; Friendly, 2019; Akgunduz, Y.I. and Plantenga, J. (2014); White and Friendly, 2012.

<sup>7</sup> ACECQA 2024 quality ratings; ACCC 2023a, p. 89 lower daily fees (\$125 in not-for-profit and \$137 in for-profit centre-based day care in September 2023).

<sup>8</sup> ACCC 2023b, pp. 54–55 wages; p. 56 staff retention and vacancies; ACCC 2023a, p. 135 staffing waivers.

<sup>9</sup> ACCC, 2023a, p. 44.

<sup>10</sup> KU (sub. 83), C&KA (sub. 155), Goodstart (sub. 125), SDN Children's Services (sub. 63).

<sup>11</sup> Friendly 2019; Lloyd and Penn 2012.

element of pure supply-side funding [that] would ... strengthen the capacity of the State to use public funding to improve quality, affordability, accessibility, social inclusion, and sustainability.<sup>12</sup>

As value-driven organisations, not for-profits choose quality over expansion, and community benefit over profits and returns to shareholders and investors. They make significant financial investments in working with families experiencing vulnerability and disadvantage. The high level of congruence between the practices of not for-profits and the objectives of universal ECEC is the fundamental reason why expansion of this part of the sector should be a priority.

## Indirect expansion of not-for-profits will not be enough

The report recommends that supply-side funding be made available in thin markets or areas with complex needs and recommends that quality providers be prioritised. This may indirectly support not for-profit growth. However, if their growth is restricted to remote areas or communities with concentrated disadvantage, not for-profits will have limited ability to cross-subsidise. This would impact on their sustainability and limit the opportunity for families outside thin markets to access not for-profit care. A wide range of organisations including The Parenthood, Women's Economic Equality Taskforce, Chief Executive Women, Diversity Council of Australia, Brotherhood of St Laurence, Minderoo/Thrive by Five, Centre for Policy Development and the Victorian and NSW governments have called for the expansion of not for-profit provision citing higher quality, greater return on government investment and public ownership of ECEC real estate. In addition to targeted supply-side programs, not for-profit growth could be supported by designated capital funding for land, infrastructure and maintenance, co-contributions to capital so that the government retains a share of ownership, low interest loans, partnerships with public schools, and assistance for community groups and other not for-profits to grow through acquiring land, delivering infrastructure, leveraging philanthropic funding and accessing grant programs.

## Provider financial accountability and transparency

According to the ACCC, 'increased activity by private equity groups in childcare property investments may warrant further and more detailed examination to ensure government funds are being directed towards the economic and social objectives intended.'<sup>13</sup> In this context it is notable that property developers are major players in Australian ECEC and that child care real estate, underwritten by large public subsidies, is 'the shining star of the property market'.<sup>14</sup> Childcare real estate businesses promise high returns, citing the scale and stability of government subsidies.<sup>15</sup> As noted by the ACCC, most providers rent premises, often from for-profit property companies also seeking to maximise returns. Annual reports, share prospectuses and commercial documents make it clear that large government subsidies for ECEC and the potential for financial returns for investors are key motivators for engagement in the sector. Additional financial scrutiny has been applied to large ECEC providers since 2023 but this may not be effective in capturing sector dynamics. One investment entity praised 'the ingenious response of the private sector' in evading classification as 'large' by breaking operations into smaller groups that would not be captured by regulatory authorities. It also observed that the prospect of fee caps 'met with 'a mix of scepticism and defiance within the sector'.<sup>16</sup> The ACCC was able to gather little information about medium sized providers.

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<sup>12</sup> Scanlan (2021), p. 57.

<sup>13</sup> ACCC Final report, p. 124.

<sup>14</sup> Miles 2023.

<sup>15</sup> CBRE 2023.

<sup>16</sup> Finexia 2024.

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In addition to property and real estate, other business practices emerging in the care economy raise questions about the priority accorded to the interests of shareholders, investors and landlords compared with those of children, their families and educators.<sup>17</sup> Driving down labour costs, for example, may increase profits and investment returns but undermine the quality of employment and service provision. The lower average quality of for-profit services and examples of poor job quality and poor behaviour in for-profits outlined in submissions to this inquiry by the United Workers Union and others are relevant in this context.

Australia spends nearly \$14 billion annually with the aim of making ECEC affordable, accessible and of high quality for our youngest citizens and their parents. A universal system will require planned and supported expansion of services, as well as transparency about costs, fees and profits. Governments will need to address the imbalance between for-profit and not for-profit providers and ensure that the business models and employment practices of all providers are aligned with the National Cabinet vision. In the simplest terms, this means public supports for expansion of not for-profit services and substantially increased financial accountability and transparency for all.

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<sup>17</sup> Gallagher 2021, 2022; Farris et al. 2024; Simon et al 2022, 2024.

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## 6. Affordability and CCS system barriers to ECEC access

### Key points

- ✳ **Out-of-pocket expenses are critical in determining whether families can afford early childhood education and care (ECEC). The Child Care Subsidy (CCS) system reduces out-of-pocket expenses for most families, but affordability remains challenging for those on lower incomes. Families of children experiencing disadvantage – who are most likely to benefit from ECEC access – typically face higher financial barriers.**
  - Among families receiving CCS, the average family in the bottom 10% of the income distribution (families with after tax incomes of \$40,000 on average) is estimated to spend about 7% of their net income on out-of-pocket ECEC expenses. Families in the top 10% (after tax incomes of \$250,000 on average) spend about 6%. The average for other families is around 5%.
  - While out-of-pocket expenses as a share of income are reasonably similar for many cohorts, lower-income families have less discretionary income, making them more price sensitive.
- ✳ **Aspects of CCS design can discourage ECEC participation by families.**
  - The activity test creates a barrier to participation for some children but it is unclear whether it has had much positive effect on labour force participation. It has probably discouraged some from working. The 5% of families who were eligible for up to 24 or 36 hours of subsidised ECEC a fortnight in 2022-23 tended to have lower incomes and about two-thirds were charged for at least some unsubsidised hours of care.
  - The effectiveness of the CCS hourly rate caps in reducing out-of-pocket expenses is muted if families face fees above the cap. Between 2018 and 2023, the share of centre-based day care and family day care (FDC) services with average fees above the CCS hourly rate cap increased from 13% to 22% and 20% to 34%, respectively. FDC services are more likely to have average fees exceeding the hourly rate cap, including in lower socio-economic status areas.
  - Information available to families when they are working out their CCS entitlement can be confusing and create substantial uncertainty. Navigating this complexity can be much more difficult for those with low levels of English, computer literacy and / or computer access. 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.
- ✳ **Removing the activity test for all families, lifting subsidies to 100% for lower-income families and streamlining the CCS and Higher Child Care Subsidy taper rates would support ECEC participation for children and families. Alongside other reforms to improve availability, inclusion and flexibility, these changes to the CCS would enable universal access to ECEC and be most likely to result in a net benefit to the community.**

- Based on current usage patterns, implementing these CCS reforms is estimated to: increase hours of ECEC demand by 10%; decrease hours of labour supply by 0.2% (or the equivalent of 1,700 full-time workers); and increase Australian Government outlays on the CCS by 37% or \$4.7 billion a year in 2023-24 dollars.
- About 40% of the increase in CCS expenditure would benefit the 25% of families on the lowest incomes, and 80% of the increase in ECEC demand is estimated to arise from families who were not previously using ECEC. Of the children entering ECEC, it is estimated that just over half would be from lower-income families.
- Increased attendance in ECEC would support outcomes for children, particularly those from families experiencing disadvantage.
- A further increase in hours of ECEC demand and an overall positive effect on labour supply hours could result due to the reduction in administrative barriers from the removal of the activity test, however this has not been estimated.

**\* Broader-based CCS changes would make ECEC more affordable for all families but have muted labour force participation effects and come at a substantial cost to taxpayers.**

- A \$10 flat fee per day for all families and removal of the activity test are estimated to increase: hours of ECEC by 14%; hours of labour supply by 0.9% (or the equivalent of 7,300 full-time workers); and Australian Government outlays on the CCS by 66% or \$8.3 billion a year in 2023-24 dollars.
- A low flat fee combined with a 100% subsidy for lower-income families would be almost twice as costly (9.1 billion in 2023-24 dollars) yet lead to the same increase in ECEC demand from those families as the CCS changes described above.
- Policy options that extend the 90% subsidy rate to all ECEC users have similar implications to a flat fee for labour force participation, demand for ECEC and net costs to government. Lower-income families would not benefit because they are already eligible for a 90% subsidy.
- Under both the flat fee and the 90% subsidy option a disproportionate share of the increased government support would flow to high-income families.

**\* Operational changes to the CCS system would promote accountability, affordability and simplicity.**

Early childhood education and care (ECEC) promotes social and economic benefits such as child development and parents' labour force participation (particularly for secondary earners who are usually women), and a key element of whether a child participates is whether their family can afford ECEC.

This paper examines the affordability of ECEC including issues with the Child Care Subsidy (CCS) system that discourage ECEC participation such as subsidy rates, activity levels for subsidised hours, aspects of administrative complexity and concerns about debt. It also includes a discussion on maintaining the integrity of the CCS. While the paper focuses on the CCS system, where relevant it also discusses the implications of preschool programs funded by states and territories for affordability.

But what might ECEC affordability mean? Australia's draft National Vision for Early Childhood Education and Care includes the principle of affordability, whereby 'ECEC is within the means of all families' and 'sustainable, flexible funding systems are in place to support providers in reducing cost barriers for all children and families' (DoE 2023f, p. 2).

Very few ECEC affordability benchmarks exist internationally, either explicit or implicit. Three were found.

In the United States, the Department of Health and Human Services 'recommends, but does not require, that the maximum family copay [for childcare] be set at a level that does not exceed 7% of family income' (Congressional Research Service 2022, p. 6). This measure was based on the national average of what

families paid monthly for childcare. Based on this benchmark, the Mitchell Institute (2021, p. 16) estimated that 34% of Australian families using childcare spent more than 7% of their household disposable income on childcare. Recent increases in the CCS rate through the 2023 Cheaper Childcare Changes will likely have reduced this share.

In Sweden, there is no explicit childcare affordability benchmark. However childcare costs – beyond the free hours (discussed in appendix B) – are limited to 3% of gross parental income for the first child (up to a cap of 1,572 SEK (AUD\$225) per month), 2% for the second child, 1% for the third child and no copayment for subsequent children. Low-income families do not pay any out-of-pocket expenses (European Commission 2022). Sweden though has a relatively high tax to GDP ratio, 41.3% compared to Australia's 29.5% (OECD 2023a), which means that even though Swedish families may spend a smaller proportion of their income on ECEC, they also contribute more to funding it through higher taxes.

In Canada, the aim is to have \$10 a day of childcare by 2025-26 for all regulated childcare spaces (Canadian Government Department of Finance 2021) (further discussion is presented in appendix B and paper 9).

This paper does not propose an explicit benchmark, but discusses principles to guide future consideration of affordability.

More broadly, in examining affordability this paper:

- discusses characteristics of the main government programs that provide support to families in covering their ECEC expenses (section 6.1)
- considers the effectiveness of these programs at improving affordability for families and the extent to which families may still face financial barriers (section 6.2)
- looks at the barriers that families may face to ECEC participation as a result of the activity test, complexity of the CCS and administrative requirements associated in applying for subsidies, and concerns about potential debt (section 6.3)
- examines potential changes to the CCS, CCS eligibility for visa holders and the Assistance for Isolated Children Distance Education Allowance that would improve affordability (section 6.4)
- discusses approaches to reducing administrative complexity and improving information available to families about CCS eligibility (section 6.5)
- focuses on maintaining integrity of the CCS (section 6.6).

## **6.1 How do governments provide support for families in covering ECEC expenses?**

### **Out-of-pocket expenses are the key determinant of affordability**

For families with children attending formal ECEC (except preschool), out-of-pocket expenses depend on the fees they are charged and the amount of subsidy they receive. Fees are set by ECEC providers and services. Subsidies depend on a family's characteristics, in tandem with the subsidy rates and eligibility criteria set by the Australian Government. Two key Australian Government programs deliver subsidies to families – the Child Care Subsidy (CCS) (which includes the Higher CCS (HCCS) for families with multiple children) and the Additional Child Care Subsidy (ACCS).

For families with children in the year before school, out-of-pocket expenses may be reduced further compared to other below school age groups because these children are eligible to attend a preschool

program for 15 hours per week (up to 600 hours a year), for which further funding is provided by both the Australian and state and territory governments. Preschool affordability is discussed below.

### **A brief overview of the CCS and ACCS**

The subsidy amount that families are eligible for is a function of:

- an activity test – the level and type of recognised activity undertaken by parents or guardians determines the number of care hours that a family is eligible to have subsidised by the CCS (in general, higher activity levels lead to higher eligible subsidised care hours)
- a family's income – broadly, families with lower incomes are eligible for a higher CCS rate. As a family's income increases, the CCS rate decreases. In 2023-24, families with incomes up to and including \$80,000 per year, are eligible for a 90% CCS rate, with the rate tapering down by 1ppt for every \$5,000 of income above \$80,000, reaching 0% at \$530,000
- whether the hourly fee for ECEC is above or below the CCS hourly rate cap<sup>1</sup> – if the hourly fee is above the cap, the CCS rate is applied to the cap amount and the remaining fee must be paid for by the family. If the hourly fee is equal to or below the cap, the CCS rate is applied to the full fee.

Under the HCCS, families with more than one child aged five and below may be eligible for a higher CCS rate for their second and subsequent children. This rate tapers down as the family's income increases. In 2023-24, families earning below \$362,408 were eligible for a higher CCS rate for their second and subsequent children.

The ACCS provides extra assistance to families who face additional barriers to accessing ECEC, through higher subsidy rates (generally 100% of fees if below or equal to the rate cap or up to 120% of the hourly rate cap if fees are above the rate cap), plus a higher number of subsidised ECEC hours (generally 100 hours per fortnight).<sup>2</sup> There are four categories of ACCS.

- ACCS (Child Wellbeing) – for families caring for a child at risk of serious harm, abuse or neglect (Services Australia 2021).
- ACCS (Grandparent) – for grandparents on income support who are the principal carers of their grandchild(ren) (Services Australia 2022g).
- ACCS (Temporary Financial Hardship) – for families experiencing temporary financial hardship due to an event that happened in the preceding six months (Services Australia 2023c).
- ACCS (Transition to Work) – for families transitioning to work from income support (Services Australia 2023d).

Detailed information on the CCS, HCCS and ACCS is in appendix D.

### **ECEC affordability varies by family**

What one family can afford to spend on ECEC may not be affordable for another because:

- affordability depends on a family's level of income – a dollar or percentage of income will be of greater value to low-income households who have more constrained financial resources

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<sup>1</sup> There are separate hourly rate caps for each service type, and they differ for before and school aged children. From here on they will be collectively referred to in the singular.

<sup>2</sup> The exception to these conditions is ACCS (Transition to Work), where 95% of fees are subsidised if fees are below or equal to the rate cap or up to 95% of the hourly rate cap if the fee is above the rate cap, and the eligible subsidised hours depend on a family's activity level.



- affordability depends on family's individual financial obligations – families may have the same characteristics in terms of income and number and age of children, for example, but their individual financial obligations will influence how they perceive affordability.

A broad based ECEC affordability benchmark would be unable to fully capture this variation among families. nor would it with certainty ensure ECEC affordability for all families. Rather the Productivity Commission suggests a set of principles that should guide future considerations of affordability:

- ECEC subsidies should at least not be regressive – lower-income families should not pay a larger proportion of their income than higher-income families
- ECEC affordability should be monitored – this would provide information to policy makers on whether measures to improve affordability are required
- the effect of the cost of preschool on ECEC affordability should be taken into account – affordability should not only be considered in the context of CCS-approved services and the CCS.

## The CCS has a marked effect on out-of-pocket expenses

Many families have ECEC subsidised through the CCS. In the December 2023 quarter, 1.4 million children attended a CCS-approved service<sup>3</sup> and of these children, 95% received subsidised ECEC (Productivity Commission estimates based on DoE administrative data (unpublished)).

CCS means that families' out-of-pocket expenses are typically significantly lower than the fees charged by services (table 6.1).<sup>4</sup> For example, the average (mean) family using centre-based day care (CBDC) faced a daily fee of \$135.20 in Q4 2023, and an out-of-pocket expense of \$39.39. Tapering of CCS rates contributes to out-of-pocket expenses differing markedly by income level – the mean out-of-pocket expense per child for families using CBDC in the first two deciles of income was about \$18 per day, increasing across deciles to about \$60 a day for those in the second highest income decile and over \$95 per day for those in the top income decile.<sup>5</sup>

The marked differences in out-of-pocket expenses between service types is primarily due to differences in the number of hours typically charged to families. For example, out-of-pocket expenses are lower for outside school hours care (OSHC) because primary school aged children spend less time in formal ECEC.

<sup>3</sup> For a provider to run a service that offers CCS, it must have two types of approval. One is granted by the relevant state or territory regulatory authority, which deems the service suitable to ensure the health, safety, wellbeing and educational outcomes of children. This is known as National Law approval or state regulatory approval. The second type of approval is granted by the Australian Government which deems the service suitable to administer the CCS. This is known as CCS approval or Family Assistance Law approval and it cannot be granted until state regulatory approval has been granted. The approvals can be applied for at the same time (DoE 2023a). For the following discussion on CCS, 'services' refers to CCS-approved services unless otherwise stated.

<sup>4</sup> Across a financial year, families' out-of-pocket expenses are slightly higher than a simple comparison of fees and subsidy would suggest. By default, 5% of a family's CCS entitlement for each week is withheld until the end of the financial year to reduce the potential for CCS debt. In this paper, out-of-pocket expenses are typically calculated as the charged fee less subsidy, on the assumption that families receive their CCS withholding amount at the end of the financial year. Further discussion of CCS withholding is in sections 6.2, 6.3 and 6.4 and in appendix D.

<sup>5</sup> Families in the bottom two income deciles had adjusted taxable income of up to about \$7,000, making them eligible for a 90% CCS rate. Families in the top income decile had adjusted taxable income over about \$285,000, and were eligible for a CCS rate of less than 50%.

**Table 6.1 – Subsidies reduce out-of-pocket expenses<sup>a,b,c</sup>**

**Average fees and out-of-pocket expenses (with and without CCS withholding), by service type, December quarter 2023**

	Per hour			Per day (CBDC and FDC) or per session (OSHC)			
	Mean fee	Mean OOP	Mean OOP (CCS withheld)	Mean fee	Mean OOP	Mean OOP (CCS withheld)	Mean charged hours
<b>CBDC</b>	\$12.85	\$3.76	\$4.20	\$135.20	\$39.39	\$44.04	10.6
<b>FDC</b>	\$12.80	\$3.17	\$3.65	\$99.93	\$24.71	\$28.41	7.8
<b>OSHC</b>	\$9.43	\$3.45	\$3.75	\$32.63	\$11.67	\$12.72	3.7

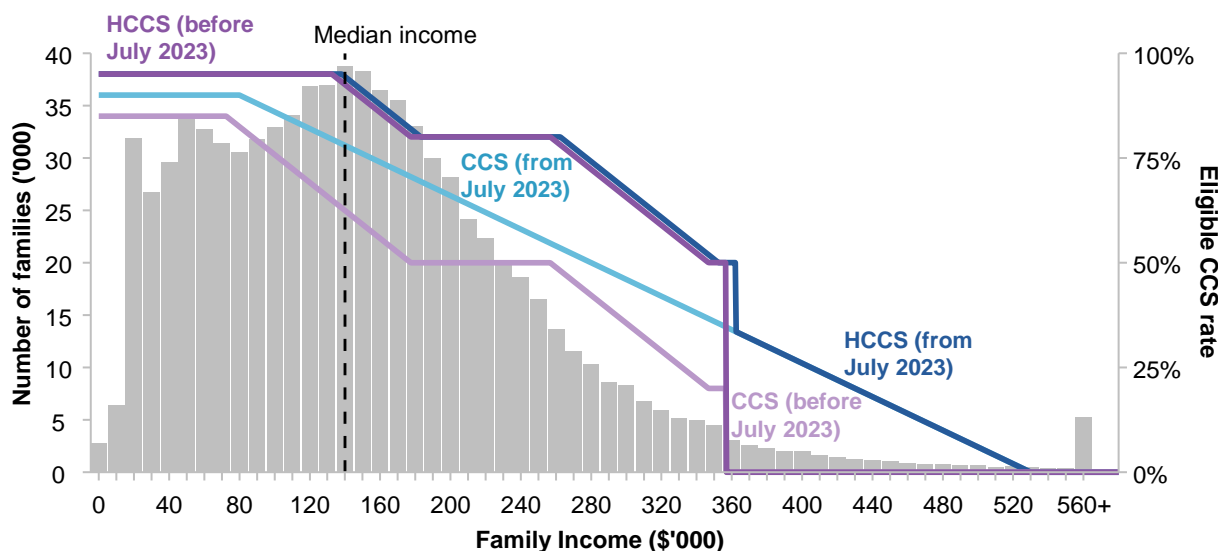
a. Mean calculations are based off week summaries ending Sunday. b. This analysis excludes cases where charged fees were zero. c. CCS: Child Care Subsidy; CBDC: centre-based day care; FDC: family day care; OSHC: outside school hours care; OOP: out-of-pocket expense.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

**Recent CCS reforms have reduced out-of-pocket expenses for families ...**

Reforms to CCS that began on 10 July 2023 increased subsidy rates. Following these reforms, nearly two thirds of families using CCS-approved services were eligible for a CCS rate of at least 70%, whereas only slightly over a third of these families would have been eligible for this rate under the previous CCS rates (figure 6.1).

**Figure 6.1 – About 65% of families have a CCS rate of at least 70% from 10 July 2023<sup>a</sup>**  
**2023-24 (new) and 2022-23 (old) subsidy rates and number of families receiving CCS for the week to 25 June 2023, by family income**



a. Family incomes are based on families’ estimates of adjusted taxable income for CCS purposes. The black dotted line represents median family income.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

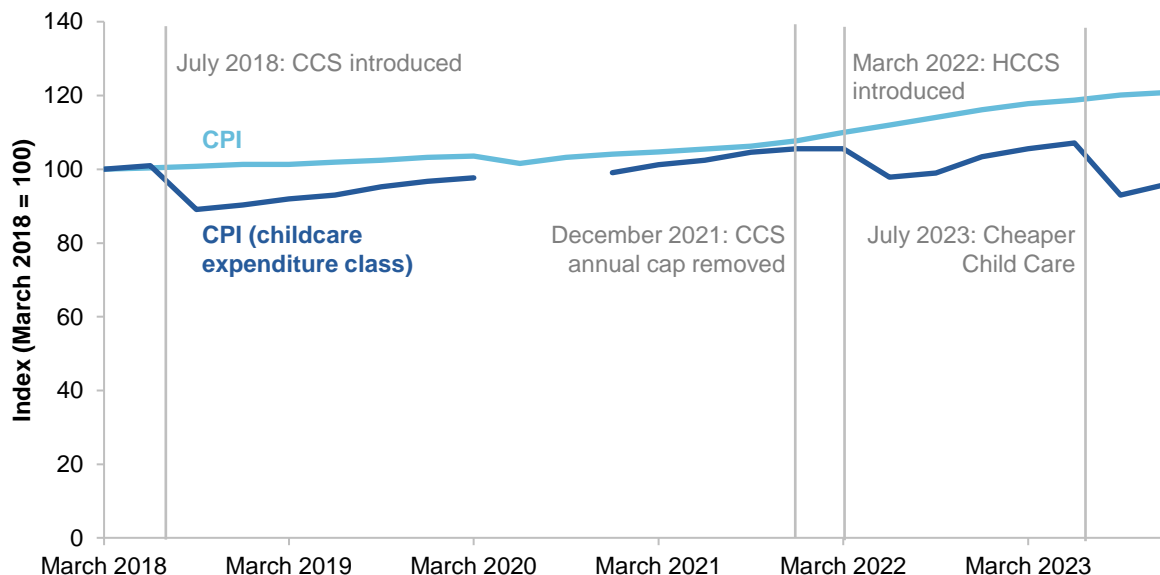
### ... however, the effect of subsidy increases may be muted by cost and fee growth over time

Since 2018, unlike overall inflation, out-of-pocket ECEC expenses have fallen (figure 6.2). The main reasons for this are the increased subsidies provided to families through the introduction of the CCS on 2 July 2018 (Parliamentary Library 2019), removal of the CCS annual cap on 10 December 2021, introduction of the HCCS on 7 March 2022 (Hume 2021) and the July 2023 Cheaper Child Care policy changes. Without the increase in subsidies, it is likely out-of-pocket expenses would have increased faster than CPI because cost and fee growth outstripped general price increases (figure 6.3).

The growth in fees is unsurprising given that increases in the hourly earnings of educators have outstripped CPI growth in recent years (figure 6.4) and that labour represents such a large share of ECEC services' costs. In 2022, labour costs accounted for 69% of costs for CBDC services and 77% of costs for OSHCs (ACCC 2023c, p. 10). Average costs for large CBDC providers grew 27% between 2018 and 2022, with average labour costs growing by 28% over that period (ACCC 2023c, p. 50). For large providers of OSHC, average cost increases were in line with inflation between 2018 and 2022 with average labour costs growing by 7% (ACCC 2023c, p. 51). For large CBDC providers, finance and administration costs represented 9% of total costs and increased in real terms between 2018 and 2022, reflecting greater 'investment, acquisition and debt' in the sector (ACCC 2023c, p. 53).

#### Figure 6.2 – Since 2018, out-of-pocket ECEC expenses have fallen whereas the overall level of consumer prices has increased<sup>a</sup>

##### Quarterly index of child care CPI and CPI, March 2018 to December 2023

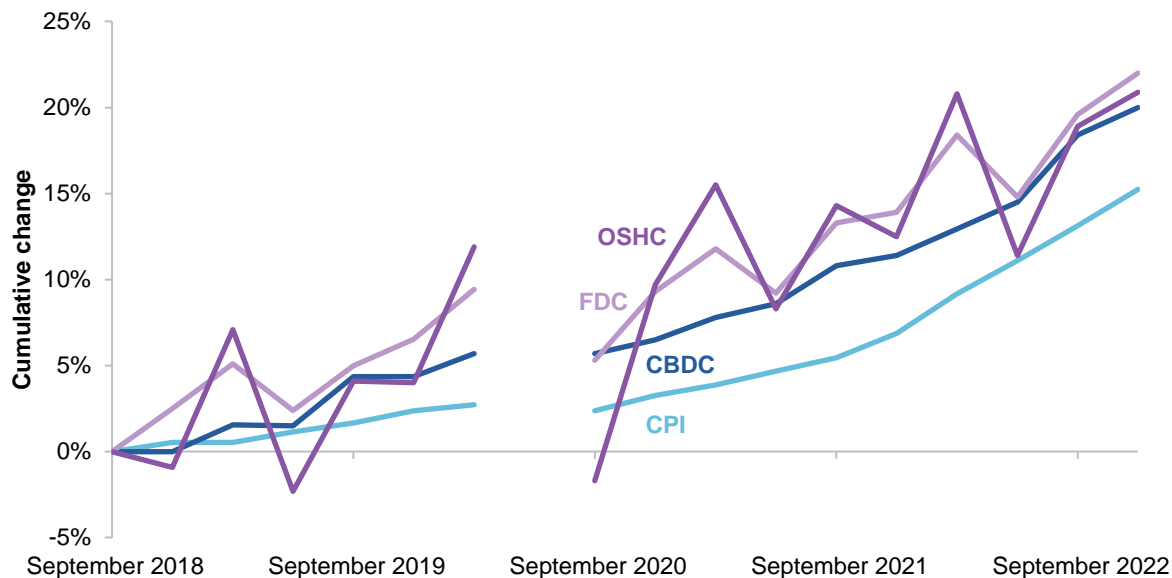


a. Data for June and September quarter 2020 is excluded due to the impact of COVID-19 on out-of-pocket expenses.

Source: Productivity Commission estimates based on ABS (December 2023) 'Table 7: CPI: group, sub-group and expenditure class, weighted average of eight capital cities' [time series spreadsheet], *Consumer Price Index, Australia*, accessed 2 May 2024.

**Figure 6.3 – Since 2018, ECEC fee growth has outstripped inflation<sup>a</sup>**

**Cumulative growth in average daily fees and CPI, September 2018 to December 2022**

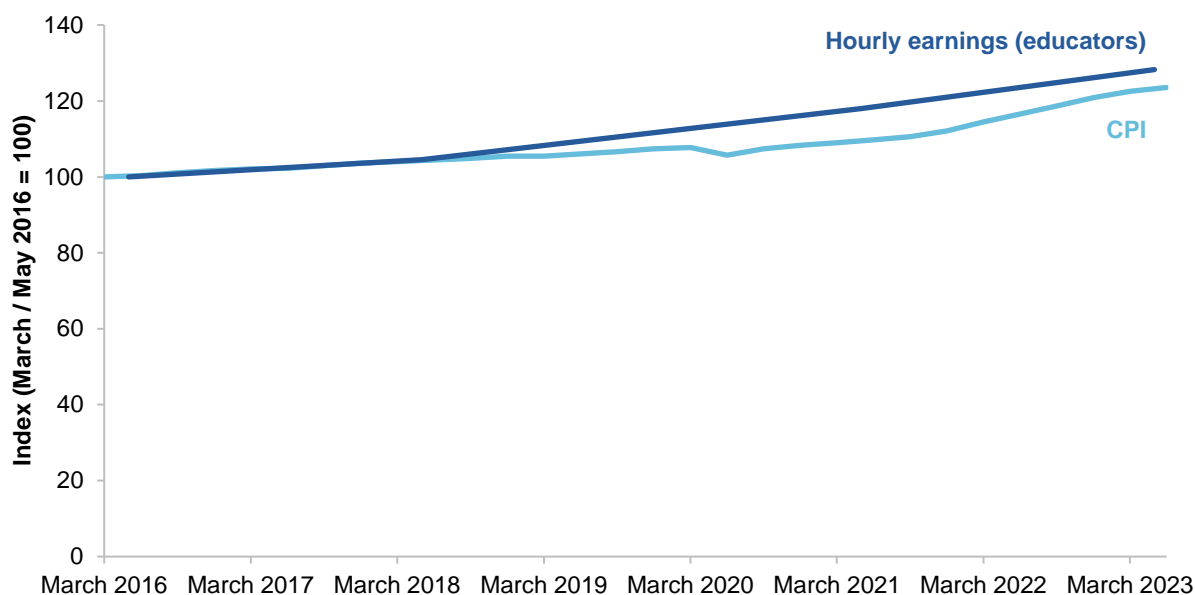


a. Figure is based on digitised data from figures 3.2, 3.3 and 3.6 of ACCC (2023b).

Source: ABS (December 2023) 'Table 7: CPI: group, sub-group and expenditure class, weighted average of eight capital cities' [time series spreadsheet], *Consumer Price Index, Australia*, accessed 2 May 2024 and ACCC (2023b, pp. 74–76).

**Figure 6.4 – Between 2018 and 2023, hourly earnings of full-time educators grew more quickly than CPI<sup>a,b,c</sup>**

**CPI and index of average hourly total cash earnings for full-time non-managerial child carers (ANZSCO minor group 421), March 2016 to June 2023**



a. CPI data is released quarterly in March, June, September and December. b. Hourly earnings data is released biannually in May, with a three year gap between 2018 and 2021 due to COVID-19. c. Hourly earnings data is only available from 2016 and only covers full-time employees. Part-time and casual employees may be expected to have higher hourly earnings on average, for example, due to casual loadings. This means that this data may underestimate hourly earnings for the entire population of educators.

Source: Productivity Commission estimates based on ABS (December 2023) 'Table 7: CPI: group, sub-group and expenditure class, weighted average of eight capital cities' [time series spreadsheet], *Consumer Price Index, Australia*, accessed 2 May 2024 and ABS (May 2023) 'Data cube 13. Full-time non-managerial employees paid at the adult rate' [data set], *Employee Earnings and Hours*, accessed 2 May 2024 (and previous releases).

## The gap between average fees and the hourly rate cap has narrowed over time

The hourly rate cap was introduced to provide some downward pressure on fees by sending a strong message about what a 'high fee' service is whilst allowing variability in fees and also restraining government expenditure over time (DET 2015, pp. 51, 54). The cap was originally based on the 'projected mean price at the time of implementation plus 17.5% for Long Day and Out of School Hours Care and 5.75% for Family Day Care, recognising their lower cost of overheads' (Abbott and Morrison 2015). It was designed to motivate families to shop around to lower their out-of-pocket expenses, and with the expectation that ECEC services would take this into account when setting fees (ACCC 2023c, p. 164).

The hourly rate cap has been indexed to CPI since it was introduced. However, because fees have grown faster than the CPI (figure 6.3), fees have also grown faster than the hourly rate cap.

Prior to its introduction, it was estimated that the hourly rate cap would equate to approximately the 87<sup>th</sup> percentile of fees for CBDCs (Department of Education and Training 2016). In its submission to this inquiry (received in February 2024), the Early Learning and Care Council of Australia (sub. 299, p. 38) noted that the hourly rate cap equated to about the 51<sup>st</sup> percentile of hourly fees charged by its members at that time.

Data indicate that the increases in average hourly fees for CBDCs and FDCs moved them closer to their respective hourly rate caps over the five years to Q3 2023 (table 6.2). For example, for CBDCs, the hourly rate cap was 20% above the average fee in Q3 2018; this gap had reduced to 7.3% in Q3 2023.

**Table 6.2 – The gap between average hourly CBDC and FDC fees and the rate cap has narrowed<sup>a</sup>**

### Hourly rate cap and average hourly fees by service type for the September 2018 and 2023 quarters

Service type	September 2018 quarter			September 2023 quarter		
	Hourly rate cap (HRC)	Average hourly fee	% HRC is higher than average hourly fee	Hourly rate cap (HRC)	Average hourly fee	% HRC is higher than average hourly fee
CBDC	\$11.77	\$9.80	20.1%	\$13.73	\$12.80	7.3%
FDC	\$10.90	\$10.05	8.5%	\$12.72	\$12.40	2.6%
OSHC	\$10.29	\$7.50	37.2%	\$12.02	\$8.60	39.8%

a. In Home Care is not shown because the averages hourly fees were not available in the Child Care Subsidy data tables. This is due to In Home Care subsidies being family based whereas other metrics in the average hourly fee table were at the child level.

Source: Services Australia (2023a); Centrelink (2018); Department of Education (2019, 2023e).

Reflecting the narrowing of the gap for CBDC and FDC services, the share of CBDC services with average fees above the hourly rate cap increased from 13% to 22% between Q3 2018 and Q3 2023 and the share of FDC services grew from 20% to 34% (ACCC 2023a, p. 39). The share of OSHC services with average fees above the hourly rate cap decreased from about 15% in Q3 2018 to 11% in Q4 2023, the lowest it has been since the hourly rate cap was introduced in 2018 (ACCC 2023a, p. 79).

The ACCC found that the complexity of the CCS along with unique characteristics of the ECEC market may limit the effectiveness of the CCS hourly rate cap in constraining fees (ACCC 2023c, p. 164). For example,

the ACCC noted the disconnect between the CCS calculated at an hourly level and fees generally charged at a daily level, meaning ‘the hourly rate cap is unlikely to be a strong price signal for households’ (ACCC 2023c, p. 165). It also noted that prices are important in attracting families to services but not in retaining them (ACCC 2023c, p. 98), and that non-price considerations contribute to families’ decisions to change ECEC services.

But fee increases are not a bad thing per se. For example, they might be due to quality improvements (such as by paying higher wages for more experienced staff) or to cost increases – providers need to remain financially viable.

Concerns should arise if fee increases are unjustified and providers profit excessively – particularly given the taxpayer support provided to the sector. Concerns should also arise if providers try to minimise fee increases by reducing or closing higher cost places (such as for younger children) or hiring lower quality staff. This is unlikely to be viable in the long run and would not be in the best interest of families.

On the basis of analysis of data supplied both by providers and from tax returns the ACCC concluded that:

Most childcare entities or businesses do not appear to be making excess profits, and approximately 25% of childcare providers structured as companies are making almost no profit or suffering a loss. (ACCC 2023a, p. 111)

The ACCC also found that only two large providers were renting or leasing sites from related entities, and that there was no evidence of profit shifting among large providers. However, they also noted that profit shifting might be occurring in other parts of the sector, and that the increased activity of private equity groups in property investments might warrant further attention (ACCC 2023a, p. 124).

In other words, while fees have increased over time, so have costs but on average across the sector profits are not of concern at the moment (but should be monitored, as discussed later in the paper).

There is evidence of providers closing rooms due to workforce constraints – but those constraints, at least to some extent, reflect providers being unable or unwilling to raise wages to a level that would attract staff (paper 3). Actions are underway in the sector that can be expected to lead to wage increases for many ECEC staff, and the Australian Government has signalled its intention to contribute to funding a pay increase (paper 3). This might help to relieve the effects of workforce constraints on ECEC access.

Ongoing cost increases will continue to undermine the hourly rate cap’s ability to maintain affordability for families if the cap remains indexed by the CPI. To maintain affordability the hourly rate cap needs to keep pace with the growth of ECEC delivery costs. As fees rise, families on hourly fees below the cap face increases in their out-of-pocket expenses if their CCS rate is less than 100%. Where hourly fees are above the hourly rate cap, families pay the full difference between the fee and the cap. Any part of the hourly fee above the hourly rate cap is not subsidised by the CCS. A change in indexation approach is recommended in section 6.4.

### **It is more common for average fees to exceed the hourly rate cap for FDC services and in areas with higher socio-economic status**

The relationship between average fees and the hourly rate cap varies markedly with the socio-economic status of communities. In Q4 2023, CBDC services with average fees above the hourly rate cap were heavily concentrated in areas of higher socio-economic status (figure 6.5). Nearly three quarters of CBDC services in the top Socio-Economic Indexes for Areas (SEIFA) decile had average hourly fees above the rate cap. And just over half (55%) of all CBDC services with average fees above the hourly rate cap were in the top two deciles. In contrast, more than three quarters of services in the first seven deciles had average fees below the CBDC hourly rate cap. And across each of the bottom five deciles, only 5%–11% of CBDC

services had average fees above the hourly rate cap. The prevalence of higher fees in areas with higher socio-economic status could be explained by a combination of higher costs and higher willingness to pay in those areas.

While average fees for OSHC were also higher in areas with higher socio-economic status, they were much less likely to exceed the hourly rate cap (figure 6.5). More than three quarters of services in all SEIFA deciles had average hourly fees below the OSHC hourly rate cap, and in the bottom three SEIFA deciles, average fees exceeded the hourly rate cap in only 5%–10% of services. In the top three deciles, that increased to 15%–21% of services.

FDC services were more likely to have average fees above the hourly rate cap, including in lower socio-economic status areas (figure 6.5). The hourly rate cap sat around or above the median average fee across all SEIFA deciles, and the 75<sup>th</sup> percentile of average hourly fees was above the FDC hourly rate cap in all deciles. Over 90% of FDCs in the top decile had average fees above the hourly rate cap, as did about a third of FDCs in lower SEIFA deciles. FDCs tend to be situated in areas with lower socio-economic status, which contributed to about a third of all FDCs with average fees greater than the hourly rate cap being in the lowest three SEIFA deciles. This suggests that families with children attending FDC may be more likely to face affordability issues due to the hourly rate cap limiting the extent of fees to which their CCS rates apply.

Recommendations about the hourly rate cap for different provider types are discussed in section 6.4.



#### **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.

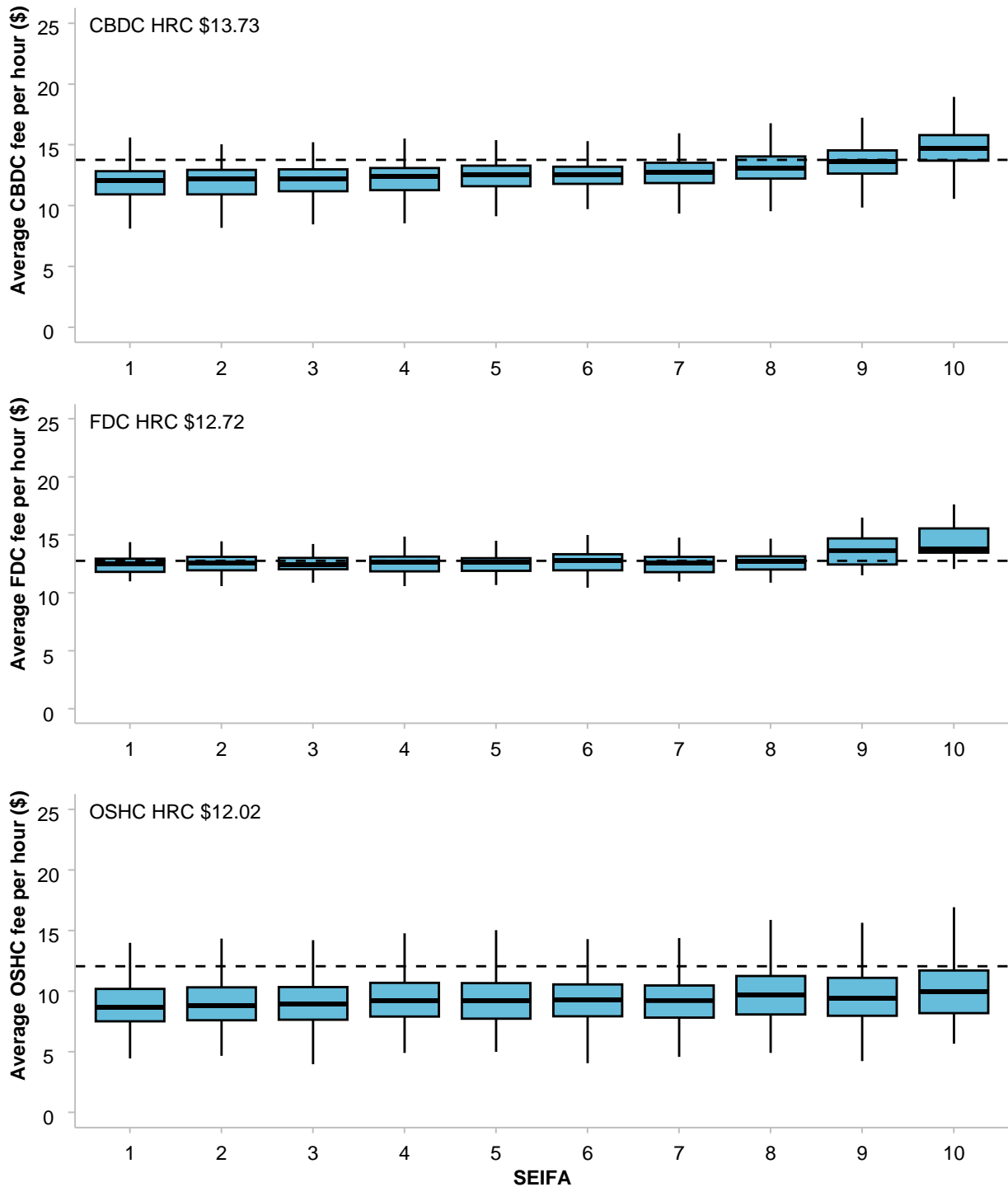
However, the majority of CBDC and OSHC services still have an average hourly fee below the hourly rate cap. And CBDC services with average fees above the hourly rate cap are heavily concentrated in areas of higher socio-economic status. Average fees charged by OSHC services are also higher in areas of 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).

**Figure 6.5 – Fees are most likely to exceed the hourly rate cap for FDC services<sup>a,b,c</sup>**

**Average service fees per hour, by SEIFA decile and service type, December quarter 2023**



a. These box and whisker plots show the median (black horizontal line), two hinges at the 25<sup>th</sup> and 75<sup>th</sup> 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. b. HRC = hourly rate cap. Before school aged caps are applied to the chart for CBDC and FDC, and school-aged caps are applied for OSHC. c. SEIFA deciles based on the Index of Relative Socio-economic Advantage and Disadvantage of the SA2 of the service.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).



## Preschool funding assists in improving affordability for children in the year before school

Preschool is attended by many children in the year before full-time school<sup>6</sup> and programs are delivered through dedicated preschools and CBDCs.<sup>7</sup> Most children participate in a preschool program in one of these settings, but some attend both.

There are no or low affordability barriers for children to attend a program in dedicated preschools in the year before school. All states and territories offer free or subsidised preschool through government-run and/or dedicated preschool services (table 6.3) during the school term. For example, the Australian Capital Territory, the Northern Territory, Western Australia and Tasmania offer free preschool in these settings. For 72% of children enrolled in a dedicated preschool in 2023, families paid no fees and for 18% of children, families paid between \$1 and \$4 per hour (ABS 2024). There may, however, be other barriers (such as inconvenient session times or lack of access) that stop a family from sending their child to preschool in a dedicated setting.

There may be affordability barriers for children in the year before school who attend a preschool program in a CBDC, despite preschool-related government support. Compared to other age cohorts attending CBDCs, out-of-pocket expenses may be reduced further in some states and territories for children in the year before school (such as New South Wales, Victoria and Queensland) due to state or territory government preschool funding passed on to families as fee relief (Victoria and New South Wales provide \$2,050 and \$2,110 respectively in fee relief for children in the year before school attending a preschool program in a CBDC, for example). Families would also be eligible to receive CCS – eligibility is not affected by this state and territory government funding.<sup>8</sup> And children in the year before school who attend preschool in a CBDC are eligible for 36 subsidised hours of care per fortnight without the need for parents or guardians to meet the activity test. Families whose eligibility for subsidised hours was below this previously would receive a higher allowance of subsidised hours. Nevertheless, some families may still face affordability barriers to accessing preschool through a CBDC because not all states and territory governments provide funding for out-of-pocket expense relief for children attending a preschool program in a CBDC. Furthermore, families are unable to choose to send their children for only the ‘preschool program’ hours at a CBDC as service providers generally charge per day rather than per hour – any additional hours would not be subject to preschool funding.

As well as direct fee relief, some states provide preschool services with program funding. For example, the NSW Government offers a program payment through its Start Strong program to eligible services, on a per-child basis, which can be used for costs associated with staffing or functional and educational resources to improve the quality and affordability of preschool in New South Wales (NSW Department of Education 2023a; pers. comm., 30 October 2023). In South Australia, funding from the Preschool Reform Agreement can be used for additional subsidies to services for each enrolled child who is Aboriginal and/or Torres Strait Islander or holds a concession card, and/or has a disability (CFFR 2021, pp. 7–8). And in the Northern Territory, preschool programs in regulated long day care settings may be eligible for the Northern

<sup>6</sup> Some services offer preschool programs for both three-year-old and four-year-old children. This section focuses on preschool in the year before school.

<sup>7</sup> Funding arrangements for preschool programs differ across jurisdictions and by service type (appendix E). Median hourly out-of-pocket expenses for children attending preschool range from \$0 to \$3.67 across jurisdictions in 2022.

<sup>8</sup> State or territory government funding provided is considered a Third Party Payment (TPP). Typically, TPPs result in a lower CCS entitlement for families. However, a TPP can be ‘prescribed’ in the Minister’s Rules, which enables the payment to directly reduce the gap fee after CCS entitlement has been calculated (A New Tax System (Family Assistance) Act 1999 (Assistance Act), paragraph 2(2A)(c) of Schedule 2).

Territory's Early Childhood Services Subsidy, which aims to help offset the cost of service delivery – although may not directly reduce fees for families (NT DoE, pers. comm., 11 October 2023).

**Table 6.3 – Fee relief for preschool in the year before school differs by jurisdiction**  
**Preschool fee relief in the year before school, by jurisdiction, 2024 or latest available**

	Fee relief	Coverage
<b>New South Wales</b>	<p>Fee relief of up to \$4,220 per year for children attending eligible community or mobile preschools.</p> <p>Fee relief of up to \$2,110 per year for children attending an eligible CBDC or MACS preschool (in addition to CCS).<sup>a</sup></p> <p>Free for children attending a NSW Department of Education preschool.</p>	<p>Fee relief in community and mobile preschools is proportionately adjusted if children are enrolled for less than 600 hours per year.</p> <p>Children enrolled in 600 hours or more of preschool in a year at an eligible service will receive the maximum fee amount.</p> <p>15 hours per week (600 hours per year).</p>
<b>Victoria</b>	<p>Free in participating dedicated (sessional) kinders.<sup>b</sup></p> <p>Fee relief of up to \$2,050 per year for children enrolled in a kinder program through CBDC (in addition to CCS).</p>	<p>Children attending kinder for 15 hours per week (600 hours per year) (regardless of setting) are eligible for either free kinder (dedicated programs) or fee relief (programs within CBDCs).</p>
<b>Queensland</b>	<p>Free in both CBDC and dedicated (sessional) kinders.</p>	<p>15 hours per week (600 hours per year).</p>
<b>South Australia</b>	<p>Families pay contributions at school-based and stand-alone preschools, with fees set by the preschool.<sup>c</sup></p> <p>Preschool in CBDC settings is not subsidised beyond CCS in the year before school.</p>	<p>15 hours per week (600 hours per year).</p>
<b>Western Australia</b>	<p>Free in government and community kindergartens with the exception of voluntary contributions up to a maximum of \$60 per year and mandatory charges for extra cost optional components under the <i>School Education Regulations 2000</i>.</p> <p>Kindergarten in CBDC settings is not subsidised beyond CCS (though grant funding to some services may indirectly contribute to reduced costs for families).</p>	<p>15 hours per week (600 hours per year).</p>
<b>Northern Territory</b>	<p>Free in government preschools, but schools may request voluntary contributions.</p> <p>Preschool in other settings is not directly subsidised to families beyond CCS.</p>	<p>15 hours per week (600 hours per year).</p>
<b>Tasmania</b>	<p>Free in public school-based settings, and free in some non-government school settings.<sup>d</sup></p>	<p>600 hours per year (15 hours per week).</p>

	Fee relief	Coverage
	CBDC-based kindergarten can be subsidised by both the state and under the Preschool Reform Agreement in some circumstances. <sup>e</sup>	Five hours per week funded by the Preschool Reform Agreement if the CBDC service operates a registered kindergarten program. An additional ten hours per week funded by the state if the service registers as a school, regardless of profit status.
<b>ACT</b>	Free in public school settings. Preschool is not subsidised beyond CCS in other settings in the year before school.	15 hours per week (600 hours per year).

**a.** MACS refers to Multifunctional Aboriginal Children's Services, which are a type of ECEC service for Aboriginal and/or Torres Strait Islander children. **b.** Some dedicated kinders may choose to not participate in the Free Kinder program, and can charge fees (set by the provider). Services under the Free Kinder program may also charge for additional hours above the 15 hours per week. **c.** Preschool directors set fees in consultation with the preschool's management committee or school's governing council, based on the estimated cost of providing the program. Children cannot be excluded from a preschool program if their family cannot pay a fee. There is some flexibility to reduce or waive fees if needed (SA DfE 2022a, 2022b). **d.** Families may still incur school levies when using kindergarten in a government school in Tasmania. **e.** At September 2023, no CBDC kindergarten programs in Tasmania received funding to provide free kindergarten under the National Partnership Agreement or state-based funding, because none of these services delivered a registered kindergarten program nor were registered as a school.

Source: ACT Education Directorate (pers. comm., 14 September 2023); NSW DoE (2023a, 2023b; 2024a, 2024b); NT DoE (pers. comm., 11 October 2023); NT Government (2024); Queensland DoE (2023); SA DfE (2022a, 2022b); Tasmanian DECYP (pers. comm., 14 September 2023); Victorian Government (2023, 2024); WA DoE (pers. comm., 8 November 2023).

The high proportion of four-year-olds enrolled in preschool suggests that lower fees are effective in encouraging preschool attendance. The ABS estimated that in 2023, 88% of all children aged four were enrolled in a preschool program.<sup>9</sup>

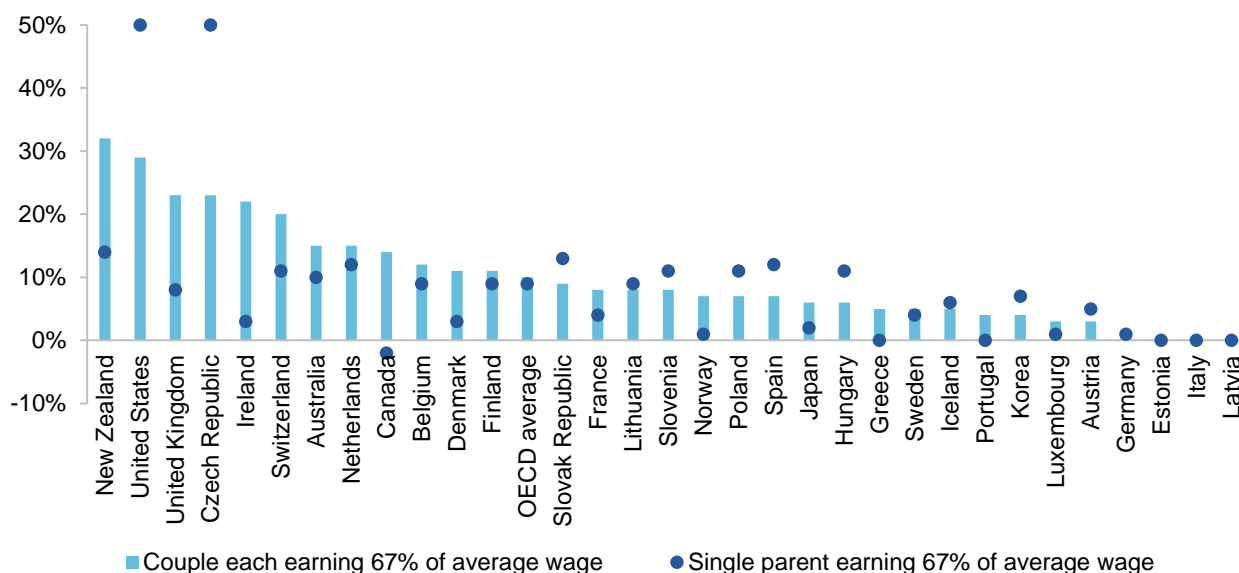
## International evidence suggests that ECEC is relatively expensive in Australia

OECD analysis based on data from 2022 indicated that Australian families tend to pay more for ECEC than families in many other developed countries (figure 6.6).

<sup>9</sup> 22% of all children aged five were also enrolled in a preschool program.

**Figure 6.6 – ECEC expenses are higher in Australia than the OECD average<sup>a,b,c</sup>**

**Net childcare expenses for single parents and couples, % of net household income, 2022 or latest available**



**a.** Expenses are for full-time use of CBDC, after any benefits designed to reduce gross fees have been applied. These benefits may take the form of allowances, tax concessions, fee rebates and increases in other entitlements. **b.** Data assumes that families have two children aged two and three and that parents are aged 40 and work full-time. **c.** Information on fees and benefits is based on national rules. Where fees are determined at the local level, in most cases the local authority of a country’s capital is considered.

Source: OECD (2023).

It is important to note, though, that this analysis does not incorporate HCCS or the July 2023 changes to CCS rates and income testing.<sup>10</sup> The effect of HCCS on fees is unclear, but data suggests out-of-pocket ECEC expenses have fallen under the new CCS arrangements. Between the December 2022 quarter and December 2023 quarter, hourly fees in CBDC increased by 9% while out-of-pocket ECEC expenses decreased by 12% on average (Productivity Commission estimates based on DoE administrative data (unpublished)). Other OECD countries have also recently made changes to their ECEC funding arrangements – for example, Ireland’s Core Funding scheme was introduced in 2022 (appendix B). It remains to be seen how these new policy settings have affected relative affordability across OECD countries. These international comparisons also rely on hypothetical examples. They do not reflect actual families’ situations but rather illustrate a hypothetical family’s outcome. Overall, despite these limitations, the comparisons are useful in highlighting the relative differences in ECEC expenses across countries.

The following two sections (6.2 and 6.3) focus on the barriers that affordability and administrative complexity can create to ECEC access. Solutions to these barriers are proposed in the sections 6.4 and 6.5.

<sup>10</sup> HCCS was introduced in March 2022. As HCCS was not in place on 1 January 2022, it is not modelled in the OECD’s analysis of Australia’s net ECEC expenses in 2022 (OECD 2023b, p. 20).

## 6.2 Some families still face affordability barriers to ECEC participation

Despite the CCS, many families have reported that affordability is a barrier to ECEC participation.

- In its voluntary parent and guardian survey, the ACCC found that 60% of respondents said fees were somewhat financially burdensome and a further 14% struggled with fees (2023b, p. 58).<sup>11</sup> Further, households that considered their out-of-pocket expenses burdensome limited their use of childcare (ACCC 2023b, p. 15).
- The 2022 Australian Early Learning Monitor found that 87% of Australians believe that many families do not send their children to ECEC or limit participation in ECEC due to the cost (Thrive By Five 2022, p. 5).
- A survey in September 2023 found that parents facing financial pressure were less likely to have children attending preschool or CBDC (66% of parents compared with 72% for those who were financially comfortable or secure). Of the parents without children attending, more than half said that CBDC was too expensive. And of the parents with children attending, 7 in 10 considered that ECEC expenses were a burden on family finances. 6 in 10 parents reported that they or their partner would work different hours 'if childcare wasn't so expensive' (The Parenthood, sub. 276, attachment 1, pp. 2, 6, 9–10).
- A NSW Productivity Commission survey and choice modelling analysis identified that when barriers to ECEC were considered in isolation, cost was rated the highest barrier by non users, low users and high users of ECEC. But when parents considered out-of-pocket expenses amongst other barriers (such as preferred provider type and suitable hours), decisions were less influenced by cost (NSW PC 2023, p. 36). Non users of ECEC were the least responsive to changes in cost and low users of ECEC were the most responsive (NSW PC 2023, p. 15).
- A 2023 population representative survey conducted by the ABS found that just over 15% of mothers who wanted a job or more hours of work and nominated caring for children as their main barrier to work, said that the costs of ECEC were the main reason they were not in the labour force or working more hours (ABS 2023a) (labour force participation of parents is discussed in paper 4).

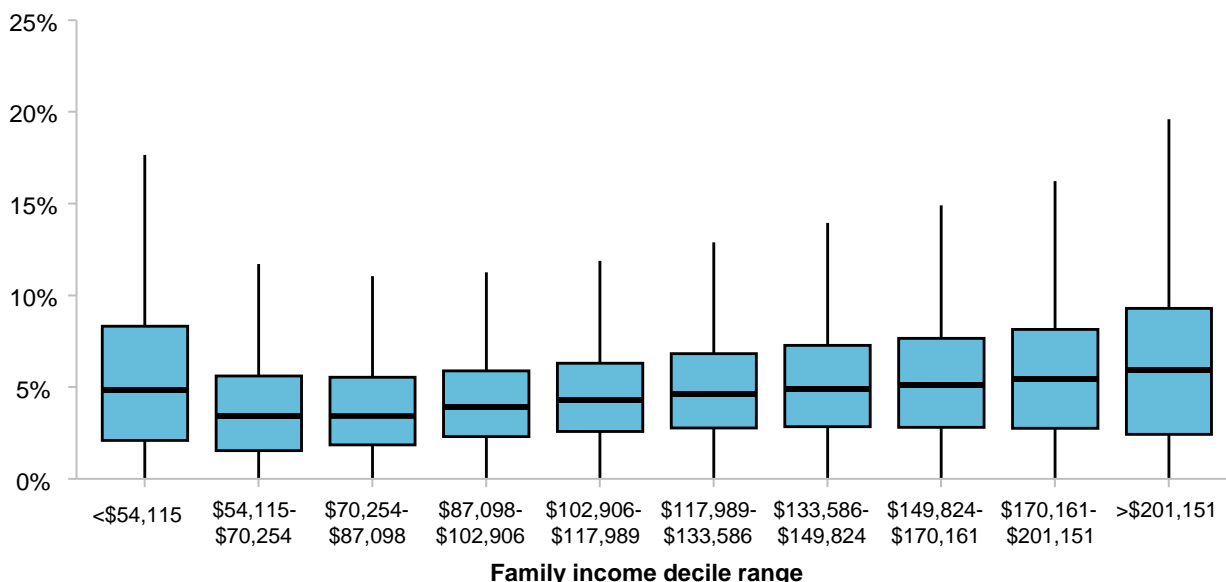
### Families experiencing disadvantage face relatively high financial barriers to ECEC participation

Analysis of Department of Education administrative data shows that out-of-pocket ECEC expenses make up a higher proportion of disposable income for families in the first income decile when compared with many other families. Among families receiving CCS, the median family in the bottom 10% of the income distribution (families with incomes of \$40,000 on average) is estimated to pay out-of-pocket expenses equal to about 5% of their income (or 7% on average (mean)) (figure 6.7). 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 (figure 6.7).

Note, 'free' or low cost preschool programs funded by states and territories are not reflected in this data. ECEC expenses can be lower for parents who receive this support.

<sup>11</sup> The ACCC report notes that these statistics may be understated as the number of respondents that reported their income between \$0 and \$73,000 was lower than would be expected from a sample representative of the whole population. The sample size in the other income brackets were similar to the broader population.

**Figure 6.7 – Families in the lowest income decile spend a higher proportion of their disposable income on ECEC compared to most other deciles<sup>a,b,c</sup>**  
**Out-of-pocket expenses as a share of family after-tax income, by family income decile, fortnight to 26 Nov 2023**



**a.** Out-of-pocket expenses for each family were calculated as charged fees less CCS and 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 Child Care Subsidy. **b.** These box and whisker plots show the median (black horizontal line), two hinges at the 25<sup>th</sup> and 75<sup>th</sup> 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. **c.** Excludes In Home Care services.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

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 5% 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. Higher income families are also more likely to have financial sources other than income to draw on (such as wealth).

Low-income families can still face affordability issues even when taking into account the 90% CCS rate:

for families with little disposable income, the remaining 10 per cent of childcare fees remains unaffordable. For these families, ECEC is considered a luxury, with finding housing and keeping food on the table remaining the priority. (The Salvation Army, sub. 56, p. 9)

Affordability issues are likely contributing to lower participation rates in ECEC for lower-income families – children living in low socio-economic areas are less likely to participate in ECEC (paper 4, figure 4.6)<sup>12</sup> and parents facing financial pressure are more likely to limit their use of ECEC (based on survey evidence described above).

That said, there may be other reasons why lower-income families are not using ECEC, such as the activity test and the administrative complexity of the system (discussed below), a lack of availability (paper 5), non-financial barriers (paper 7) and preferences to care for their own children (paper 4).

Efforts to improve affordability for low-income families have been found to have positive effects on ECEC attendance. For example, Goodstart Early Learning developed the Early Learning Fund to reduce fees for children from low-income families or facing other forms of hardship, but who are not eligible for other subsidies such as ACCS (Goodstart Early Learning, sub. 125, p. 21). This support provided families with at least two days of ECEC for about \$7 a day, in addition to engagement with families to set learning goals. Children supported by the Fund were found to have higher attendance rates and better retention in ECEC – with only 7% of children leaving compared with 52% among other low-income families in 2020 and 2021.



#### **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.

### **Additional support is available through the ACCS for families experiencing vulnerability and disadvantage**

The ACCS plays an important role in improving affordability for families whose personal circumstances mean that they face additional barriers to accessing ECEC. The higher subsidy rate reduces out-of-pocket ECEC expenses for eligible families. The ACCS was found to be effective and targeted at children who may be

<sup>12</sup> Although living in a low socio-economic area does not necessarily mean that all families living in the area have low incomes, spatial socio-economic data does indicate the 'collective socio-economic characteristics' of people living in an area (ABS 2023d).

vulnerable in the Australian Institute of Family Studies (AIFS) evaluation of the 2018 Child Care Package (Bray et al. 2021, p. 235).

Use of ACCS is low relative to total ECEC usage. In the December 2023 quarter, there were about 38,000 children accessing ACCS (76% of whom were eligible through the Child Wellbeing category), among the 1.4 million children using CCS-approved services (DoE 2023d). And across the three main service types (CBDC, FDC and OSHC), in December quarter 2022, between 2% and 3.7% of all hours were subsidised through ACCS (ACCC 2023b, p. 35). Children receiving In Home Care had a higher proportion of hours subsidised through ACCS (32%), which reflects that families with complex or challenging needs are eligible for this form of care. The majority of these children (over 90%) were subsidised through ACCS (Child Wellbeing) (ACCC 2023b, p. 35).

While the low usage of ACCS partly reflects the nature of this targeted assistance, there is a question of whether usage could or should be higher. Some families who are eligible for ACCS may not apply, and hence not attend ECEC, for reasons such as stigma or distrust of government. These and other barriers to ECEC attendance that are associated with the design and application of CCS are discussed below.

It is difficult to know what the 'right' level of ACCS use should be in the community. Each ACCS category targets families that face certain circumstances, and families may or may not face these circumstances permanently. For example, the ACCS (Temporary Financial Hardship) category provides assistance for 13 weeks to families that are facing temporary financial hardship (Services Australia 2022f). The ACCS (Grandparent) category provides assistance with no time limit on eligibility, to families where a grandparent or great grandparent is the guardian and receives an income support payment (Services Australia 2022e). Whether families face circumstances that make them eligible for ACCS may depend on events that occur unpredictably or vary from year to year (for example natural disasters or increased unemployment and/or financial hardship due to broader economic conditions).

To provide an indication of whether the current level of ACCS access is 'right', ACCS (Child Wellbeing) was examined as an example as it is the most commonly used ACCS category and a data source with a comparable population cohort was readily available. ACCS (Child Wellbeing) is for families caring for a child at risk of serious harm, abuse or neglect and includes children in formal foster care or formal kinship placement or in the care of the state, territory or the Minister (Services Australia 2021). The number of children receiving subsidised ECEC through ACCS (Child Wellbeing) was compared to data on children receiving child protection services.

In the December 2022 quarter, about 1% of children aged 0–12 years old received subsidised ECEC through ACCS (Child Wellbeing). This contrasts to about 3% of children aged 0–14<sup>13</sup> years receiving child protection services in 2021-22 (Productivity Commission estimates based on ABS (2023b) and AIHW (2023, table S2.3)). A child may receive child protection services if they are subject to an investigation due to a notification of maltreatment, have been granted a protection order due to being the victims of abuse/neglect or are in need of protection, are in out-of-home care because they are unable to live at home or if their families have been referred to intensive support services (AIHW 2023).

Although the ACCS (Child Wellbeing) eligibility criteria does not fully align with children receiving child protection services, it is clear that there are overlaps within these two groups. The higher proportion of children receiving child protection services relative to those receiving ACCS (Child Wellbeing) may suggest that there is scope for more children to access ACCS (Child Wellbeing). The apparent underuse of ACCS could be due to reasons such as administrative complexity or families not knowing that children may be

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<sup>13</sup> Age groupings in child protection services data does not enable calculations for children aged 0–12. The age grouping of 0–14 was used instead to provide a comparable grouping to CCS eligibility.



eligible to receive subsidised ECEC through ACCS (Child Wellbeing). Administrative complexity is discussed further below.

### **CCS withholding can also reduce affordability for families**

The CCS withholding rate can also reduce affordability for families, particularly for lower-income families. By default, 5% of a family's CCS amount is withheld by Services Australia until after the end of the financial year and after reconciliation occurs. This means that during the year, families do not receive the full benefit of the subsidy and have higher out-of-pocket ECEC expenses. This would be a greater concern for lower-income families as they are more sensitive to price given greater constraints on their financial resources (as noted above). The aim of this CCS withholding rate is to provide some protection for families from a potential CCS debt if they underestimate their annual income or misreport their activity hours. Currently, families can change their withholding amount up to two times a year online. However a survey of childcare users completed as part of the AIFS evaluation found that parents' self-reports indicated that the 5% withholding amount was the least well-understood aspect of the CCS (Bray et al. 2021, p. 44).

Low-income households also have higher withheld CCS amounts. In the December 2023 quarter, the median withheld amount per child ranged between about \$11 and \$12 per week for families in the first five income deciles. For families in the sixth to ninth income deciles, the median withheld amount per child ranged between about \$8 and \$11 per week and fell to about \$4 per week for families in the tenth income decile (Productivity Commission estimates based on DoE administrative data (unpublished)). This makes sense given that lower-income households are eligible for higher amounts of CCS compared to higher-income households.

### **Any difference between hours charged and hours attended may also affect affordability**

Total fees, subsidies and out-of-pocket expenses are based on the hours charged by a service. For many families, there is a difference between the hours for which they are charged and the hours that their child attends a service. For example, a service may only offer 10-hour sessions between 8am and 6pm, but a family may drop their child off at 8am and pick them up at 2pm. In this situation, the family will be charged for, and CCS will be applied to, all ten hours despite the child only attending 60% of the session. Families can also be charged for days where their child is absent.

Across a year, families only attend about two thirds of the hours for which they are charged, and attendance rates tend to be lower among lower-income families (Productivity Commission estimates based on DoE administrative data (unpublished)). Paper 7 discusses differences between charged and attended hours further.

### **Other groups also experience some affordability barriers**

Other groups in the community potentially face affordability barriers when accessing ECEC services – for example children with disabilities and/or additional needs. The ACCC's 2023 survey of parents and guardians found that 77% of parents and guardians of a child with disability and/or complex needs said that they found childcare fees 'somewhat financially burdensome' or that they 'struggle to pay fees', compared to 74%, marginally higher than that for all respondents (2023b, pp. 103–104). Some submissions also noted that families of children with disabilities or additional needs may incur additional costs that make it harder to access ECEC services (Gowrie SA, sub. 25, p. 9; Royal Australasian College of Physicians, sub. 37, p. 8). There is not adequate data to determine whether families of children with additional needs face higher average out-of-pocket expenses for ECEC than other families (ACCC 2023b, p. 103). But children with disabilities are slightly more likely to live in low-income households compared to children who do not live with

disabilities (AIHW 2020, p. 96). This increases the likelihood that families of children with disabilities face financial barriers to using ECEC services.

Inquiry participants suggested that out-of-pocket expenses can also be a barrier to some Aboriginal and/or Torres Strait Islander children participating in ECEC.<sup>14</sup> And a qualitative study in seven communities across Australia found that affordability was a common barrier to ECEC participation for Aboriginal and/or Torres Strait Islander families – especially for families that were not using ECEC (Kellard and Paddon 2016, p. 23).

Analysis by the ACCC found that the average hourly CBDC fee charged for Aboriginal and/or Torres Strait Islander children was slightly lower than for other children (before subsidies) (ACCC 2023b, p. 102). This may reflect that Aboriginal and/or Torres Strait Islander children are more likely than the average Australian child to live in a less advantaged socio-economic area, where ECEC fees tend to be lower on average (ACCC 2023b, p. 81; NIAA 2023b). And while some Aboriginal and/or Torres Strait Islander families do not face difficulties with ECEC affordability, they are proportionally over-represented in lower income bands (NIAA 2023a), which increases the likelihood that they will face challenges with ECEC affordability.

The Commission heard from inquiry participants that other cohorts may also face higher affordability barriers to accessing ECEC, compared to the average Australian family.

- Children and families who have restricted or temporary residency in Australia may not be eligible for CCS, which can make ECEC services prohibitively expensive.<sup>15</sup>
- Some submissions suggested that out-of-pocket expenses can be a significant barrier for families from culturally and/or linguistically diverse backgrounds (Centre for Excellence in Child and Family Welfare, sub. 59, pp. 2–3). And a qualitative study of newly-arrived families in Australia found that cost (and low awareness of available subsidies) of dedicated preschools was a significant barrier for many participants (Brotherhood of St. Laurence 2020, p. 13).
- Single parent families and families with multiple births may also face greater affordability barriers. The financial burden of ECEC can be significant for single parent families due to their greater reliance on a single income (Council of Single Mothers and their Children, sub. 100, pp. 3–7). Families with multiple births can also face higher affordability barriers due to multiple children needing ECEC at the same time (Australian Multiple Birth Association, sub. 165, p. 4).
- Families that are known to child protection, have children in the out-of-home care system and/or experiencing family or domestic violence can also face elevated financial barriers to using ECEC. This can include difficulties paying fees, as well as financial constraints due to relocations (which may include financial consequences if the appropriate notice is not given to ECEC services, or if children are absent) (Centre for Excellence in Child and Family Welfare, sub. 59, p. 2; Council for Single Mothers and their Children, sub. 100, p. 5; WA Government, sub. 162, p. 10).

Some families also face barriers due to the indirect costs of ECEC. Families living outside of metropolitan areas can incur significant additional costs associated with travel and time to get to an ECEC service, which can increase the financial barriers to ECEC (SDA, sub. 72, p. 20) (paper 7 discusses this in more detail).

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<sup>14</sup> Binarri-binyja yarrowoo Aboriginal Corporation, sub. 85, p. 10; Centre for Excellence in Child and Family Welfare, sub. 59, pp. 2-3; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 6; National Indigenous Australians Agency, sub. 152, p. 5; SNAICC, sub. 133, p. 18.

<sup>15</sup> 1st Impressions Early Learning Centre, sub. 91, p. 1; Early Years Intercultural Association, sub. 97, p. 1; Brotherhood of St. Laurence, sub. 96, p. 7; Paul Ramsay Foundation, sub. 148, p. 4; The Salvation Army, sub. 56, p. 14; KU Children Services, sub. 303, p. 7; The Front Project, sub. 227, p. 59; United Workers Union, sub. 222, p. 15; Women's Legal Services, sub. 272, p. 3; Australian Childcare Alliance, sub. 255, p. 107.

## The relationship between remoteness and affordability is complex

Although mean out-of-pocket expenses do not increase or decrease consistently with remoteness – out-of-pocket expenses are highest on average in metropolitan and remote areas (figure 6.8) – there is some evidence that affordability may be of particular concern to families living in remote areas.<sup>16</sup> Additional expenses associated with ECEC participation (such as travel costs) can be higher for families living in regional and remote Australia (paper 7 discusses this further).

The ACCC's childcare inquiry June 2023 interim report identified that families in remote and very remote Australia have lower effective subsidy rates on average than families in less remote areas. This means that compared to other families, families in remote and very remote Australia, on average, receive a lower proportion of subsidy relative to the fees they pay. And the difference cannot be explained by differences in household income or CCS rates. A possible reason for this difference is that families in remote and very remote Australia use more unsubsidised hours (due to the activity test) compared to other families (2023b, pp. 116–117).

These aggregate figures, however, obscure more complicated associations between remoteness, fees and out-of-pocket expenses. For example, the relationship between remoteness and average fees differs by service type. Mean CBDC fees fall with remoteness, while mean FDC fees increase. OSHC fees do not display a clear pattern – mean fees are highest in remote Australia and similar across other levels of remoteness (ACCC 2023b, p. 80).

The link between remoteness, affordability and service type is further complicated by the fact that other factors affecting affordability, such as market structure, differ systematically with remoteness. For example, most CBDC services in remote areas are operated by not-for-profit providers and fees for not-for-profit services are lower on average than fees for for-profit services (ACCC 2023b, p. 94). Likewise, large CBDC providers (40 or more services) are less likely to operate in remote and very remote Australia, and mean fees for small providers (less than five services) are lower than mean fees for large providers (ACCC 2023b, p. 95).

Additionally, the association between remoteness and out-of-pocket expenses differs by jurisdiction (figure 6.9). While mean out-of-pocket expenses fall with remoteness in Victoria and Tasmania, in Western Australia, mean out-of-pocket expenses rise significantly with remoteness. This is at least partly explained by the fact that mean CBDC and OSHC fees are higher in Western Australia's remote areas than in other states and territories (ACCC 2023b, pp. 85–86).

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<sup>16</sup> One caveat of the following discussion is that while data on fees and out-of-pocket expenses represents the best available information on how affordability differs with remoteness, a more relevant measure of affordability may be out-of-pocket expenses as a proportion of household income.

**Figure 6.8 – Mean out-of-pocket expenses are highest in metropolitan and remote areas<sup>a</sup>**  
**Mean hourly out-of-pocket expenses by remoteness, December quarter 2023**

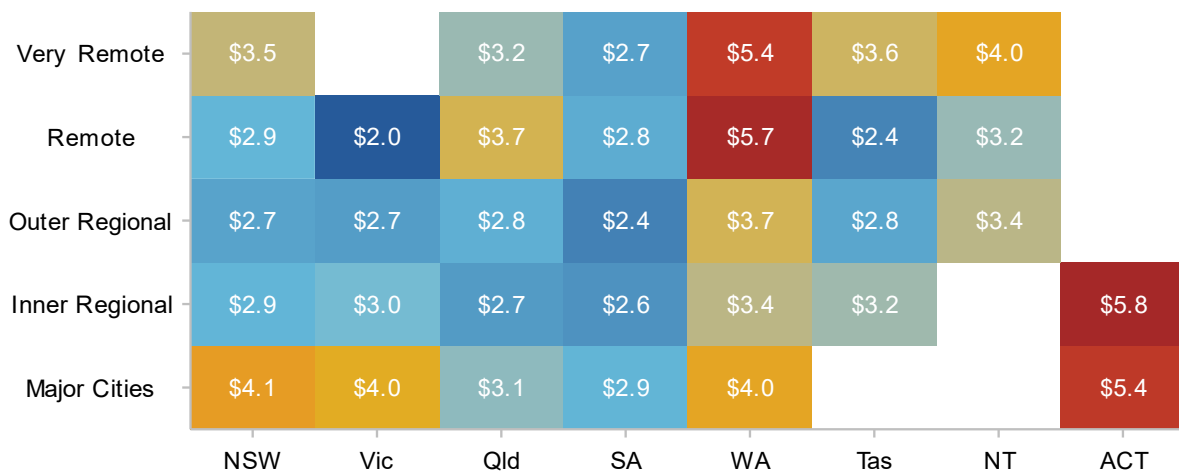


a. This analysis excludes cases where charged fees were zero.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

**Figure 6.9 – The association between out-of-pocket expenses and remoteness varies by jurisdiction<sup>a,b</sup>**

**Mean hourly out-of-pocket expenses, by jurisdiction and remoteness, December quarter 2023**



a. Blank tiles mean no cross-classifications between jurisdiction and remoteness level. b. This analysis excludes cases where charged fees were zero.

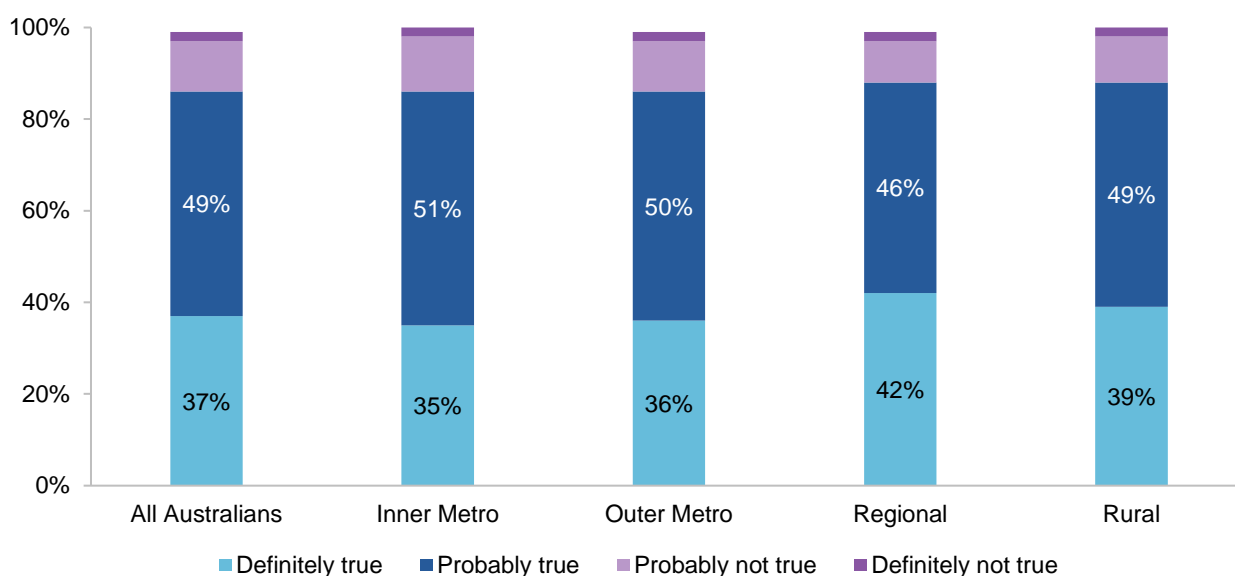
Source: Productivity Commission estimates based on DoE administrative data (unpublished).

## Perceptions of ECEC affordability differ with remoteness

As well as identifying whether actual fees and out-of-pocket expenses change with remoteness, it is also important to consider whether perceptions of affordability differ geographically as perceived affordability of ECEC – regardless of the actual expense – acts as a barrier to ECEC participation (The Smith Family 2021, p. 5). Figure 6.10 highlights that concerns about ECEC affordability are slightly more pronounced in regional and rural areas relative to metropolitan areas. Additionally, parents using ECEC in regional Australia are relatively more likely than those in metropolitan areas to believe that ECEC costs have risen substantially over the past three years (Thrive By Five 2023).

### Figure 6.10 – People in regional and rural areas are slightly more likely to be concerned about ECEC affordability

Share of responses to the statement ‘Many families don’t send their children to early childhood education and care or limit how long they send them, because of the cost’



Source: Thrive by Five (2022).

### Families in remote areas experience unique affordability barriers when accessing preschool

Early learning programs can be delivered by distance education for the year prior to a child starting compulsory schooling. For many geographically isolated families, this is the only avenue available to access early childhood education. Children who receive primary or secondary schooling by distance education are eligible to receive the Assistance for Isolated Children Distance Education Allowance (AIC-DEA) which ‘contributes towards incidental costs incurred by geographically isolated families’ (DSS 2023b, p. 57).

However, children attending preschool via distance education are ineligible to receive the Distance Education allowance as it is not an approved course (DSS 2023b, p. 20).

[Children attending distance preschool] are deemed ineligible for the Assistance for Isolated Children (AIC) Distance Education Allowance as they are not recognised by the Australian Government as participating in compulsory schooling and no payment is available through the Child Care Subsidy (CCS) either as these children are still in their parents’ care while participating in distance education. (Isolated Children’s Parents’ Association of Australia, sub. 58, p. 5)

## 6.3 Administrative complexity can make it harder for some families to participate in ECEC

### The activity test aims to increase labour force participation

As noted in section 6.1, the number of subsidised care hours a family is eligible for is determined by the level and type of ‘activity’ of the parent or guardian. Recognised activities include working, volunteering, looking for work, maternity and parental leave and education and training. When there are two parents or guardians, the lower activity level determines the number of eligible subsidised hours. Eligible families can access between 24 and 100 hours of subsidised care each fortnight depending on their entitlement without meeting the activity test. Recent changes to the activity test aim to support participation in ECEC for Aboriginal and/or Torres Strait Islander children. From 10 July 2023, the number of subsidised ECEC hours that these children can receive increased to 36 hours per fortnight, regardless of activity level. And exemptions to the activity test apply for some families. Further details on the activity test and exemptions are in appendix D.

In 2022-23, a majority of families were eligible for the maximum number of subsidised care hours of 100 hours per fortnight (table 6.4) and very few were eligible for none (Productivity Commission estimates based on DoE administrative data (unpublished)).<sup>17</sup> The majority of families meet the activity test through undertaking paid work (paper 4, figure 4.1).

**Table 6.4 – Higher activity levels increase a family’s eligible subsidised care hours<sup>a</sup> 2022-23**

Implied activity level each fortnight	Hours of subsidised care each fortnight	Number of families	Percentage of families
Less than eight hours	0 hours if income is above \$72,466	8,890	0.9
	24 hours if income is \$72,466 or below <sup>b</sup>	11,187	1.0
More than eight to 16 hours	36 hours	42,479	3.7
More than 16 to 48 hours	72 hours	292,077	25.7
More than 48 hours	100 hours	782,743	68.8

**a.** Based on number of families who accessed CCS-approved services in 2022-23. Some families were excluded due to missing data. Implied activity hours is based on median observed eligible subsidised hours for a family during the year, rather than actual activity hours (which could be lower at points during the year due to exemptions to the activity test, including for most ACCS recipients). **b.** Income thresholds based on 2022-23 CCS policy.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

### However it is unclear if the activity test has had its intended effect on labour force participation

The activity test was tightened in July 2018 with the introduction of the CCS to induce parents and guardians to increase their activity levels. Under the previous funding model, families who undertook at least 15 hours of activity a week were eligible for up to 50 hours of subsidised ECEC. Families who did not meet this test were eligible for up to 24 hours a week. With implementation of the 2018 Child Care Package, the number of

<sup>17</sup> As families’ maximum number of subsidised care hours can change through the year, this analysis used the median value for each family as reported in weekly level data.

subsidised hours that families could access without the need to meet an activity test was halved to 24 hours per fortnight (12 hours per week) (Bray et al. 2021, p. 8).<sup>18</sup>

The change to the activity test was recommended in the Productivity Commission's 2014 ECEC inquiry.

The Commission is aware that this activity test may deter some parents from taking a job with very low hours per week, but it also provides an incentive to increase work hours above the minimum threshold for ECEC assistance. The recommended hours for the activity test reflects the need to balance these incentives, as do the recommendations on the exemptions from the activity test. (PC 2014, p. 25)

Whether the activity test has increased labour force participation is ambiguous. As noted in the AIFS evaluation:

taken as a whole, these results suggest that while employment and other activity of parents may have increased since the introduction, the impact is small, and cannot necessarily be attributed to the [2018 Child Care] Package, as opposed to ongoing trends towards greater participation. (Bray et al. 2021, p. 280)

For this inquiry, the Commission estimated that removing the activity test would have a small negative effect on labour force participation. However, this result does not capture the effects that reducing families' concerns and possible misunderstandings about the activity test could have on improving participation (section 6.4).

### **The activity test can make it harder for some families to participate in ECEC**

The tightened activity test has increased barriers for some families to participate in ECEC, particularly for those experiencing disadvantage. The AIFS evaluation found that the 2018 reduction in subsidised hours 'disproportionately impacted children in more disadvantaged circumstances' (Bray et al. 2021, p. viii). In regards to the 24 hours of subsidised care per fortnight, the evaluation also noted that 'these hours can be quickly absorbed by long session times and weekly booking routines, with the 24 or 36 hours typically translating to one day a week in a service that has 10, 11 or 12 hour daily sessions' (Bray et al. 2021, p. 185). Between 2018 and 2023 there was a 48% drop in the number of children accessing the non-activity tested 24 hours of subsidised care per fortnight (Productivity Commission estimates based on DoE administrative data (unpublished)). There could be a number of reasons for this including:

- affordability barriers (even with assistance through the subsidy)
- lack of access to ECEC
- families unwilling to put their children in for one day of ECEC per week
- families receiving assistance through ACCS (Child Wellbeing), which provides a higher subsidy rate and more subsidised hours (over this same period there was an increase in the number of families with a child accessing ACCS (Child Wellbeing) although correlation does not necessarily mean causation (Productivity Commission estimates based on DoE administrative data (unpublished)).

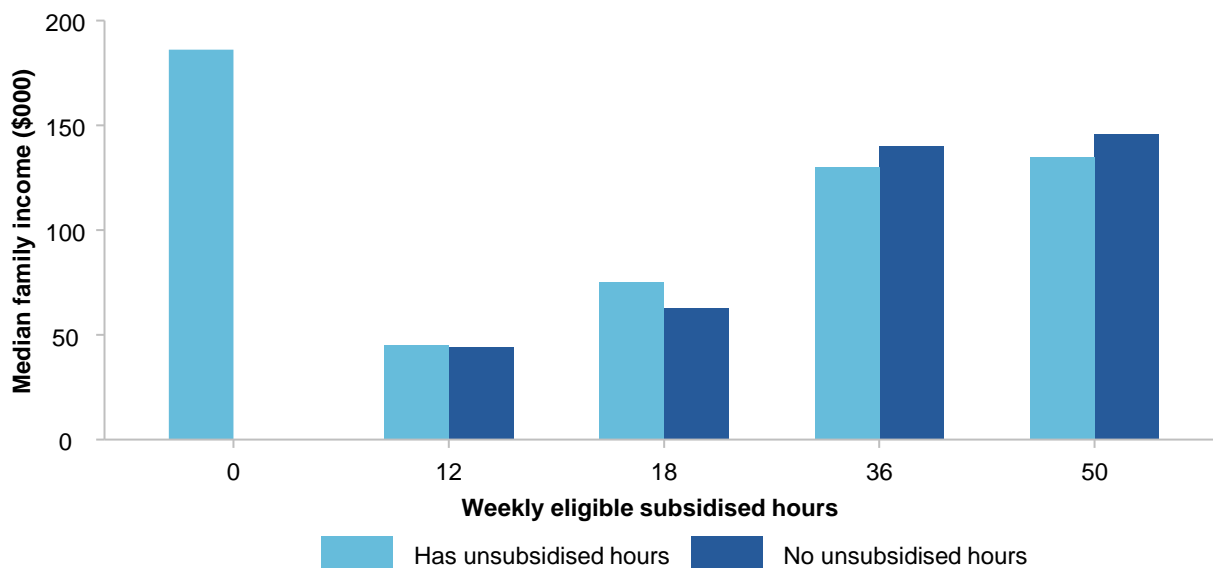
Any hours that are above eligible subsidised hours and are unsubsidised can limit ECEC participation for families experiencing disadvantage. Analysis of CCS administrative data for 2022-23 shows that families eligible for 12 and 18 hours of subsidised ECEC tended to have lower incomes (figure 6.11) and used less ECEC than those eligible for more subsidised hours (Productivity Commission estimates based on DoE administrative data (unpublished)). Furthermore, lower-income families were more likely to have a higher

<sup>18</sup> Families with more than four and less than 15 hours of activity per week in 2018 became eligible for either 18 or 36 hours of subsidised care a week under the new test.

number of unsubsidised hours (figure 6.12). The ACCC presented similar findings in its September interim report (ACCC 2023c, p. 181).

**Figure 6.11 – Families with 12–18 eligible subsidised weekly hours tend to have lower incomes<sup>a,b,c</sup>**

**Median family income by eligible subsidised weekly hours and whether accrued unsubsidised hours, 2022-23**



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

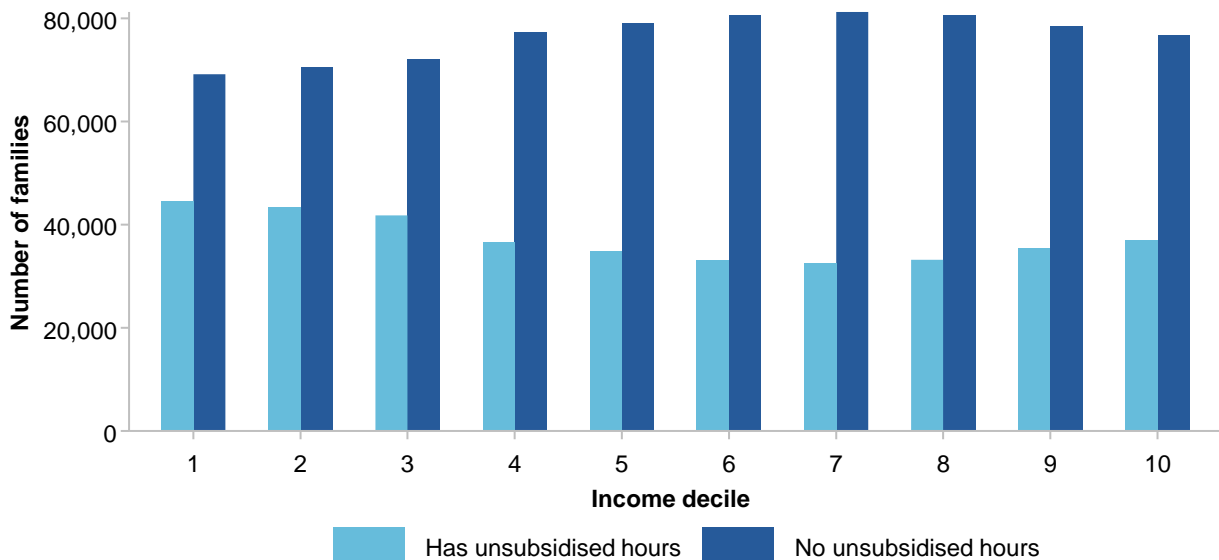
Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Furthermore, families eligible for relatively few subsidised hours are more likely to accrue unsubsidised hours (figure 6.13). In 2022-23, 5% of families using CCS-approved services were eligible for either 12 or 18 hours of subsidised ECEC a week. About two-thirds of each of these groups were charged for at least some unsubsidised hours of care during the year (figure 6.13) – with the mean shares of unsubsidised hours sitting at about 33% and 19% for each group respectively. These families also tended to have lower incomes (figure 6.11).<sup>19</sup> In contrast, only about 30% of families with a higher number of eligible subsidised hours accrued unsubsidised hours (figure 6.13) and these families also tended to have higher incomes (figure 6.11).

<sup>19</sup> If reported incomes are an accurate reflection of actual incomes, the relatively low incomes of some families accruing unsubsidised hours raises the question of how families are paying for those hours. The AIFS evaluation made similar observations and suggested that some families may be drawing on other economic resources (such as assets and support from families or friends) (Bray et al. 2021, p. 79).

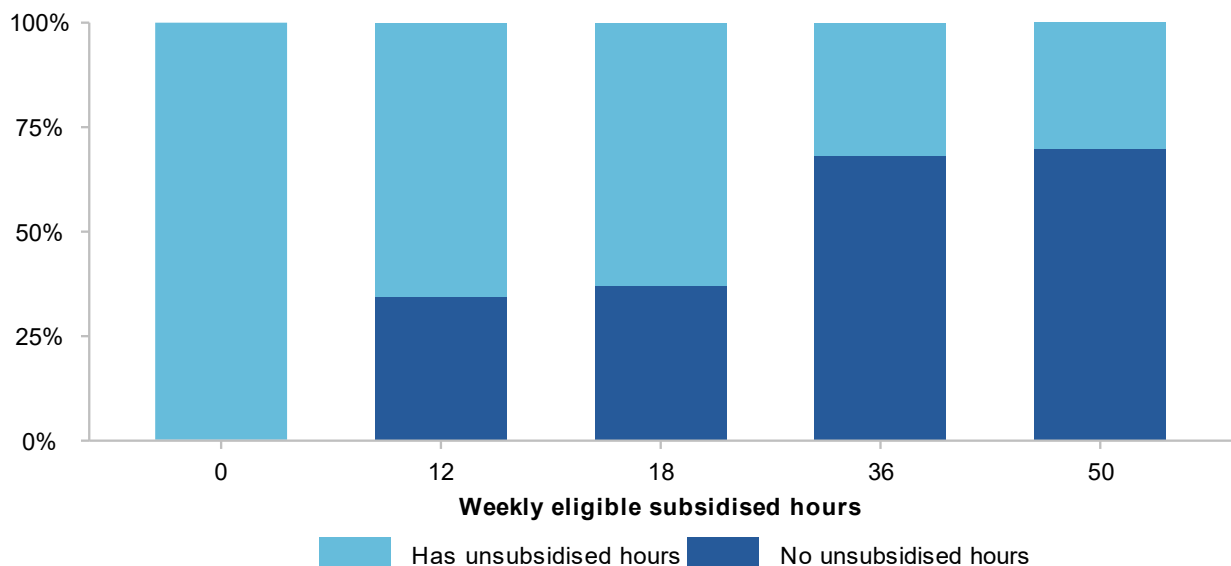


**Figure 6.12 – Lower-income families are more likely to have unsubsidised ECEC hours<sup>a</sup>**  
**Number of families with and without unsubsidised hours by income decile, 2022-23**



a. See figure 6.11 note a. b. A family’s median reported income through the year was used to calculate deciles.  
 Source: Productivity Commission estimates based on DoE administrative data (unpublished).

**Figure 6.13 – A large proportion of families with 12–18 eligible subsidised hours a week accrue some unsubsidised hours<sup>a</sup>**  
**Proportion of families accruing unsubsidised hours by eligible subsidised weekly hours, 2022-23**



a. See figure 6.11 note a.  
 Source: Productivity Commission estimates based on DoE administrative data (unpublished).

While the activity test caps subsidised hours for some families, its mere existence may discourage ECEC participation. Parents or guardians may not understand their reporting requirements or what activity types

are eligible, and/or be concerned about a potential CCS debt if they misreport their activity hours and as a result may choose not to send their children to ECEC.

Services and inquiry participants expressed concern about families' understanding of eligibility for subsidised care under the activity test particularly where the parent or guardian had casual or intermittent working hours or completed non-paid work (Bray et al. 2021, p. 48). The guidance for casual or irregular hours of work is that parents or guardians should provide an estimate of the highest number of hours they expect to work in a fortnight for the next three months which then determines their eligible number of subsidised hours (Services Australia 2022c). However, families may not know or understand how intermittent working hours can affect their number of subsidised ECEC hours due to unclear advice from Services Australia. Some may think that their number of subsidised hours is dependent on their actual work hours, and that if they enrolled their child to cover the maximum number of hours they might work and those hours did not eventuate, that they would have to pay unsubsidised rates for the difference. As a result, they may only enrol their child for the number of hours they are confident they will work. This likely makes it challenging for these families to increase their working hours when there is an opportunity to do so.

Some families may even choose not to access ECEC due to the complexity of the activity test and the need to understand what activities are eligible and how activity levels affect their eligible number of hours of subsidised ECEC. The Smith Family's *Small Steps, Big Futures* report notes that some families did not understand that CCS is available for preschoolers<sup>20</sup> in the year before school regardless of their parent or guardian's activity levels (2021, p. 19). Several submissions discussed these issues (box 6.1).

### **Box 6.1 – Submissions regarding families' experiences with the activity test**

The requirements of the activity test are difficult to navigate for some families who are unsure as to which activities satisfy the test's guidelines, or who have fears about the financial consequences of incorrectly reporting their activity ... [The activity test] is especially problematic for families with unpredictable incomes [and] those with casual work and/or short-term contracts. (SNAICC, sub. 133, pp. 19–20)

Families on the bottom rungs of the activity test are more likely to have irregular work patterns, insecure work, or other complexities ... they still need ECEC but pay a much higher out-of-pocket cost because they don't meet, or cannot navigate, the Services Australia notification process for the overly complex activity test. (Goodstart Early Learning, sub. 125, p. 20)

The CCS activity test has ... contributed to significant uncertainty for parents in casual employment or a range of changing employment arrangements due to the ongoing risk that they will fail to meet the activity test and generate over-payment debts. In its current form the activity test is not inclusive of shift workers and casual workers who experience uncertain work hours. (NSW Government, sub. 158, p. 6)

In our practice experience, the activity test disincentivises those who are at the margins of ECEC engagement. (The Smith Family, sub. 197, p. 4)

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<sup>20</sup> Preschoolers attending preschool at a CBDC service are eligible for 36 hours of subsidised ECEC regardless of their parent or guardian's activity level (DSS 2023a).

**Box 6.1 – Submissions regarding families’ experiences with the activity test**

[The] activity test is creating a roadblock for low-income families to participate in the workforce and damaging the education and development of Australian children. (Minderoo Foundation, sub. 288, p. 22)

While the administrative burden of the activity test is in itself a barrier to access ECEC, it also entrenches disadvantage by tying a child’s ability to participate in ECEC with their parent’s level of activity. (Senator Marielle Smith, sub. 264, p. 2).

To exclude children from access and participation in ECEC, particularly due to the Activity Test is clearly not equitable. (Early Childhood Australia, sub. 302, p. 16)

Further, from discussions with the Department of Education (pers. comm., 6 November 2023), the Commission understands that families’ activity levels are not actively audited. This means that if a family’s activity levels change such that it would change their subsidised hours entitlement and the family does not report it, there will be no impact on their number of subsidised hours. There is an incentive for families to update their activity levels when they increase as it could result in an increase in subsidised hours. However, there is not the same incentive for when activity levels decrease as doing so may mean that they are entitled to a lower number of subsidised hours. However, those families who do not update their decreased activity levels would continue to receive the same number of subsidised hours. This is inequitable as those families who update their activity level are worse off compared to those who do not update their activity levels.

In its 2024 report to the Australian Government, the Economic Inclusion Advisory Committee identified that the activity test in its current form:

- limits access to ECEC for some children who could benefit from it the most
- falls short in providing three days of subsidised ECEC as recommended by experts for Aboriginal and Torres Strait Islander families
- fails to address the needs of single parent, non-English speaking and low-income families
- imposes higher search costs for those seeking employment and creates uncertainty for parents in casual jobs (Economic Inclusion Advisory Committee 2024, p. 87).

## **Other aspects of administrative complexity can make it harder for families to understand and access the CCS**

Difficulties in families understanding ECEC subsidy arrangements has been an enduring issue. The Productivity Commission’s 2014 inquiry into ECEC found that the system at the time was complex and that families had difficulty understanding their entitlements under the then dual subsidy approach (PC 2014, p. 44). Some elements of the 2018 Child Care Package were intended to make the system simpler (including by shifting to a single CCS approach). However, the package also introduced additional complexities, such as the hourly rate cap, more detailed activity testing and delivery of all assistance through Centrelink. A survey found that parents were weakly positive about the new CCS being easier to understand than the former subsidy system, but 43% still ‘neither agreed or disagreed’ with this statement when asked both shortly after the introduction of the CCS and one year after (Bray et al. 2021, pp. 41–42).

While the 2023 Cheaper Child Care Package has made adjustments that may simplify understanding of the CCS, such as the change to a simpler sliding subsidy rate with changes to family income, other sources of administrative complexity remain (box 6.2).

### **Box 6.2 – Submissions about administrative complexity in the Child Care Subsidy system**

The process [of understanding which subsidies families are entitled to] can be complicated, and families can get overwhelmed, particularly if literacy is also a concern. (The Hive Mount Druitt (United Way Australia), sub. 64, p. 3)

The inherent complexity in the CCS system, including its frequent changes, confuse families using Family Day Care ... The lack of education to families about fee caps and the impact on their subsidies if educators charge over the fee cap [causes] friction between educators and families. (NSW Family Day Care Association, sub. 89, p. 9)

Many families either do not know of the supports available to them or need additional assistance to engage and participate due to the complexity of the system ... Language is a common barrier. Many services use acronyms or terms that families (and most service providers) struggle to understand. It is even more challenging for recent migrants who are unfamiliar with Australian public services or speak English as a second language. [Brotherhood of St Laurence] staff frequently find that translated resources are inaccurate and confusing, causing families to disengage. (Brotherhood of St. Laurence, sub. 96, p. 7)

All families, especially disadvantaged families and families with fluctuating incomes, face challenges to navigate the system and avoid overpayments and debts. (Victorian Government Department of Education, sub. 146, p. 8)

In our experience, the CCS application process is complicated and difficult to navigate for both our staff and families we support. This produces feelings of anxiety and mistrust. (The Salvation Army, sub. 201, p. 9)

### **Families can find it difficult to understand how much CCS they are entitled to**

The multiple components of the CCS subsidy calculation can make it challenging for families to understand whether they are eligible for the CCS, and how much they might be eligible for.

- The ACCC found that 'The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses' (ACCC 2023a, p. 7).
- The AIFS evaluation found that, on average, parents viewed that they had 'somewhat of an understanding' of various aspects of the CCS in September 2019 (Bray et al. 2021, p. 44). The effect of activity hours was less understood than the effect of family income on CCS entitlements. Families that worked variable hours were more likely to report lower understanding overall.
- A 2021 survey commissioned by The Front Project (2021, pp. 43–44) indicated that among parents of children aged 0–5 years who were not yet at school, about half agreed that working out eligibility for ECEC subsidies or government benefits was straightforward. However, 27% disagreed with the statement, including 9% who strongly disagreed.
- The Department of Education's (unpublished) parent survey in June 2023 found that the effect of the number and age of children on CCS entitlements was less understood than the effect of family income and activity hours. 37% of families using ECEC considered they understood the effects of number and age of children in paid care on CCS entitlements either well or very well – these shares were 40% and 47% for activity hours and family income respectively. That said, at least another third of parents considered they had 'somewhat of an understanding' across all these questions.

Some of the challenges with understanding CCS entitlements relate to how different components of the calculation interact when families change their circumstances. For example, if a parent decides to increase their working hours, their family's income may increase, which would reduce their CCS rate. But their activity hours would also increase, so they may be eligible for a greater number of subsidised care hours. Parents or guardians transitioning from income support to employment face the challenge of figuring out how their income support and rent assistance payments would be affected, in addition to the cost of ECEC (Bray et al. 2021, pp. 48–49). Additional income may also impact the amount of Family Tax Benefit A and B a family receives and may have implications for how much income tax and Medicare levy a family is liable for. Parents or guardians may also have the further challenge of the number of eligible subsidised hours reducing if they were previously exempt from the activity test. (Paper 4 discusses the impact of the withdrawal of income support on labour force participation.) Finding information about how the CCS is calculated also requires families to navigate through a series of pages on the Services Australia website.

The HCCS rate is no longer linked to the CCS rate, adding an additional layer of complexity. When the HCCS was first introduced, it was set to be a rate 30 percentage points higher than the CCS up to a maximum of 95% (DoE 2021). However, since 10 July 2023 the CCS has been streamlined (such that the CCS rate decreases by 1% for every \$5,000 of family income over \$80,000) but the HCCS has remained largely unchanged (figure 6.1 illustrates the CCS and HCCS in 2022-23 and 2023-24).

Changes to ECEC session lengths can also have opposing effects on CCS calculations. Some families may face lower out-of-pocket expenses with shorter session lengths so that fewer care hours are unsubsidised, while others may be better off with longer session lengths so that the hourly fee is within the CCS hourly rate cap (ACCC 2023b, pp. 114–115). These calculations are difficult to understand without assistance or detailed knowledge of the design of the CCS. That said, among CBDCs that offer multiple session lengths, the patterns of usage of particular session lengths appear to align with the number of subsidised hours that families have (ACCC 2023c, p. 174; Bray et al. 2021, pp. 155, 169). This indicates that families are, to an extent, choosing session lengths that lower their out-of-pocket expenses at these services, either through their own understanding or with support from services.

### **Tools and supports are available to help navigate CCS but they have limitations**

Tools are available to help families understand the CCS and out-of-pocket ECEC expenses. For example, the Australian Government's Starting Blocks and Centrelink websites include calculators that estimate out-of-pocket expenses (with the Centrelink calculator covering all Centrelink payments and services which means that that families have to navigate through parts of the calculator that are irrelevant to the CCS). However, neither calculator allows families to easily compare the effect of changes in circumstances (such as changes in work hours or session lengths) on their out-of-pocket expenses. Further, other factors may limit the usefulness of these information sources to families, such as low awareness (with only 10% of surveyed ECEC users reporting that they were aware of Starting Blocks) and outdated or missing fee information on the Starting Blocks website (which relies on services to update fee information) (DoE 2023 Starting Blocks Survey Report (unpublished); ACCC 2023c, p. 183). That said, families are more likely to use websites of ECEC services themselves to access information, including on fees and out-of-pocket expenses (DoE 2023 Starting Blocks Survey Report (unpublished)), and some large providers have added cost comparison features to estimators on their websites to fill this demand (Bray et al. 2021, p. 49).

Further there is no simple way for families to compare out-of-pocket expenses across a range of CCS-approved services. The Starting Blocks website, which is managed by the Australian Children's Education & Care Quality Authority (ACECQA), provides information on service fees and also has a dedicated CCS calculator. However these two aspects of the website do not interact. The Starting Blocks website is also known to contain out of date information on fees and availability (ACCC 2023a, pp. 39–40). In

its submission to this inquiry, ACECQA noted that it 'continues to work with the Australian Government to make improvements to this resource [the Child Care Subsidy Calculator on the Starting Blocks website] for families' (ACECQA, sub. 256, p. 12). Recent improvements to the Starting Blocks website include showing fees over time for a service and when the latest fee was reported.

Services themselves can also support families in understanding their CCS eligibility and entitlements, including the effect of session lengths described above. More than 85% of services considered that they had at least a good understanding of the 2018 Child Care Package by July 2019 (Bray et al. 2021, pp. 50–51). Some major ECEC providers employ staff dedicated to supporting families applying for government subsidies (Goodstart Early Learning, sub. 125, pp. 50–51). However, services are not always able to assist families with their CCS application and enrolling for ECEC through myGov (described further below) and not all families may reach out for assistance.

### **Families experiencing disadvantage may find it particularly difficult to engage with the CCS system**

Families must apply for CCS through Centrelink (administered by Services Australia), and then register their enrolment in an ECEC service through myGov in order to receive the subsidy. These processes are not always well understood and issues can be difficult to resolve and also emerge throughout the process. In the AIFS evaluation (Bray et al. 2021, pp. 54–56, 234), services described a number of issues that families face, such as:

- delays in Services Australia processing CCS applications for a minority of families, which are sometimes due to processing errors or incomplete or inaccurate documentation on immunisation records or birth certificates
  - that said, the time to finalise CCS claims in less than 28 days has improved from 67% in 2018-19 to 87% in 2022-23 (Services Australia (unpublished))
- Services Australia staff providing incorrect, incomplete or inconsistent information and advice to families, including in relation to ACCS
- families not knowing they need to confirm their enrolment in ECEC through myGov, and services finding it difficult to support them as they did not have visibility of what the families needed to do
- services not being able to support families, including for ACCS applications, as they are prevented from liaising with Services Australia on specific queries about families
- long wait times, lengthy exchanges and slow resolutions on the phone with Services Australia (for families) and the CCS Helpdesk (for services and providers).

More than half of parents of school age or younger children surveyed by Thrive by Five (2022) agreed that the thought of having to go through Centrelink to apply for support they were entitled to (such as CCS) would put them off applying for it. Half of parents also agreed that the possibility of making a mistake in a Centrelink application would put them off seeking support they were entitled to.

Some families may find it particularly difficult, or be reluctant, to access CCS and ACCS, and hence require additional supports to access ECEC, for example due to:

- cultural and language barriers (Bray et al. 2021, pp. 54, 234; Brotherhood of St Laurence, sub. 96, p. 7) (this is discussed further in papers 2 and 7)
- distrust of government organisations and stigma associated with a child being identified as 'at risk' in order to access ACCS (Child Wellbeing), especially for Aboriginal and/or Torres Strait Islander families (Bray et al. 2021, pp. 233–234, 333; The Smith Family 2021, p. 17; Goodstart Early Learning, sub. 125, p. 18)
- fear of making mistakes in their application, leading to CCS debts (discussed further below)
- low computer literacy, or limited access to the internet or a computer at home (Bray et al. 2021, p. 332)

- complex or uncommon family circumstances that make the application process less straightforward, such as:
  - needing to calculate activity hours when engaged in intermittent work (Bray et al. 2021, p. 49)
  - changes in a child’s custody or living arrangements that require the child’s new guardian to reapply for the child’s CCS (Goodstart Early Learning, sub. 125, p. 24)
  - children under the care of an informal kinship carer, who are not recognised in eligibility for ACCS (Grandparent) (Bray et al. 2021, p. 249).

Issues and delays in accessing CCS and ACCS can be financially challenging for families and can mean that children experiencing disadvantage are unable to access care in the meantime, especially where services are asked to charge families full fees before they are approved to receive CCS (Bray et al. 2021, p. 234). This can lead to families incurring debts to services (described further below).

Measures in the 2023-24 Australian budget were aimed at reducing administrative complexity for ACCS (Child Wellbeing) by supporting enrolments to be ‘assessed in a more streamlined manner, [and] reducing double handling and the risk of potential gaps in entitlement for the subsidy’ (DoE 2023b).

The potential impacts of some of these administrative challenges were illustrated to an extent in the midst of the COVID-19 period. The Australian Government made ECEC free between 6 April 2020 to 12 July 2020, and removed requirements for families to apply for CCS or meet eligibility requirements. Goodstart Early Learning found that although some families reduced their attendance at Goodstart centres during this period, others enrolled or increased their children’s attendance. Families who were not previously able to access CCS (due to failing the activity test or the visa status of refugee families) were able to during the free period, and nearly half of Aboriginal and/or Torres Strait Islander children increased their days attended – including those for whom ECEC was already free due to eligibility for ACCS. Removing the administrative burden and Centrelink process, reducing stigma of accessing care, and Goodstart’s own engagement processes, were nominated as contributors to the increased ECEC usage during this time (Wong et al. 2021, pp. 10–11).

Research from overseas suggests that reducing the administrative burden of applying for ECEC for lower socio-economic status families can increase children’s ECEC attendance and mothers’ labour force participation. A study of lower socio-economic status families with children aged under three years in Germany, for example, involved providing information and customised assistance in applying for Germany’s universal ECEC system. This led to increased enrolments in ECEC relative to those who did not receive this assistance, and improved mothers’ full-time employment and earnings (Hermes et al. 2022, p. 25).



### 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.

## Concerns about debt may reduce ECEC participation for some families

Families are required to report their estimated income and activity levels when applying for CCS, which are then used to estimate their eligible CCS amount. Families are also expected to update their reported income and activity levels with any changes in their circumstances as these changes could impact their CCS. Currently CCS customers are required to lodge a tax return for reconciliation to occur. The reconciliation takes into account a family's actual annual income and a CCS debt may arise if the family's income is higher than what was reported during the year. CCS debts can also arise, and CCS eligibility ceased, if a family has not lodged a tax return two years after the end of the financial year or have not notified Services Australia that they are not required to lodge. The withheld CCS amount (section 6.2) is used to either pay any CCS debts that arise during reconciliation or is refunded if there is no debt.

### The possibility of a CCS debt can discourage ECEC participation

The potential for a CCS debt can discourage ECEC participation for some families. Families may have limited understanding of the intricacies of the CCS and therefore overestimate the potential for a CCS debt. And this even applies for families who are in receipt of CCS. Further, AIFS reported that about half the parents surveyed were worried about a CCS debt if they did not get their activity details right and about 40% were worried about the possibility of a CCS debt at reconciliation (Bray et al. 2021, p. 137). That said, during interviews with lower-income parents, there was a lower level of concern about the reconciliation process (Bray et al. 2021, p. 137) which suggests that concerns about debt were not concentrated at the lower part of the income distribution. Families yet to apply for CCS would likely have even less understanding of this aspect of the system. Concerns about debt may have also been heightened given Robodebt.

### Most families do not end up with a CCS debt

Analysis of 2018-19 administrative data suggests that relatively few families incur a CCS debt. Modelled estimates suggested that 32.5% of families with reconciled incomes had a debt, with the mean level being \$638 per annum and the median \$225 but only half of these families (16.1%) had a debt in excess of the 5% withholding amount (with a mean level of \$1,059 and median of \$580) (Bray et al. 2021, p. 135). For this group, their debt represented on average (at the mean) 16.7% of benefits received with a median amount of 10.1% (Bray et al. 2021, p. 135). Although this is a substantial percentage of benefits, it is only a small percentage of income for this group, with the mean and median debt levels amounting to 0.6% and 0.4% of income respectively (Bray et al. 2021, p. 135). Further, the modelling estimated that lower-income families had virtually no CCS debt up to and including the third decile. CCS debt was estimated to be largest for the highest 5% of earners at around 0.9% of gross family income (Bray et al. 2021, p. 136).

Data for 2021-22 also indicates that relatively few families incur CCS debts – among the 90% of families with reconciled incomes, 18% incurred a debt (after the application of withheld amounts), with a mean debt of \$1,268 and a median of \$461 (Services Australia (unpublished)). For the 2019-20 financial year, under 18,000 families (about 1% of families receiving CCS) had not lodged their tax return two years later. As at 30 June 2023, about 40% of these families still had an outstanding debt with a mean amount of \$4,433 (Services Australia (unpublished)). For families who had not lodged their tax return two years later, debts are likely to fall once they confirm their income because the amount of debt raised reflects the total amount of CCS that was paid to the family. Once a family confirms their income, the amount of CCS that they were entitled to will be deducted from the debt (further information about balancing and debt can be found in appendix D).

There is an incentive for families to reconcile their CCS entitlements at the end of the financial year because if they fail to do so by one year after the end of the financial year, they stop receiving CCS payments



(DoE 2023c) and have to pay full fees for ECEC. Further, if a family does not confirm their income by two years after the financial year, their CCS eligibility is cancelled and they need to reapply to receive it again. CCS is also not backdated for the period before income is confirmed (DoE 2023c). However, as children age out of the ECEC system, families have less of an incentive to reconcile their CCS entitlements. This may partly explain why there are about 6,500 outstanding non-lodger debts for 2018-19 and 7,400 for 2019-20 (Services Australia (unpublished)). Non-lodger debts occur as a result of the customer not confirming their family income (lodging a tax return, or advising Services Australia they do not need to lodge a return for the applicable financial year) within two financial years of receiving CCS.

A debt is more likely for higher-income families as a result of the structure of the CCS (including the income thresholds, rates and tapers). Small changes in incomes at higher levels can affect CCS rates, whereas that is less likely at lower income levels due to the constant CCS rate at lower levels. Information received from Services Australia shows that a higher proportion of high-income families (incomes over \$100,000) had a debt compared to lower-income families. 11% of families with a debt in 2021-22 had reconciled incomes below \$100,000 (Services Australia (unpublished)). 55% of families with a debt had reconciled incomes between \$100,000 and \$200,000 and 34% families with a debt had reconciled incomes over \$200,000 (Services Australia (unpublished)).

### **Families can also incur debts to ECEC services**

A range of reasons can give rise to family debts to ECEC services, including:

- delays in processing CCS applications
- third party software and Services Australia generating incorrect or inconsistent information
- families not understanding the two stage enrolment process and not confirming their enrolment
- when back pay of CCS is made directly to the families rather than to services and services are unable to recover it from families
- when subsequent ACCS applications are not approved but the family continue to use the same number of ECEC hours (Bray et al. 2021, pp. 137–138).

Guidance from Services Australia states that services should charge full fees until a CCS application has been approved. However, in reality, many services charge families based on what they estimate will be their CCS eligible amount as many families do not have the financial resources to pay full fees. A debt could then arise either due to a misalignment with a service's estimate of CCS eligibility and a family's actual eligibility or due to delays in processing CCS applications beyond the 28 day limit of backdating CCS (Bray et al. 2021, pp. 137–138). Services were further concerned with the wellbeing and safety of the child if services pursued recovering the debt (Bray et al. 2021, p. 138).

The issue of backdating will be partially addressed through 2023-24 Budget measures that expand the exceptional circumstances criteria that can be applied to applications to backdate ACCS (Child Wellbeing) by more than 28 days (Australian Government 2023, p. 98). For families that do not meet these exceptional circumstances, the 28-day backdating limit may still present barriers to ECEC participation.

Families may also incur debts to ECEC services as a result of unsubsidised hours. As discussed earlier, families eligible for fewer hours of subsidised ECEC tend to have lower incomes and also tend to accrue a higher number of unsubsidised care hours. Families receive no subsidy for unsubsidised hours which means that families are liable for the full fee for those hours. Given this, these families may not have the financial ability to pay for ECEC which may result in a debt to the service.

## 6.4 Improvements to assist families with affordability

Many changes could be made to subsidy arrangements to improve affordability for families. Some relate to the design of the CCS and the calculation of subsidy entitlements; others involve simplifying the system to make CCS easier to understand. Affordability for geographically isolated children to receive a preschool education could also be improved.

### Improving affordability by adjusting the design of the CCS

The Commission has considered a suite of adjustments to the design of the CCS that could improve affordability. Some of the options build upon one other, providing higher levels of support for families at each step. The options are summarised in table 6.5 and discussed in detail in the following text. (The numbering of options has changed since the draft report.)

The first option considered lifts the subsidy rate for lower-income families to 100% of the hourly fee up to the hourly rate cap (with consequential changes to the taper rate), increases the HCCS rate and removes the activity test (option 1). The next two options separately consider the effects of the policy components in the first option, of increasing subsidy rates up to 100% (option 2) and removing the activity test (option 3). An option that includes the same subsidy settings as option 1 but relaxes, rather than removes, the activity test is also considered (option 4). 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 modelled (option 5). And the introduction of a flat fee for ECEC that was raised by a number of inquiry participants is the final scenario modelled (option 6). This inquiry's report refers to options A, B and C – these are equivalent to options 1, 5, and 6 respectively.

**Table 6.5 – Modelled Child Care Subsidy policy options**

Options	CCS rate	Higher CCS rate	Activity test	CCS hourly rate cap
<b>1: Remove the activity test and increase the subsidy rate to 100% for lower-income families</b>	100% for families with an adjusted taxable income of \$80,000 and under CCS rate tapers down from 100% by 1ppt for every \$5,000 over \$80,000	100% for families with an adjusted taxable income of \$140,000 and under HCCS rate tapers down from 100% by 1ppt for every \$5,000 over \$140,000 Families with an adjusted taxable income of \$580,000 and above ineligible	Remove so that all families are eligible for 50 subsidised hours of ECEC per week (100 hours per fortnight)	No change
<b>2: Increase the subsidy rate to 100% for lower-income families</b>	100% for families with an adjusted taxable income of \$80,000 and under CCS rate tapers down from 100% by 1% for every \$5,000 over \$80,000	100% for families with an adjusted taxable income of \$140,000 and under HCCS rate tapers down from 100% by 1% for every \$5,000 over \$140,000	No change	No change

Options	CCS rate	Higher CCS rate	Activity test	CCS hourly rate cap
		Families with an adjusted taxable income of \$580,000 and above ineligible		
<b>3: Remove the activity test for all families and retain income testing</b>	No change	No change	Remove so that all families are eligible for 50 subsidised hours of ECEC per week (100 hours per fortnight)	No change
<b>4: Relax the activity test and increase the subsidy rate to 100% for lower-income families</b>	100% for families with an adjusted taxable income of \$80,000 and under CCS rate tapers down from 100% by 1ppt for every \$5,000 over \$80,000	100% for families with an adjusted taxable income of \$140,000 and under HCCS rate tapers down from 100% by 1ppt for every \$5,000 over \$140,000 Families with an adjusted taxable income of \$580,000 and above ineligible	None for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
<b>5: 90% subsidy for all families and retain activity test</b>	90% for all families	Families remain receiving the HCCS rate if they are eligible for a rate greater than 90%	No change	No change
<b>6: Flat fee ECEC expense per day of \$10 and remove activity test</b>	Remove the CCS and replace with a \$10 flat fee out-of-pocket expense per day for each child	Remove	Remove so that all families are eligible for 50 subsidised hours of ECEC per week (100 hours per fortnight)	No change

The Commission used a behavioural microsimulation model to estimate the changes in labour force participation, demand for ECEC and net costs to government that might stem from each option (box 6.3). This model estimates how sole parents and partnered primary carer parents may change their ECEC demand or labour supply in response to reforms which impact the out-of-pocket expenses of ECEC.

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 6.3), 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 level 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 in Australia, including users and non-users of ECEC, and 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 (paper 4).

### **Box 6.3 – CAPITA-B with ECEC – behavioural microsimulation model**

The Productivity Commission and the Department of Employment and Workplace Relations (DEWR) worked together to develop CAPITA-B with ECEC – a behavioural microsimulation model that can model the impact of ECEC subsidy changes on the primary carer parent's labour supply hours and early childhood education and care (ECEC) hours. Full details of the steps involved in developing the model, assumptions and limitations are detailed in appendix G.

Microsimulation models operate at the level of an individual entity (in CAPITA-B with ECEC the entity is an income unit<sup>a</sup>). These models can capture the effects of policy parameters such as tax rates and eligibility rules for benefits and subsidies on the individual entity. *Behavioural* microsimulation allows estimation of how behaviour changes in response to a policy change, for example, the effects of policy changes on ECEC demand hours and labour supply hours. This type of model has been used for past analysis of ECEC policy changes (for example, Gong and Breunig (2012, 2017); PC (2014)). External referee reports (published as part of the inquiry outputs) confirm that this type of model is well suited to answer the questions considered by the Commission.

The Commission and DEWR extended CAPITA-B, a behavioural labour supply microsimulation model of the Australian Government's tax and transfer system, to include the ability to model ECEC use and subsidies. CAPITA-B was developed and is maintained by DEWR, and is based on CAPITA, the Australian Department of the Treasury's static non-behavioural microsimulation model of the Australian tax and transfer system.

For each policy option, CAPITA-B with ECEC models 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

### **Box 6.3 – CAPITA-B with ECEC – behavioural microsimulation model**

changes in ECEC fees or wages. It only models ECEC delivered through CCS-approved services and does not include delivery of ECEC through 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 (box 6.5). 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 that 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), paper 4, appendix G). This means that the model finds that any 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 pronounced dip in participation for women in the workforce over their child-bearing years (paper 4). 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 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 (namely the CCS) have broadly 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.

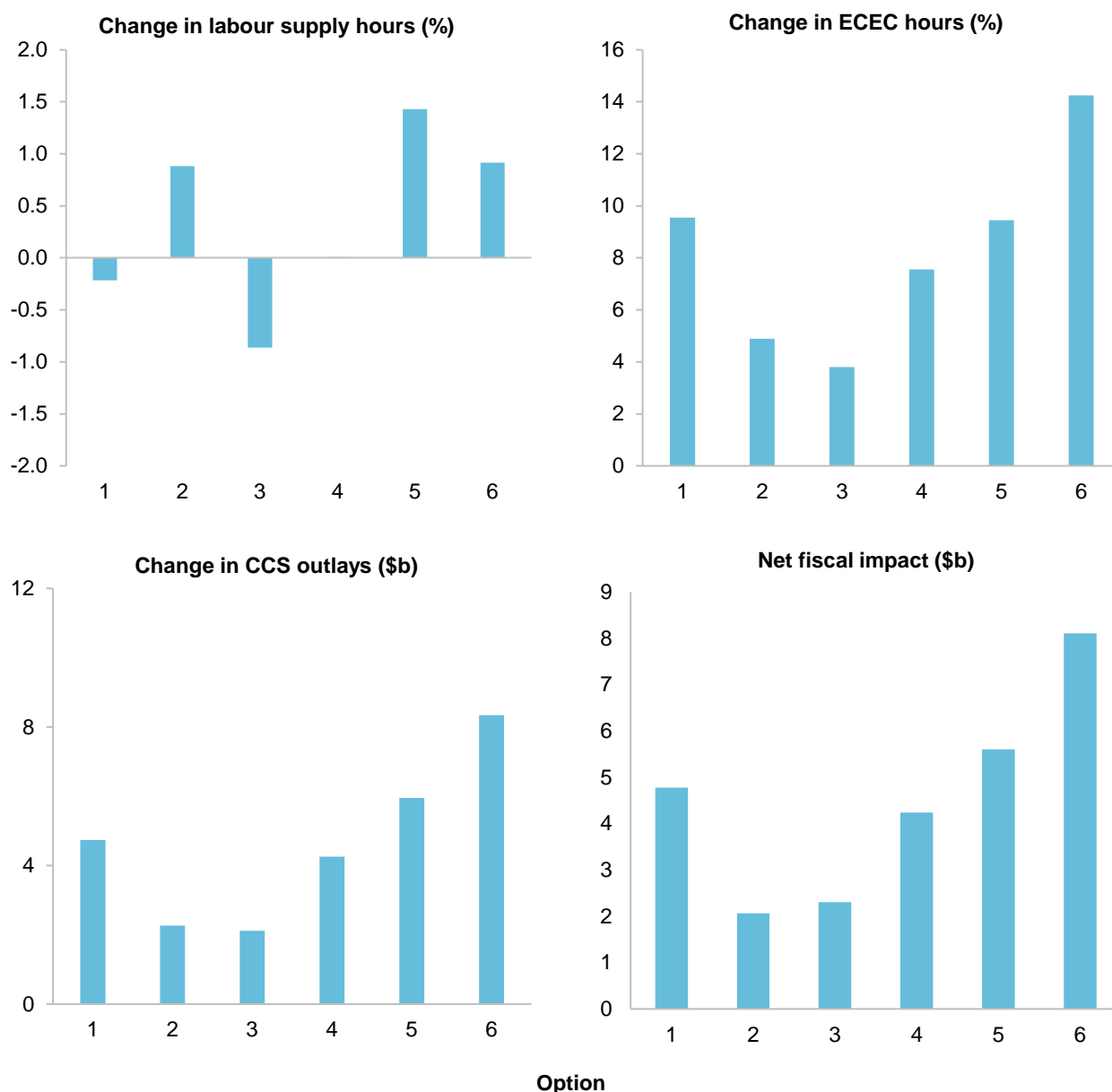
a. An income unit consists of a single or couple (whose income is assumed to be shared) and their dependent children.

## Summary modelling results

The modelling shows that all options considered are likely to yield higher demand for ECEC and minimal changes to labour force participation (figure 6.14). 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 benefits and ECEC access benefits from policy options that cannot as yet be captured in the model, such as greater inclusion and availability of ECEC (box 6.3).

**Figure 6.14 – Changing the CCS setting results in an increase in ECEC use – but comes at a cost<sup>a</sup>**

**Results of modelling of different options for changes to the CCS, 2023-24**



a. Results based on options to change ECEC subsidies as run in CAPITA-B with ECEC, as outlined in table 6.5. Box 6.3 details the method and assumptions behind these results.

Source: Productivity Commission estimates using CAPITA-B with ECEC.

Survey data shows that removing **all** barriers to ECEC access has the potential to add 143,000 (full-time equivalent) more workers to the labour force. That said, this figure is likely to be an upper bound – the analysis assumes that all ECEC-related barriers are solved (including availability) and that any non-ECEC barriers are not sufficient to prevent these parents’ engagement in the labour force. That said, there might also be some parents who update their preferences to care for their own children and instead engage in paid work if ECEC-related barriers are removed. (This analysis is discussed in detail in paper 4.)

Results for each modelled option are discussed below. More detailed results are discussed in appendix G.

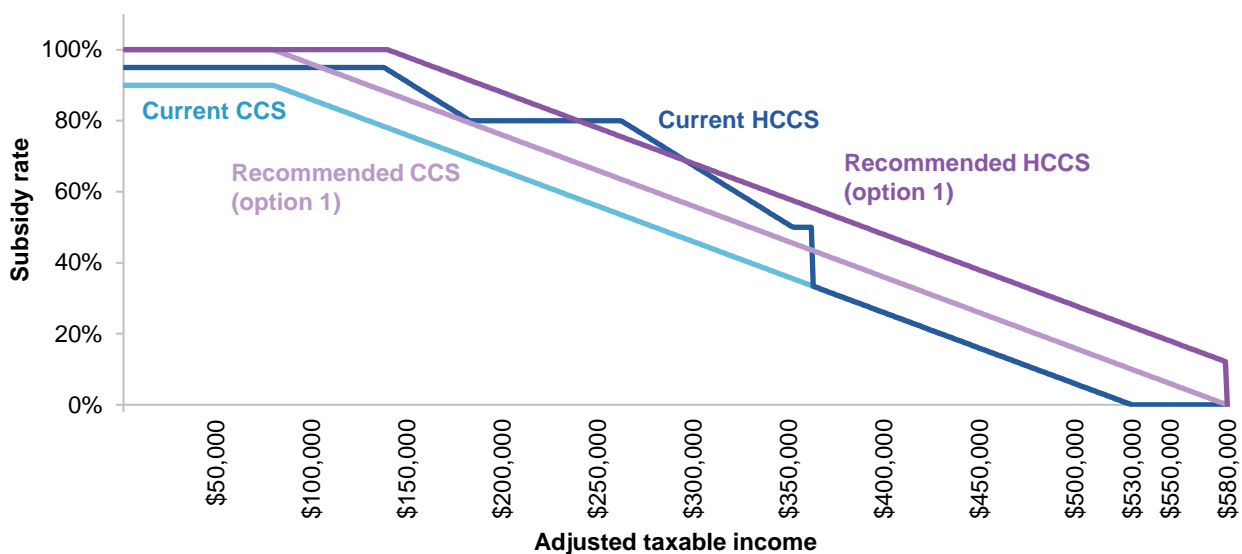
**Removing the activity test and a 100% subsidy rate for families with an income up to \$80,000 would enable lower-income families to afford ECEC**

As noted above, option 1 lifts the subsidy rate for lower-income families to 100% of the hourly fee, up to the hourly rate cap, increases the HCCS rate and removes the activity test. Removing the activity test would remove the requirement that ties children’s participation in ECEC to their parents’ or guardians’ activity. This would allow all families to be eligible for 50 hours of subsidised ECEC a week (or 100 hours a fortnight, aligning with the current maximum number of subsidised hours). At the same time, increasing the CCS rate to 100% for lower-income families would mean that these 50 hours would be subsidised at 100% up to the hourly rate cap.

By keeping the same taper rate as the current CCS, the CCS rate would taper down from 100% by 1ppt for every \$5,000 above \$80,000 of income so that middle and higher income families with an income up to \$580,000 would also see an increase in their CCS rate. The HCCS under this option would also be adjusted so that families with an income up to and including \$140,000 would have a HCCS rate of 100%, which tapered down at the same rate as the CCS. Families with an income of \$580,000 and above would have zero CCS and HCCS rates. Figure 6.15 sets out the current and recommended CCS rate profiles.

**Figure 6.15 – Option 1 would increase both the CCS and HCCS rates for families with an adjusted taxable income up to \$580,000**

**Current (2023-24) and option 1 CCS and HCCS rate profiles**



These subsidy settings are retained in options 2 and 4. Option 2 differs from option 1 in that it retains the activity test. And under option 4, rather than the activity test being removed, it is relaxed so that all families would be entitled to at least 36 hours of subsidised ECEC per week. Option 3 removes the activity test but retains the current CCS subsidy settings. It enables an assessment of the potential effects of removing the activity test in isolation.

### **Just increasing subsidy rates (option 2) would reduce affordability barriers to ECEC**

An increase in the top subsidy rate (for both CCS and HCCS) to 100% of the fee up to the hourly rate cap for lower-income families (those with an adjusted taxable income up to and including \$80,000 per year) would reduce their out-of-pocket expenses; in some cases, where charged hourly rates are below or equal to the hourly rate cap, ECEC use would be free for these families. About 30% of all families with children aged 0–12 would be eligible for a 100% CCS rate (appendix F).

As described in section 6.2, the experience of the COVID-19 period – when ECEC was free for all families without a need to demonstrate eligibility – showed that a reduction in out-of-pocket expenses and administrative complexity likely encouraged more families experiencing disadvantage to enrol their children in ECEC (Wong et al. 2021, pp. 10–11). And these are the children most likely to benefit from ECEC attendance.

Targeted assistance for lower-income families was supported by some participants.<sup>21</sup>

Some participants raised that middle-income families can face ECEC affordability constraints<sup>22</sup> and Bray and Gray (sub. 279, p. 16) submitted that increased subsidies for middle- and higher-income earners would support workforce participation particularly for women. The Commission's proposed reforms to CCS and HCCS rates would lead to middle- and higher-income families also benefiting from a decrease in their out-of-pocket expenses (figure 6.15). About half of families would be eligible for a 90% or above subsidy rate (appendix F).

Increasing the CCS rate and adjusting the HCCS rate under option 2 are estimated to increase both labour supply and ECEC demand hours (figure 6.14). The policy is estimated to lead to a 0.9% increase in total hours worked (equivalent to 7,100 full-time employees) by sole parents and partnered primary care parents in couple families with young children. Hours of formal ECEC are estimated to increase by 5%, with nearly 80% of the increase attributed to families who were not previously using ECEC. Lifting the CCS and HCCS rates is estimated to increase CCS expenditure per annum by \$2.3 billion in 2023-24 dollars (or by 18%). This would be partly offset by an increase in personal income tax collections of about \$100 million and a reduction in transfer payments of about \$100 million, resulting in a net fiscal impact \$2.1 billion per annum in 2023-24 dollars. The proportion of increased CCS expenditure that goes to families is broadly uniform across the income quartiles (between 20% and 30%). This reflects that the CCS and HCCS rates increase for all families with an income up to \$580,000.

For option 2, the largest estimated increases in labour supply and ECEC demand are seen across families in the first income quartile. Labour supply hours increase by 3% and ECEC hours demanded increase by 9% across families in the first income quartile.

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<sup>21</sup> Brotherhood of St Laurence, sub. 289, p. 8; Latrobe University, sub. 298, p. 9; Early Learning and Care Council of Australia, sub. 299, p. 11; G8 Education, sub. 301, p. 10; Centre for Excellence in Child and Family Welfare, sub. 202, p. 1; Future Women, sub. 270, p. 6.

<sup>22</sup> Goodstart Early Learning, transcript, 27 February 2023, p. 139; Centre for Excellence in Child and Family Welfare, sub. 202, p. 1; Independent Schools Australia, sub. 251, p. 5; Future Women, sub. 270, p. 2; Goodstart Early Learning, sub. 277, p. 44; Swallow Street Child Care Assoc Inc, sub. 300, p. 6.



### Removing the activity test (option 3) would mainly support additional ECEC participation by lower-income families

Removing (or relaxing) the activity test would improve affordability for families who would currently pay for unsubsidised hours as a result of not meeting its requirements. Lower-income families typically pay for a disproportionate amount of unsubsidised ECEC hours (figure 6.12). Improving affordability would encourage these families to use more ECEC, enabling them to spend more time on other activities, including working.

Modifying the activity test would also enable children to attend ECEC consistently as families would continue to receive subsidised ECEC for three days (under a relaxation of the activity test) or five days (under a removal) even if their activity levels drop temporarily. Removing the activity test completely would remove the link between the parent or guardian's activity levels (activities such as work) and subsidised ECEC which would also assist in reducing the perception that ECEC is only for children of parents or guardians who work. Attendance in ECEC would support educational outcomes for children, particularly for children from families experiencing disadvantage who may be more highly affected by the activity test.

Modelling of modification of the activity test is limited to the effect it would have on work hours by affecting subsidised ECEC hours and hence families' out-of-pocket expenses. Beyond these effects, modifying the test would have benefits that are not captured by the modelling. It would reduce some of the administrative complexity of the CCS, making it easier for families to understand their eligibility for subsidised ECEC. This would be particularly important for families with variable patterns of work (such as people in casual jobs), who may find the current activity test challenging to understand and/or administratively burdensome (section 6.3). It would also lessen families' concerns about incurring CCS debt if their hours of activity change and provide people who are looking for work greater certainty in their access to a number of hours of subsidised ECEC while they are searching for a job. These are likely to encourage ECEC participation and would make it easier for parents to participate in the labour force. Impact Economics and Policy (2023, pp. 5, 26–27) estimated that allowing all children to access three days of ECEC would increase women's labour force participation through reducing job search costs.

The model results suggest removal of the activity test (option 3) would lead to an increase in hours of formal ECEC of about 4% (figure 6.14), with about 80% of the increase attributed to families who were not previously using ECEC. It is also estimated to lead to a 0.9% decrease in total hours worked by sole parents and partnered primary care parents in couple families with young children (equivalent to 6,900 full-time employees). This fall in work hours occurs because, in the model, access to subsidised ECEC is no longer conditional on work hours, so choices of fewer work hours become relatively more attractive to some families (box 6.4). As described above however, there are other considerations from removing the activity test that could make it easier for parents to increase their work hours, that are not captured by the modelling.

This policy change is estimated to increase CCS expenditure by \$2.1 billion per annum in 2023-24 dollars (or by 17%). Overall, removing the activity test is estimated to have a fiscal impact of \$2.3 billion per annum in 2023-24 dollars with a reduction in personal income tax collections and an increase in transfer payments contributing to the increase as a result of reduced labour supply.<sup>23</sup> The policy would, however, be well-targeted at lower-income families, with the lowest income quartile estimated to receive 55% of the total increase in CCS expenditure across all families.

Results from a relaxation of the activity test (option 4) are discussed following discussion of option 1.

<sup>23</sup> This compares to an estimate by Impact Economics and Policy (2023, p. 28) of \$1.3 billion for abolishing the activity test.

### **Box 6.4 – Illustrating the effect of removing the activity test on net incomes**

Results from the modelled removal of the activity test show some families choosing to reduce their work hours, and a small but negative net decrease in total hours worked by sole parents and primary carer parents in couple families with young children.

For some families, if the activity test were removed, working fewer hours while retaining or increasing the hours their children attend ECEC would have a much smaller effect on net income than under current CCS policy. This is especially the case for parents who face high workforce disincentive rates from withdrawal of transfer payments – a fall in income from work is offset partially by an increase in transfer payments and a fall in income taxes (paper 4). For some parents, the fall in net incomes from working less may be small enough that they prefer to reduce their work hours – and this is reflected in the results from the model. These effects on net income are illustrated in the hypothetical examples below.<sup>a</sup>

#### **Lower-income couple family with two children attending ECEC**

Belle is the primary carer in a couple family with two children. She currently works two days a week and for 5 hours each day. Her children attend ECEC for two days a week, and her work hours and family income mean that all of her hours of ECEC are subsidised at a 90% CCS rate. Given her and her partner's incomes, she is eligible to receive Parenting Payment (Partnered), and Family Tax Benefits A and B. After tax and ECEC expenses, her family's net income is about \$52,000.

Under the current activity test, if Belle was to reduce her work hours to one day a week, she would no longer be eligible to have all of her hours for two days of ECEC subsidised, leading to two hours of unsubsidised ECEC per child. Not working would lead to eight hours of unsubsidised ECEC per child because Belle would be eligible for 12 hours of subsidised care given the family's level of income.

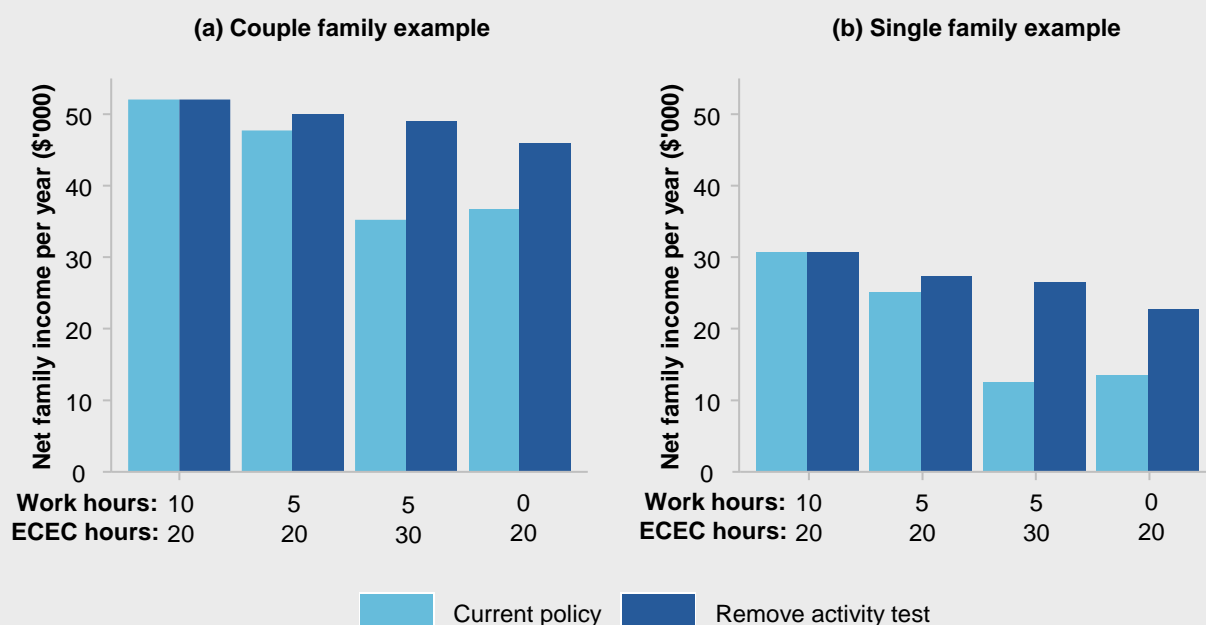
With the removal of the activity test, all of her children's hours of ECEC would be subsidised regardless of Belle's work hours, leading to a higher net income relative to that under current activity test arrangements if she chose to reduce her work hours. While her children are in ECEC, Belle could choose to spend her time on non-work activities, such as volunteering, social activities, hobbies or housework.

The figure below (panel a) shows that with a removal of the activity test and an unchanged number of ECEC hours per child, Belle's choices of work hours could include:

- working two days part-time and a net family income of \$52,000 (the same as under the current activity test)
- working one day part-time and a net family income of \$50,000 (relative to \$48,000 under the current activity test)
- not working and a net family income of \$46,000 (relative to \$37,000 under the current activity test).

#### **Lower-income sole parent with two children attending ECEC**

Raya is a single parent with two children. Her work arrangements are similar to Belle's and she receives Parenting Payment (Single) and Family Tax Benefits A and B. Like Belle, the figure below (panel b) shows that after a removal of the activity test, the choice of working less while retaining ECEC hours has a smaller effect on Raya's net income than under current activity test arrangements.

**Box 6.4 – Illustrating the effect of removing the activity test on net incomes**

a. These examples assume 10-hour CBDC sessions with a fee of \$130 per day (equating to an hourly fee below the CBDC hourly rate cap), and usage of ECEC for 48 weeks a year. Personal income tax, Medicare levy, Parenting Payment (single and partnered) and Family Tax Benefit A and B are simulated based on rates and thresholds as at 20 March 2024. The partner's annual earned income is assumed fixed at \$32,500. The sole parent or primary carer parent's wage rate is assumed to be \$24 per hour. Activity hours (used to determine eligible subsidised hours) are assumed to be 1.2 times work hours, to allow for reasonable travel time.

**Option 1 is more likely to lead to net community benefit**

Combining both higher subsidy rates and removing the activity test (option 1) would lower affordability barriers for families most affected by them.

The model estimates a 10% increase in hours of ECEC demanded with the biggest increase (28%) from families in the first income quartile (figure 6.16). Most of this increase (80%) is estimated to arise from families who were not using ECEC prior to the policy change. There is a slight increase in estimated hours of ECEC demanded by families who were already using ECEC, who experience a fall in out-of-pocket expenses.

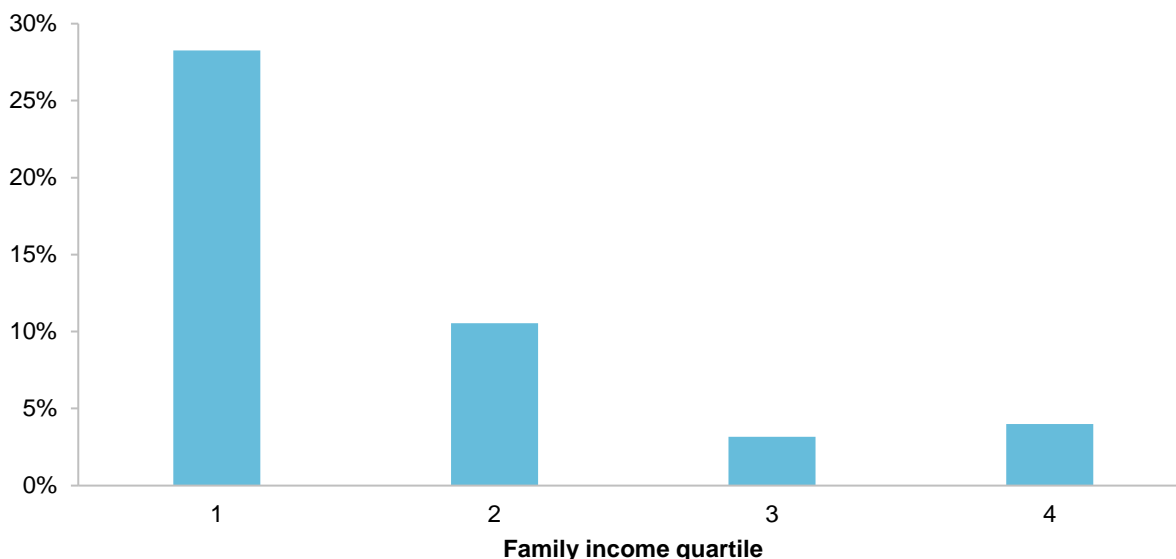
The increase in hours of ECEC demanded at both an aggregate level and across all income quartiles is larger under option 1 than options 2 and 3 (for example, compared to the 28% under option 1, increases for families in the first income quartile were 9% and 15% under options 2 and 3, respectively). This highlights that the combined effect of increasing subsidy rates and removing the activity test would assist all families to increase ECEC participation, and particularly those in the first income quartile.

Labour supply hours of sole parents and partnered primary carer parents are estimated to decrease by 0.2% under option 1, the equivalent of 1,700 full-time employees. Labour supply hours increase across families in the first income quartile by 0.2% and decrease across families in the higher-income quartiles (0.4% across the second, 0.4% across the third and 0.1% across the fourth income quartile). As shown in the results for option 3, the fall in labour supply in the model is driven by the removal of the activity test. The activity test

presents barriers to ECEC participation for some families which can limit primary carer parents' participation in the labour force (section 6.3), and the modelling does not capture these types of frictions.

**Figure 6.16 – ECEC hours demanded would increase for all families but more for the lowest income quartile under option 1<sup>a</sup>**

**Increase in ECEC demand hours by income quartile, 2023-24 (%)**



a. Income quartiles are based on family disposable income.

Source: Productivity Commission estimates using CAPITA-B with ECEC.

Changing preferences could also result in higher labour force participation and ECEC participation in the longer term (box 6.5).

That said, given the already high rates of labour force participation, relatively high participation and satisfaction with work hours of higher-income mothers and significant disincentive effects created by the tax and transfer system for lower-income mothers (paper 4), it may not be surprising that further reductions in out-of-pocket expenses by themselves do not generate substantial shifts in labour force participation. However, as noted above, 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 also help more parents return to the workforce or increase their working hours than is estimated in the model.

**Box 6.5 – Changing preferences could lead to larger behavioural changes**

The modelling undertaken to examine the potential effects of CCS changes assumes that people's 'preferences' remain the same over time. That is, given a set of options of hours of ECEC and labour supply, the way that people consider factors such as their out-of-pocket ECEC expenses and individual circumstances in choosing the hours of ECEC and labour supply that best suit them is assumed to remain stable across time. These preferences are estimated based on observed data, so best reflect how people would react to policies that are similar to current policies.

### **Box 6.5 – Changing preferences could lead to larger behavioural changes**

However, some policies could lead to changes in perceptions, norms and behaviour that are not captured by modelled preferences. For example, it is possible that a significant increase in ECEC subsidies, in conjunction with extensive publicity and other policies that make accessing ECEC simpler, could encourage families to choose to use more ECEC, and supply more labour, than would be implied by modelled preferences.

It is difficult to know how large a policy change would have to be to induce a change in preferences, and what the resulting effect on ECEC demand and labour supply would be. But examining the effects of large ECEC policy changes internationally is a potential way to understand the possible effects in Australia. International evidence of the effects of increased ECEC subsidies or availability on maternal labour supply shows mixed results, with some studies finding large positive effects and others finding no significant effects, or small effects typically limited to single mothers (paper 4).

An often cited ECEC reform is one introduced in Quebec in 1997 (described in appendix B and paper 9).<sup>a</sup> This included free preschool in the year before school, a reduction in ECEC fees to a flat fee of \$5 per day, increases in ECEC places, as well as a new income-based child tax benefit (replacing universal child allowances) (Lefebvre and Merrigan 2008, pp. 520–521). Estimates of the effect of the Quebec reforms differ in the literature. Lefebvre and Merrigan (2008, pp. 542–543) and Baker et al. (2008, p. 713) found large estimated increases in employment, of 13% for mothers and 14.5% for married women in the respective studies. However, their methodologies have been criticised for potentially biasing estimates (Havnes and Mogstad 2011, p. 1457). A recent study by Karademir et al. (2023, p. 24) that overcame these criticisms found much smaller increases in maternal employment of about 2.5% by 2000, and nearly 5% by 2013.

Compared to the modelled estimates for option 1, the outcomes estimated for Quebec’s reforms are larger and positive (but Quebec had much lower rates of labour force participation among mothers when the reforms were introduced than Australia does now). As noted above, the effects of option 1 on labour supply could be bigger than those modelled due to the reduction of administrative barriers due to the removal of the activity test (which are not captured by the modelling). And changes in norms and perceptions could further increase labour supply by primary carer parents.

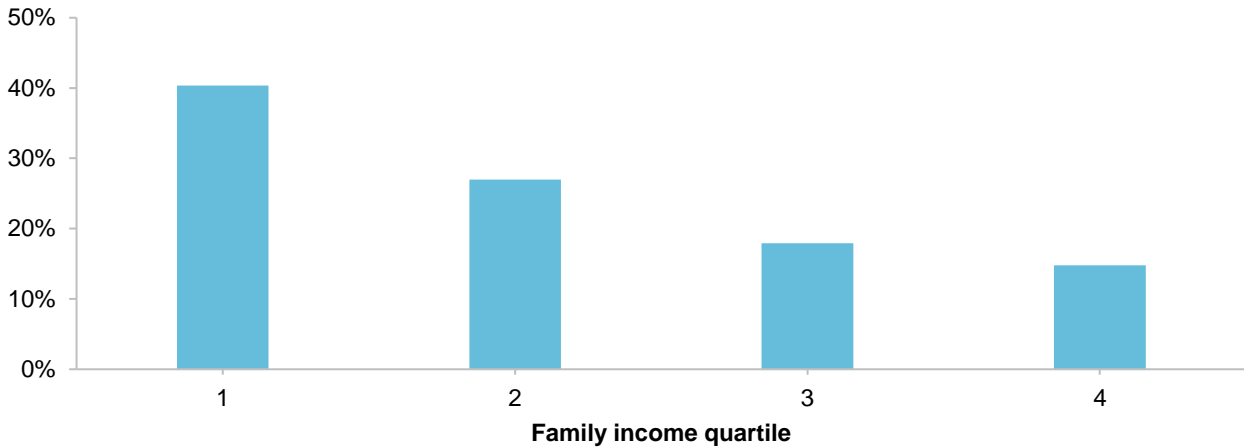
**a.** NSW Treasury have previously estimated the potential labour market impacts of ECEC policy changes in NSW by applying estimates from a study that analysed effects of the ECEC reform in Quebec in 1997 (Tan et al. 2022).

Overall, the increase in costs to the Australian Government associated with option 1 is estimated to amount to \$4.8 billion per year with the majority of this increase due to increased CCS expenditure (about 37% of the estimated CCS outlay for 2023-24 or \$4.7 billion). The remaining increase relates to reduced personal income tax revenue and increased expenditure on transfer payments due to the small estimated reduction in labour supply hours. Lower-income families would benefit most from the change; families within the lowest 25% of the income distribution account for 40% of the increased CCS expenditure (figure 6.17). Some higher-income families would also benefit from higher CCS and HCCS rates (including those with multiple children of the same age) and removal of the activity test. Families in the highest income quartile account for about 10% of the estimated increase in hours of ECEC demanded. However, because these families have higher incomes, and therefore lower subsidy rates, the costs to government of their increase in ECEC participation are relatively low.

Based on current fees and enrolment patterns, implementing the proposed changes to CCS and HCCS and removing the activity test would result in lower out-of-pocket ECEC expenses for families across the income range, but particularly for those in lower income deciles (figure 6.18).

**Figure 6.17 – Lower-income families would receive the largest share of increased CCS expenditure under option 1<sup>a</sup>**

**Share of increased CCS expenditure going to families by income quartile, 2023-24 (%)**

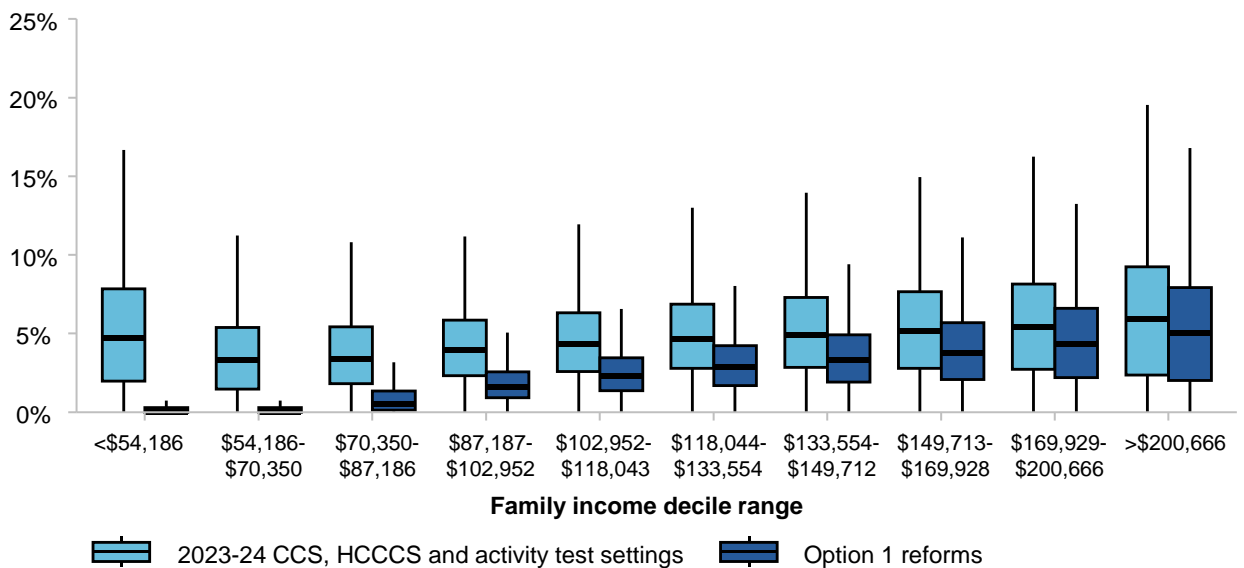


a. Income quartiles are based on family disposable income.

Source: Productivity Commission estimates using CAPITA-B with ECEC.

**Figure 6.18 – Families across the income range will have lower out-of-pocket ECEC expenses under option 1<sup>a,b,c,d</sup>**

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



a. Out-of-pocket expenses under current and proposed CCS settings were simulated for each family based on data on family characteristics and actual fees and ECEC usage at CCS-approved services, except for children receiving ACCS where data on actual out-of-pocket expenses were used instead. Income ranges differ slightly to those in figure 6.7 because some observations were excluded due to missing values in variables required for the simulation. b. Out-of-pocket expenses for each family were calculated as charged fees less CCS and 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 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 Child Care Subsidy.

**c.** These box and whisker plots show the median (black horizontal line), two hinges at the 25<sup>th</sup> and 75<sup>th</sup> 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. **d.** Excludes In Home Care services.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

## Removing rather than relaxing the activity test would simplify administration and understanding

Recommendations to consider changes to the activity test, including its removal, have been made in other recent inquiries into ECEC, for example:

- recommendation two in the ACCC Childcare inquiry's final report released in December 2023 recommends consideration should be given to 'removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children ... accessing care and creating a barrier to workforce entry or return for some groups' (ACCC 2023b, p. 9)
- the final report of the South Australian Royal Commission into ECEC recommended that the Australian Government change the CCS to 'enable all families to access up to three days a week of care without the need to meet any activity test' (SA Government 2023, p. 7)
- the interim report of the NSW Independent Pricing and Regulatory Tribunal's Review of ECEC found that the activity test particularly affects low-income families who are Aboriginal and/or Torres Strait Islander, and/or who are living in remote areas, with a draft recommendation that the activity test 'should be reviewed as a priority' (2023, p. 3).

There was also support from inquiry participants for abolishing the activity test with many noting that the test disproportionately affects low-income families in their ECEC participation.<sup>24</sup> Other participants to this inquiry supported relaxation of the activity test, at least as a first step.<sup>25</sup> Early Learning Association Australia (sub. 237, p. 9) suggested that the activity test be removed and that the Australian Government fund a minimum of 36 hours of subsidised ECEC per week for all children. Social Ventures Australia (sub. 247, p. 4) highlighted that the activity test even if it was relaxed is 'likely to contribute to a continued pattern of children who could benefit most from additional hours of ECEC receiving fewer hours than their advantaged peers'.

Option 4 relaxes rather than removes the activity test (and includes the same increase in the CCS and HCCS rates as option 1). All families would be entitled to 36 hours of subsidised ECEC per week (table 6.6). (If this option were adopted, in practice 36 hours could be spread across more or fewer than three full days depending on daily session lengths.)

<sup>24</sup> Australian Multiple Birth Association, sub. 182, p. 9; National Foundation for Australian Women, sub. 194, p. 2; NSW Family Day Care Association, sub. 209, p. 12; National Child and Family Hubs Network, sub. 220, p. 4; United Workers Union, sub. 222, p. 23; The Front Project, sub. 227, p. 31; Outside School Hours Council of Australia, sub. 232, p. 15; Minderoo Foundation, sub. 288, p. 7; Centre for Policy Development, sub. 282, p. 3; The Benevolent Society, sub. 280, p. 7; The Parenthood, sub. 276, p. 18; Early Learning Association Australia, sub. 237, p. 9; Social Ventures Australia, sub. 247, p. 4; Australian Research Alliance for Children and Youth, sub. 268, p. 5; Goodstart Early Learning, sub. 277, p. 33; Early Learning and Care Council of Australia, sub. 299, p. 6; Early Childhood Australia, sub. 302, p. 5; KU Children's Service, sub. 303, p. 7.

<sup>25</sup> KPMG, sub. 290, p. 4; National Foundation for Australian Women, sub. 194, p. 2; Municipal Association of Victoria, sub. 213, p. 6; The Front Project, sub. 227, p. 31; Minderoo Foundation, sub. 288, p. 7; G8 Education, sub. 301, p. 10; Early Childhood Australia, sub. 302, p. 36; Chief Executive Women, sub. 307, p. 8.

**Table 6.6 – Option 4 would remove the bottom tiers of the activity test<sup>a,b</sup>**  
**Current (2023-24) and option 4 activity test tiers, weekly**

Current (2023-24)		Option 4	
Activity level each week	Subsidised hours entitlement	Activity level each week	Subsidised hours entitlement
Less than 4 hours	0 hours if you earn above \$80,000 12 hours if you earn \$80,000 or below		
More than 4 to 8 hours	18 hours		
More than 8 to 24 hours	36 hours	0 to 24 hours	36 hours
More than 24 hours	50 hours	More than 24 hours	50 hours

a. The \$80,000 is adjusted taxable income in 2023-24. b. Activity hours and subsidised entitlement hours are presented at the weekly level. However under the CCS, families' entitlement is determined at the fortnightly level. Weekly levels are presented for ease of understanding.

Source: Services Australia (2022a).

Relaxing the activity test and increasing subsidy rates is estimated to increase ECEC participation and have a negligible impact on labour force participation by sole parents and partnered primary carer parents in couple families with young children (figure 6.14). An increase of 8% is estimated for hours of ECEC demanded – slightly lower than the 10% estimated under option 1. But the increase in hours of ECEC demanded varies markedly depending on the income quartile considered, highlighting the disproportionate impact of the activity test on lower-income families. The increase estimated for families in the lowest income quartile under option 4 is 20% compared with the 28% estimated under option 1. In contrast, there is almost no difference in the estimated rise in hours demanded by families in the highest income quartile – 3.8% and 4% under options 4 and 1, respectively. As for option 1, most of the increase in hours of ECEC demanded is estimated to arise from families who were not using ECEC prior to the policy change.

Option 4 would entail a reasonably similar increase in CCS expenditure to option 1 (\$4.3 billion a year compared with \$4.7 billion).

Given the markedly larger effect on ECEC demand estimated for lower-income families and minimal effects for higher-income families, and the reasonably similar impact on government outlays, the Commission recommends removing the activity test completely in order to simplify the CCS and make it easier to understand.

### **A small number of families would still have unsubsidised ECEC hours with removal of the activity test**

Removal of the activity test to allow all families up to 50 hours per week of subsidised ECEC would mean that the vast majority of families would have all their hours of ECEC eligible for the CCS. A child using ten-hour ECEC sessions (the most common CBDC session length) for five days a week would have no unsubsidised hours. However, families with children using session lengths of 11 or 12 hours for five days would still face some unsubsidised hours.

A cap on the number of subsidised hours is necessary to help protect the integrity of the CCS (integrity is discussed in section 6.6). An increase to the maximum number of subsidised hours could induce service providers to increase their session lengths in order to maximise the amount of CCS even though the child may not actually be attending care for the full length of time. (Services' tailoring of session lengths under current CCS settings to ensure families' subsidy entitlements are fully utilised was discussed in the



Commission’s draft report.) Analysis of administrative data shows that the most common length of time that children attend ECEC in a CBDC is eight hours per day (appendix D), despite session lengths being longer.

The Commission recommends the removal of the activity test to allow 50 hours per week of subsidised ECEC in the first instance. Ongoing monitoring of rises in fees and out-of-pocket expenses, and three-yearly review of fees, costs and profits would help to inform whether further changes to the maximum number of subsidised hours is warranted in the longer term.



#### **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.

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

#### **A 90% universal subsidy rate would primarily benefit higher-income families ...**

The terms of reference for this inquiry asked the Commission to consider a universal 90% subsidy rate. This would represent a significant change to the current system, as only children from low-income families currently have at least 90% of their ECEC fees subsidised.

The Commission received a range of feedback from participants on a 90% universal subsidy rate:

- Goodstart Early Learning (sub. 277, p. 31) and the Brotherhood of St Laurence (sub. 289, p. 7) agreed with the finding in the Commission’s draft report that a 90% universal subsidy rate would primarily benefit higher-income families
- The Benevolent Society (sub. 280, p. 11) and Community Child Care Association and Community Early Learning Australia (sub. 318, p. 6) agreed with the draft report conclusion that there are higher priorities than moving to a 90% universal subsidy rate
- the Australian Childcare Alliance (sub. 255, p. 100) submitted that a universal 90% subsidy rate could ‘compromise equitable access for families’

- Early Childhood Australia (sub. 302, p. 36) supported a 90% universal subsidy in the longer-term.

If the only policy change were to extend a CCS rate of 90% of the fee up to the hourly rate cap to all families and the activity test and HCCS remained as is (option 5), it is estimated that labour supply hours by sole parents and partnered primary carer parents in couple families with children aged 12 and under would rise by 1.4% (or the equivalent of 11,500 full-time equivalent workers). Hours of ECEC demand are estimated to increase by 9% and CCS outlays to rise by \$6 billion per annum in 2023-24 dollars, partly offset by higher income tax collections of \$330 million and a decrease in transfer payments of \$20 million. The overall estimated fiscal impact of option 5 is \$5.6 billion per annum in 2023-24 dollars.

A 90% universal subsidy rate would primarily benefit higher income families with nearly 90% of the increase in CCS outlays flowing to families in the upper half of the income distribution. Children from families in the upper half of the income distribution would also represent about 80% of children entering ECEC because the gap between the current subsidy rate and a 90% subsidy rate for higher income families is the largest, whereas lower-income families already receive a subsidy rate at or close to 90%.

### ... and similarly, so would a \$10 a day flat fee

The sixth option considered was a flat daily fee, which has the advantage of giving families certainty over ECEC expenses. This option modelled a daily flat fee of \$10 per child<sup>26</sup> and removed the HCCS and the activity test. It is estimated to increase labour supply hours by 0.9% (7,300 full-time equivalents) and ECEC demand hours by 14%. CCS outlays are estimated to increase by \$8.3 billion a year in 2023-24 dollars, or 66%. Personal income tax collections are estimated to increase by \$290 million and transfer payments are also estimated to increase by \$60 million resulting in an overall fiscal impact of \$8.1 billion per annum in 2023-24 dollars.

For similar reasons to a 90% universal subsidy rate, a flat fee \$10 per day rate for families would primarily benefit higher income families with the majority of the increase in CCS outlays flowing to them. Nearly 50% of CCS outlays are estimated to go to families in the highest income quartile.

Feedback received from participants on a flat fee per day rate was mixed and included:

- The Early Learning and Care Council of Australia (sub. 299, p. 36) raised the negative impact on quality and service availability in Quebec due to a low flat fee for childcare and suggested that this option be rejected.
- The Centre for Policy Development (sub. 282, p. 15) also raised the Quebec experience but rather suggested that Australia learn from the Quebec experience in that fixed fee ECEC has to be 'adequately funded, building and managing supply needs to be supported and quality needs to be prioritised and incentivised for it to be effective at delivering high quality universal ECEC'.
- Goodstart Early Learning (sub. 277, p. 31) agreed with the finding in the draft report that a \$10 fixed fee model would require significant levels of investment which would primarily flow to higher-income families.
- The Benevolent Society (sub. 280, p. 11) agreed with the draft report conclusion that there are higher priorities than moving to a fixed fee model for all families.
- Guardian Childcare and Education (sub. 254, p. 3) was not supportive of a \$10 per day model stating that it was 'populist, inefficient and inequitable'.
- The Minderoo Foundation (sub. 288, p. 14) suggested a fixed fee model could be adopted in communities where there is no or undersupply of ECEC.
- G8 Education (sub. 301, p. 4) did not support a \$10 per day flat fee model.

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<sup>26</sup> In option 6, the daily \$10 per child is for those attending long day care centres such as CBDCs and FDCs and primarily are for children younger than school age. For school aged children who attending OSHC, the daily per child rate is \$4 reflecting the shorter session length of OSHC.

- Gordon Cleveland (sub. 278, p. 6) suggested two funding models could be operated in parallel, the current demand side funding model and a fixed fee supply-side funding model, stating that set fees are popular with parents of all income levels and ‘in Quebec, have encouraged high child care participation by children in lower-income families’.

The Commission has also modelled the potential effects of a flat daily fee with a 100% subsidy for families with an adjusted taxable income of \$80,000 and under. This is more akin to the type of model adopted in Quebec. Changes in labour force participation are very similar to those estimated for the model without the 100% subsidy for lower-income families, the increase in hours of ECEC demand is slightly higher (17%) (but with an increase for families in the lowest income quartile of 28% in contrast with only 17%), and CCS outlays would be higher at \$9.1 billion a year in 2023-24 dollars. Nearly two-thirds of this expenditure would be directed to families in the upper half of the income distribution (in contrast with 70% if the 100% subsidy for lower-income households was not adopted). Just over 20% of the increase in expenditure would be accounted for by families in the lowest income decile. Further details of this model are presented in appendix G.

A flat fee for ECEC without a higher level of subsidy for lower-income families 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 approach would be 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). As discussed in paper 9, 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 would risk crowding out the children and families who need ECEC most as families with greater resources might be able to benefit from more heavily subsidised ECEC (as has been the case in Canada, for example (paper 9)).

### **Reforms with the largest benefits relative to their costs should be prioritised**

Implementing option 1 – removing the activity test and lifting subsidies for lower-income families – would target the increase in support to the children and families who would benefit the most. Option 1 is estimated to increase ECEC participation of children from lower-income families by the largest amount across the six core options modelled (figure 6.19). And just over 50% of the children entering ECEC in response to the policy changes would be from lower-income families.

A universal 90% CCS rate (option 5) or introducing a flat fee for ECEC with any further support for lower-income families (option 6) would do little to benefit lower-income families. For some low-income families, a flat fee \$10 structure would be an increase in their out-of-pocket ECEC expenses. Only 2% of the children entering ECEC in response to the introduction of a 90% subsidy would be from lower-income families. (Introducing a flat fee model with a 100% subsidy for lower-income families would lead to the same increase in ECEC demand from those families as option 1, but at nearly twice the cost in overall CCS outlays.)

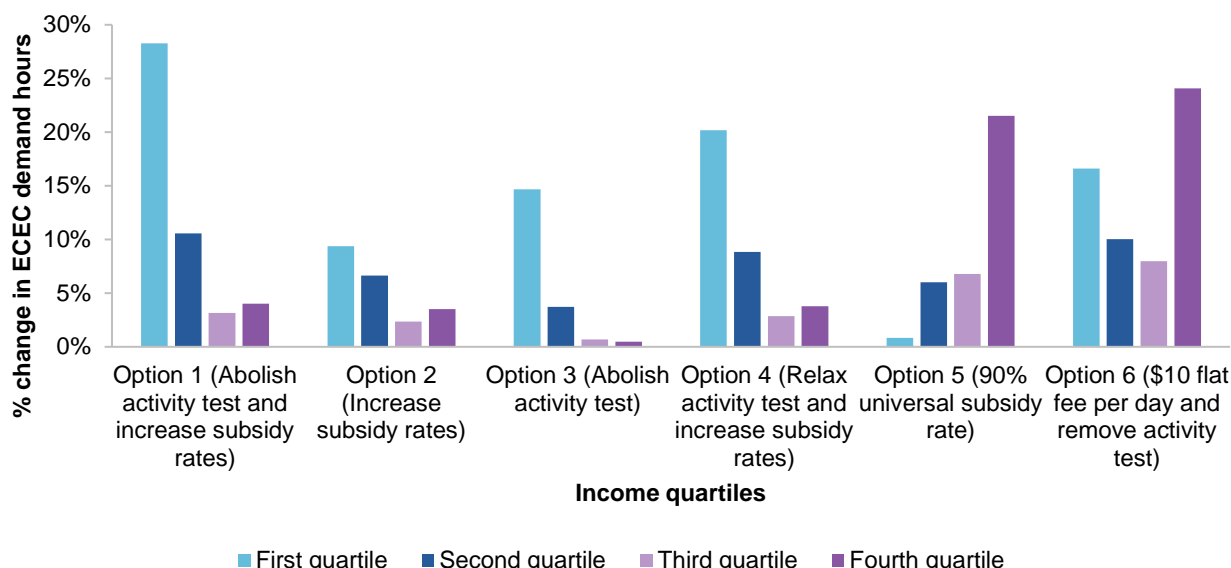
Higher levels of support (options 5 and 6) would generate a somewhat stronger labour market response from parents than from option 1, and potentially other social benefits including increasing gender equality and making more effective use of people’s skills and education, but at a much higher additional cost to taxpayers (figure 6.20). A disproportionate share of the increased government support (60% to those in the top quartile under option 5, for example) would go to higher-income families (those with a disposable income above

\$160,000 per year) and there would be more children from higher-income families increasing their participation in ECEC relative to option 1.

Overall, increasing the CCS rate to a universal 90% or introducing a flat fee for ECEC would disproportionately assist higher-income families, who already spend a lower proportion of their income on out-of-pocket ECEC expenses when compared to families in the lowest income decile. These options are costly but do not lead to significant increases in labour force participation, address the inequity created by the current CCS settings, nor support greater ECEC access for children and families experiencing disadvantage. Moving to an indexation method so that the hourly rate cap moves more in line with increases in the cost of ECEC provision (discussed below) would also help to ensure that affordability for all families is maintained over time. These changes should therefore be a priority for policy action.

**Figure 6.19 – ECEC demand hours would increase the most across families in the first income quartile under option 1<sup>a,b</sup>**

**Change in ECEC demand hours across income quartiles and options, 2023-24 (%)**



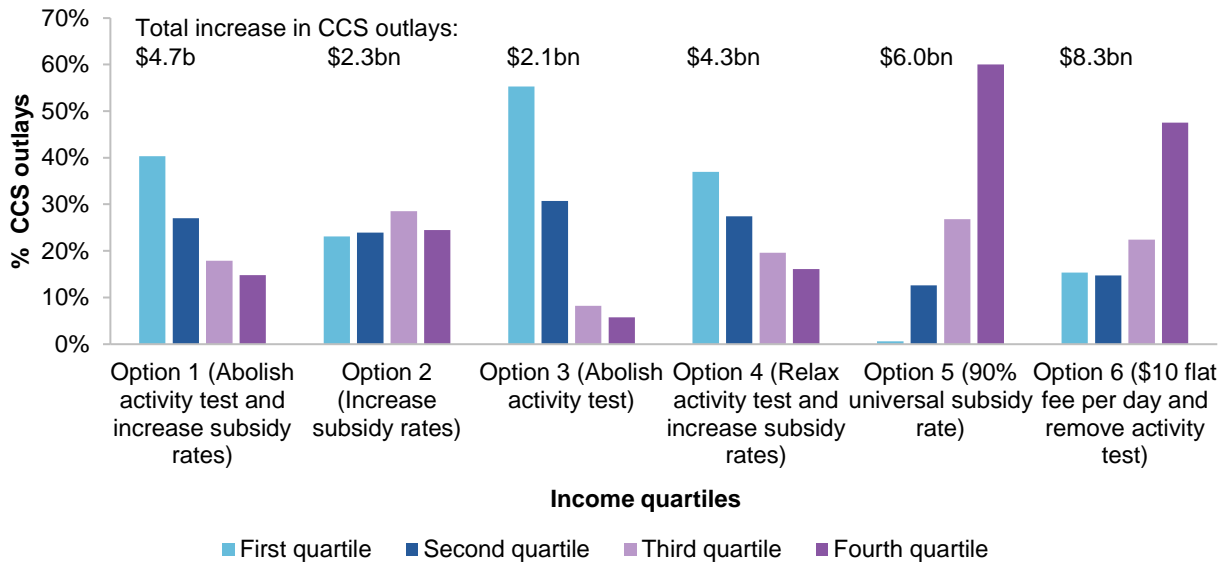
a. Income quartiles are based on household disposable income. b. Income quartiles are up to about \$80,000, \$120,000, \$160,000 and over about \$160,000 for the fourth quartile.

Source: Productivity Commission estimates using CAPITA-B with ECEC.

Reducing out-of-pocket expenses for some families could reduce their sensitivity to fee increases. Some providers might take the opportunity to raise fees more rapidly than they might otherwise have done, particularly in areas where many lower-income families live (or where there are few higher-income families who may change services if fee rises are excessive). The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify areas where movements are out of step with the sector norm. Increases that vary markedly from the norm should prompt closer investigation, and a regulatory response should be considered if they are not reasonable. To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every three years, along the lines of the work that the ACCC undertook in its Childcare Inquiry. This work will also signal if the hourly rate cap needs to be reset. These points are discussed further below and relate to recommendations 6.2 and 6.11.

**Figure 6.20 – High income families would receive the largest share of increased CCS expenditure under options 5 and 6<sup>a</sup>**

**Share of increased CCS expenditure received by families by income quartile, 2023-24**



a. See figure 6.19 notes.

Source: Productivity Commission estimates using CAPITA-B with ECEC.

**The ACCS (Transition to Work) subsidy rate should be increased to 100%**

The ACCS (Transition to Work) subsidy rate should be increased to 100% to align with recommendation 6.1 to increase the CCS rate to 100% for families with an income up to and including \$80,000 (recommendation 6.2). Currently ACCS (Transition to Work) provides a 95% subsidy rate to eligible families. Aligning the subsidy rates will assist in maintaining ECEC participation for these families and providing them greater support during a time of transition.



**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 implemented, 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.

## The hourly rate cap should be reviewed and its indexation adjusted

### There have been calls to reset the hourly rate cap

The Commission's draft report included a draft recommendation to reset the hourly rate cap to reflect the average efficient cost of delivering ECEC that meets quality standards. The ACCC also made a suggestion on the hourly rate cap in its recent final report, recommending that consideration be given to 'determining an appropriate base for the hourly rate cap' (ACCC 2023a, p. 9).

Of the submissions that discussed the hourly rate cap, there was broad support to reset it.<sup>27</sup> However, many participants were against resetting to an efficient cost of delivering high quality ECEC (as suggested in the Commission's draft report) with the concerns raised including:

- that it could be reset below the current hourly rate cap and potentially affect quality
- that it would not allow for profit margins
- that it creates an incentive for cost minimisation at the expense of quality
- the inability of the hourly rate cap to be reflective of the efficient cost of delivering ECEC that meets standards for all service providers given variability in the cost of ECEC delivery across locations, hours and child age (educator-to-child ratio requirements make it more expensive to provide ECEC to younger children).<sup>28</sup>

The last two issues are also relevant to the current hourly rate cap. The National Quality Framework is designed to ensure that services meet quality standards; any cost minimisation cannot be at the expense of these quality requirements. A new hourly rate cap for non-standard hours would assist in addressing delivery of ECEC across different hours – the need for such a cap should be considered in a review (discussed below and in paper 7). Even so, the hourly rate cap is not able to reflect the huge variability in ECEC delivery across other factors; there has to be a balance between accuracy and complexity.

Some participants suggested that the hourly rate cap be set against a fee-based benchmark.<sup>29</sup> A fee-based benchmark would be easier to implement given that fee data is already collected and available. However, a concern with a fee-based benchmark is the potential for services to artificially inflate fees to influence the benchmark, although the likelihood of this is small given the large number of services in the sector and scope for competition.

The ACCC also suggested that consideration be given to rate caps that align with pricing practices for different service types, such as a daily rather than hourly fee cap for CBDC (ACCC 2023a, p. 9). Bray and Gray (sub. 279, p. 14) supported this; other participants supported a detailed exploration of the incentives and consequences of a change to a daily rate cap for CBDCs (Goodstart Early Learning, sub. 277, p. 46; Early Learning and Care Council of Australia, sub. 299, p. 41).

A daily rate cap would align with how CBDCs primarily charge fees. Although it could provide a stronger and clearer price signal for families, the CCS dulls this signal, reducing the strength of this argument in favour of a change. A 'daily' cap could reduce the incentive for services to offer shorter operating hours (unless there

<sup>27</sup> G8 Education, sub. 301, p. 7; Early Learning and Care Council of Australia, sub. 299, p. 4; La Trobe University, sub. 298, p. 10; The Front Project, sub. 227, p. 32; Australian Childcare Alliance, sub. 255, p. 35; Goodstart Early Learning, sub. 277, p. 39.

<sup>28</sup> G8 Education, sub. 301, p. 7; Early Learning and Care Council of Australia, sub. 299, p. 12; La Trobe University, sub. 298, p. 10; Goodstart Early Learning, sub. 277, p. 41; Gordon Cleveland, sub. 278, p. 3.

<sup>29</sup> KU Children's Services, sub. 303, p. 7; G8 Education, sub. 301, p. 7; Early Learning and Care Council of Australia, sub. 299, p. 12; Gowrie Australia, sub. 294, p. 7; The Benevolent Society; sub. 280, p. 11; The Parenthood, sub. 276, p. 13; The Front Project, sub. 227, p. 32; Goodstart Early Learning, sub. 277, p. 40.

were daily rates for different session lengths). It would also increase complexity of the CCS if the rate caps for FDCs and OSHCs remained hourly. Therefore, the Commission considers that the rate cap should remain at an hourly level for all service types.

Since the draft report, the Commission has further considered the extent to which the hourly rate cap could be affecting affordability, especially for lower-income families. As discussed above, the majority of CBDC and OSHC services have an average hourly fee below the hourly rate cap, and those that exceed the hourly rate cap tend to be in areas with higher socio-economic status (section 6.1). This suggests that there is less of a case to reset the CBDC and OSHC hourly rate cap to promote affordability for those facing barriers to accessing ECEC. While there could be some families experiencing disadvantage who live in higher socio-economic status areas, and thus may be facing higher fees above the hourly rate cap, the Commission's recommendations to increase CCS rates and remove the activity test would more directly help these families with affordability (recommendation 6.1). The Commission considers that the suitability of the hourly rate cap in CBDC and OSHC continue to be examined over time as part of regular monitoring of fees, costs and profits (discussed further and suggested below in recommendation 6.12).

For FDCs however, there is a stronger case to reset the FDC hourly rate cap. Many FDCs have average fees exceeding the hourly rate cap, and these tend to be in areas of lower socio-economic status (section 6.1). The FDC hourly rate cap is currently lower than the CBDC rate cap – if the FDC hourly rate cap was set to the same level as for CBDCs, the 75<sup>th</sup> percentile of average hourly fees in the first eight SEIFA deciles for FDCs would be below it – a similar pattern to that for CBDCs. The FDC hourly rate cap should be reviewed (paper 5 contains further discussion on this).

The hourly rate cap for IHC may also not sufficiently reflect costs of provision (paper 5) and should be reviewed.

The review should also give consideration to the need for an hourly rate cap for non-standard hours (paper 7).

The Australian Government should take these factors into consideration as part of a review to determine appropriate new levels of an hourly rate cap to support affordability of quality ECEC while retaining integrity (integrity is discussed further in section 6.6).

### **Indexation of the hourly rate cap should be adjusted so that it keeps pace with changes in the overall costs of ECEC delivery**

If the hourly rate cap continues to be indexed to CPI, its ability to maintain ECEC affordability for families will reduce. The ACCC suggested in its final report 'indexing the cap to more closely reflect the input costs relevant to delivery of childcare services' (ACCC 2023a, p. 9).

The hourly rate cap's indexation should be changed so that it more closely reflects the growth of ECEC delivery costs. The proportion of services with average hourly fees above the hourly rate cap increased between 2018 and 2023 (section 6.1) and it is highly likely that this trend will continue if the hourly rate cap's indexation remains unchanged.

While participants agreed that the indexation of the hourly rate cap should change, views differed on the indexation approach. Most commentary supported an index that aligns more closely with the inputs costs of ECEC.<sup>30</sup> The Australian Childcare Alliance (sub. 255, p. 106) suggested a sector-specific price index, while Bray and Gray (sub. 279, p. 15) suggested using the median fee to index the hourly rate cap. Goodstart Early Learning (sub. 277, p. 62) supported indexing the hourly rate cap to WPI. Early Learning and Care Council of

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<sup>30</sup> Guardian, sub. 254, p. 4; Australian Childcare Alliance, sub. 255, p. 106; Bray and Gray, sub. 279, p. 15; Centre for Policy Development, sub. 282, p. 5; Early Learning and Care Council of Australia, sub. 299, pp. 41-42; KU Children's Services, sub. 303, p. 7.



Australia (sub. 299, p. 42) suggested a composite index of 30% CPI and 70% WPI. And The Front Project (sub. 227, p. 58) suggested the 'cap should be indexed to factor in inflation and an expected lift to wages'.

An approach to hourly rate cap indexation could be to use a new specific and customised index of the cost of delivering ECEC, however it would be resource intensive to develop the methodology and collect the appropriate data and it is unclear that the benefits of this approach would outweigh the costs.

A weighted CPI and WPI index would account for the change in labour and non-labour costs of ECEC delivery and therefore would assist in the hourly rate cap keeping pace with changes in ECEC delivery costs. Accounting for changes in the cost of labour is important given that 69% or more of ECEC costs relate to labour (ACCC 2023a, p. 111). This weighting approach would also draw upon indices that already exist and are readily available.

A weighted index similar to that used by the Australian Government to index school funding through the Schooling Resourcing Standard (SRS) could be adopted. The SRS determines the indexation rate as 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 WPI and 25% of the CPI
- a rate prescribed by the Minister of Education.

A recent review of SRS indexation found that current indexation arrangements were considered appropriate (NSRB 2024), and the Australian Government supported the review's recommendations to maintain the current arrangements (DoE 2024).

Adopting this indexation approach to the CCS hourly rate cap would be appropriate as there are parallels between the school sector and ECEC sector. The weighting of WPI used for the SRS composite index is similar to the proportion of labour costs used for ECEC delivery. A 3% minimum would also provide the sector with greater certainty in times of low inflation. The review of SRS indexation found that the certainty and stability provided by the floor was seen as largely positive by stakeholders, including for budget planning at a school and system level (NSRB 2024, p. 27). However, there could be risks associated with overcompensation for price changes when inflation is low. Re-evaluation of the floor should be considered as part of broader reviews of the hourly rate cap indexation approach (recommendation 6.3). And Australian Government Ministerial discretion of the indexation rate would provide a fallback measure if required to protect against volatility over time.

### **Evaluating the hourly rate cap regularly will assist it to maintain pace with changes in the cost of ECEC delivery**

Changes occurring in the ECEC sector will have implications for the cost of ECEC delivery. One is the multi-employer bargaining process (paper 3). While the Australian Government announced its intent to contribute funding to a wage increase in the 2024-25 Budget, at the time of writing it was unclear by how much the government would fund any wage increase agreed through the negotiations. Funding provided by the Australian Government will have implications for the hourly rate cap. Provision of preschool is also going through a period of change, with some states increasing preschool programs from 15 to 30 hours and extending preschool funding for three-year-olds. As noted above, some states and territories are also providing fee relief for families whose children attend a preschool program in a CBDC. Change may also flow from any recommendations adopted from this inquiry that have implications for the cost of ECEC delivery.

The hourly rate cap should be evaluated as part of three-yearly reviews into fees, costs and profits (section 6.6). As part of this evaluation, the ECEC Commission (paper 10) should identify if the hourly rate cap has kept pace with changes in the cost of ECEC delivery and whether the weighting of the indexation method requires updating. To assist with this evaluation, DoE and the ECEC Commission should draw on regular cost monitoring and the methods that ACCC used to collect its cost data (discussed in section 6.5).



### 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, 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.

## Setting the default CCS withholding rate to zero would improve affordability for lower-income families

As discussed above, the default CCS withholding rate is currently 5% (although families have the option to change the rate twice a year). This means that families who do not opt for a 0% rate do not receive the full effect of subsidies on their out-of-pocket ECEC expenses immediately, rather it is reconciled after the end of the financial year. This can particularly affect low-income families who have higher financial constraints. Lower-income families are also less likely to incur debts compared to higher income families (section 6.3).

The Parenthood (sub. 276, p. 15) suggested that the 5% withholding rate should be abolished or set to 0% as the default given that it can affect affordability for lower-income families (as it increases their out-of-pocket expenses in the short term). The Early Learning and Care Council of Australia (sub. 299, p. 13) suggested that the ‘5% withholding should be reduced to 0% for lower-income families (who are less likely to incur debts), with option to add/increase, if they choose’. The Australian Childcare Alliance (sub. 255, p. 41) and Goodstart Early Learning (sub. 277, p. 34) suggested removing the 5% withholding rate (Goodstart suggested that happen for low-income families at a minimum) and that using Single Touch Payroll (STP) data (section 6.5) to prompt families to update their income details with Services Australia would be complementary to this.

Reducing the default CCS withholding rate to 0% would assist in improving ECEC affordability for low-income families.

Retaining the option of a non-zero CCS withholding rate would mean that families could continue to use it to assist them in managing their CCS. Families would continue to have the choice to change their CCS withholding rate and some families might choose to increase it from the default 0%. Accurately estimating adjusted taxable income (which is the income measure used to determine families' CCS and HCCS rates) can be challenging. Therefore, some families may appreciate the option to have part of their CCS withheld to safeguard themselves against a potential CCS debt. Improving families' understanding of the CCS withholding rate is also important (section 6.5).

The Commission recommends that the option to adjust the CCS withholding rate should be provided both during the CCS application process and whenever families have to update their details, improving visibility and knowledge about the rate. It is also recommended that the number of times families can change their withholding rate online be increased to 12 per year (it is currently two) (recommendation 6.4).



#### **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.

## **Improvements for families facing higher affordability barriers**

As noted above, some families with specific circumstances can face higher affordability barriers to ECEC participation (section 6.2). Recommendations to reduce affordability barriers for some of these family types can be found in other papers – and improvements to the CCS suggested above would also broadly benefit families in these situations.

- For families with a child who lives with a disability or has complex needs, recommendations to improve inclusion support that would also reduce affordability barriers can be found in paper 2.
- For Aboriginal and Torres Strait Islander families and families from Culturally and Linguistically Diverse backgrounds, increased CCS and HCCS rates (as outlined above) should assist in reducing affordability barriers. These families can also find it challenging to engage with Centrelink to apply for CCS. Recommendations to reduce administrative complexity for these families are discussed below and recommendations to reduce non-financial barriers are discussed in paper 7.
- It is expected that single parent families and multiple birth families would also benefit from increased CCS and HCCS rates (as outlined above).
- For families that are known to child protection services, children who are in out-of-home care and/or facing family or domestic violence, recommendations to reduce administrative complexity are discussed below.

The rest of this section discusses reducing affordability barriers for restricted or temporary residents and families that have a child receiving their preschool program via distance education.

### **CCS eligibility for temporary residents should be reviewed**

CCS eligibility for restricted and temporary residents varies depending on their visa type. Temporary residents with a temporary protection type visa such as Temporary Protection visas (subclass 785) or Safe Haven Enterprise visas (subclass 790) are eligible to receive CCS (DSS 2018; Services Australia 2023b). However other temporary residents such as those with a Skilled Work Regional (provisional) visa (subclass 491) and Skilled Employer Sponsored Regional (provisional) visa (subclass 494) are ineligible to receive CCS for their children. There are also other visa subclasses that provide temporary residence that do not allow CCS eligibility. Families covered by these visa types would have to pay full fees for their children to participate in ECEC.

Extending CCS eligibility, especially for families with visa subclasses that are likely to lead to permanent residency and/or Australian citizenship, would reduce financial barriers to ECEC participation and should improve their children's educational outcomes and support longer-term integration. Further, allowing people on working and skilled temporary visa subclasses that do not provide CCS eligibility to access subsidised ECEC could provide a further incentive for skilled workers to apply for these visas.

Submissions that responded to information request 6.4 in the draft report (which sought feedback on this issue) were supportive (for example, Australian Childcare Alliance, sub. 255, p. 107; Women's Legal Services, sub. 272, p. 3; The Front Project, sub. 227, p. 59). Further the United Workers Union (sub. 222, p. 15) noted the inconsistency in CCS eligibility for those with temporary residency in Australia as discussed above.

Given the complexity of visa types and eligibility criteria, the Commission recommends that a comprehensive review of CCS eligibility for restricted and temporary residents be completed by DoE in consultation with the Department of Home Affairs (recommendation 6.5). The aim of the review should be to extend CCS eligibility to reduce financial barriers to ECEC participation whilst considering the benefits and costs of doing so.



#### **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.

### **Expanding the Assistance for Isolated Children Distance Education Allowance would improve ECEC affordability for children living in geographically isolated areas**

The Assistance for Isolated Children Distance Education Allowance (AIC-DEA) 'contributes towards incidental costs incurred by geographically isolated families whose student children are undertaking their education by distance education methods. This payment is not intended to meet the ongoing cost of provision of education (e.g. costs associated with teaching, tuition and supervision)' (DSS 2023b, p. 57).

As noted above, children attending preschool via distance education are ineligible to receive the AIC-DEA as it is not an approved course (DSS 2023b, p. 20), and children must be at least the minimum primary school entry age for the state or territory of residence (Services Australia 2022b). For 2024, the AIC-DEA maximum

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rate is \$4,698 per year. In order to be eligible for the allowance, one of the following isolation conditions must apply to the child:

- they are geographically isolated
- they have a special education need
- they have no reasonable access to a school
- they meet a continuity condition (Services Australia 2024).

The National Rural Women's Coalition and Isolated Children's Parents' Association (sub. 297, p. 42) stated that around 200 children access recognised 3-4 year old programs in their homes through distance education. It is challenging to estimate the additional number of children that would access their preschool program through distance education if affordability barriers were reduced. If 200 children receiving a preschool education via distance education were eligible to receive the AIC-DEA, it is estimated that this would cost around \$940,000 per year. The cost would be higher if even more children were to begin receiving their preschool education via distance education.

Submissions that responded to information request 6.4 in the draft report (which sought feedback on this issue) broadly supported expanding AIC-DEA for preschool education delivered via distance education.<sup>31</sup> In response to this information request, the Department of Education (DoE) suggested the needs of geographically isolated children should be considered within the broader context of preschool support, given that preschool is primarily a state and territory responsibility. DoE further noted that given that the Australian government provides a flat per child rate of funding for preschool through a National Partnership Agreement (currently the Preschool Reform Agreement or PRA) (DoE, pers. comm., 3 May 2024).

States and territories retain responsibility for assessing and addressing specific barriers to preschool participation, including, but not limited to, distance education. Under PRA reporting, states and territories are not required to show whether non-participation is a family choice (given preschool is not compulsory) or due to barriers being experienced. DoE noted that, should the Australian Government take a role in addressing specific needs, it would need data on barriers to ensure interventions are appropriate and equitable. DoE further noted that expanding the AIC-DEA for preschool education would only address one specific barrier, outside of the PRA (DoE, pers. comm., 3 May 2024).

Ideally children would receive their preschool education in person and recommendation 5.1 (supporting universal access in thin markets via supply-side funding) could include support for establishing centres that offer preschool in rural and remote areas. The Front Project (sub. 227, pp. 59–60) supported this noting that establishing preschool services (and ECEC more generally) in rural and remote areas should continue to be a priority. However, they also noted that expanding the AIC-DEA would provide support for children in isolated areas, who have no other viable alternative, to receive their preschool education.

Given that it is unclear how many children could potentially be eligible for the AIC-DEA if it was expanded to include preschool education delivered via distance education and the potential public benefits, the Commission recommends a three-year trial of such an expansion (recommendation 6.6). This trial should include an evaluation to determine the public benefits and costs of the expansion and whether there is sufficient evidence to justify permanent expansion.

The benefits of expanding the AIC-DEA to include preschool programs would be concentrated on children whose families face financial barriers in preschool program participation and where their only option is to

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<sup>31</sup> The Front Project, sub. 227, p. 59; The Parenthood, sub. 276, p. 18; National Rural Women's Coalition and Isolated Children's Parents' Association, sub. 297, p. 44; Early Childhood Australia, sub. 302, p. 37; KU Children Services, sub. 303, p. 8.

receive it through distance education. The benefits would be similar to children broadly who attend preschool programs in person, and include school readiness, increased educational attainment and improved labour market outcomes (paper 1).



#### Recommendation 6.6

#### Three-year 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.

## 6.5 Reducing administrative complexity and making it easier for families to understand the CCS would make CCS more accessible

### Simplifying the CCS design and system would reduce barriers to ECEC participation for families

Removing the activity test and streamlining the HCCS would make it simpler for families to understand how much CCS they are eligible to receive. These recommendations were discussed above. The rest of this section discusses other aspects of the CCS design and system that could be improved to reduce administrative complexity.

#### Simplify and improve the CCS system

Streamlining the CCS application process for families would reduce administrative barriers for families and make it easier for their children to participate in ECEC. There are different approaches that could achieve this.

One approach would be to provide automatic eligibility for CCS based on existing eligibility for Services Australia administered programs (such as income support payments or the Health Care Card). This way families would not have to fill out a CCS application. However there are some practicalities that could make this approach infeasible. For example, the information required to assess eligibility for CCS and a Services Australia administered program such as an income support payment may not align. This means that there would be insufficient information for Services Australia to provide automatic CCS eligibility. Privacy requirements would also have to be carefully considered. Another issue raised by DoE (pers. comm., 3 May 2024), is that implementing automatic CCS eligibility would require abolition of the '26 week rule' (which requires families to reapply for CCS after 26 weeks without a session of care). The '26 week rule' is a policy integrity safeguard to stop families receiving the HCCS if they are not actively using CCS-approved services for multiple children (DoE, pers. comm., 3 May 2024).

A more feasible approach may be to prefill the CCS application form using information already provided by families to Services Australia. This would reduce the burden on families when applying for CCS. For example, the income estimate provided by families for Family Tax Benefit (FTB) aligns with the income

estimate required for CCS. An extension to this approach would be to streamline data inputs across myGov services for use in CCS applications, as was recommended by NSW IPART (2023, p. 117). This could be achieved by utilising information provided as part of income support payment applications and personal income tax returns. However, streamlining data inputs across myGov services would be a significant undertaking. Therefore, the Commission recommends that Services Australia use information already received from families to prefill CCS applications as this would be the most achievable in the short term (recommendation 6.7).

The adoption of recommendations in this report such as removing the activity test could also make it easier for Services Australia to implement automatic CCS eligibility, as it would reduce the need for parents and guardians to report their activity hours.

The CCS backdating period should be increased from 28 to 90 days. This would improve the CCS system by providing families with some extra breathing space to lodge their CCS applications and should reduce the potential that families pay full fees for ECEC due to missing the backdating deadline. As noted above, currently CCS can only be backdated up to 28 days (section 6.3). This means that a family has 28 days to apply for CCS once their child commences ECEC in a CCS-approved service so that all ECEC sessions used will be subsidised by CCS. If families apply after the 28 days, CCS will not be paid for ECEC sessions used prior to the 28 day backdating period and they would have to pay full fees for those ECEC sessions.

Making it simpler for families to complete their CCS application would reduce administrative complexity. If the activity test remains, a drop-down menu for families to pick their activity level range for the activity test in the CCS application would reduce the opportunity for error on the families' side and thus reduce the need for families to go back to Services Australia and clarify their activity type (recommendation 6.7).

### **Reduce administrative complexity by simplifying the CCS income reconciliation process**

The income reconciliation process for FTB is simpler than that for CCS, even though the definition of income (family adjusted taxable income) used in both processes is the same. Aligning aspects of the CCS income reconciliation process with the FTB income reconciliation process would reduce administrative complexity.

Based on information provided by Services Australia (pers. comm., 7 May 2024) the Commission recommends the following alignments of CCS income reconciliation process with that of FTB (recommendation 6.7).

- All single customers who are in receipt of an income support payment for the full year should have reconciliation automatically occur for CCS as currently happens for FTB. There should be no need to wait for income from a tax return. Currently all CCS customers are required to advise Services Australia of non-lodgement, or lodge a tax return for reconciliation to occur.
- If a customer (or partner) advises the ATO that a return is not necessary, this information should automatically go to Services Australia and the most recent income estimate should then be used by Services Australia to complete the reconciliation. Currently for CCS, the customer must advise Services Australia of their income for reconciliation to occur.<sup>32</sup>
- Currently, customers can incur a CCS debt due to the incomes of their ex-partner. If a customer separates from their partner in the relevant year (the year they received the payment) and if the customer does not know if the ex-partner will be, or is, required to lodge a tax return, they should contact Services Australia. Services Australia can balance their CCS (provided all other reconciliation conditions are met) using the

<sup>32</sup> Customers generally inform the ATO that a return is not necessary when a person's income is below \$18,200 (the tax free threshold) and no tax has been withheld.

ex-partner's most recent estimate of income. This would ensure that the customer does not have to wait for balancing to occur, and the customer does not have deadlines applied. If the ex-partner subsequently lodges their tax return, the customer may incur a debt if the ex-partner's income is higher than the estimated amount. When this occurs, the customer can contact Services Australia and their CCS can be rebalanced and any components of the debt attributed to the ex-partner's income only can be reduced to nil. This should not incur an income-related debt for the partnered period and the system should then apply the best outcome for the customer. This should occur automatically.

Further, removing the need for reconciliation for those families that receive ACCS (Grandparent) and ACCS (Child Wellbeing) for an entire year would reduce the administrative burden on them. Both of these ACCS streams are not income tested (other requirements restrict eligibility to certain families) but for reconciliation to occur families must still lodge a tax return or notify both the ATO and Services Australia that they are not required to lodge a tax return. Requiring a tax return or a notification that a return is not required is an unnecessary process requirement. The Commission recommends that these families be exempt from notifying Services Australia of their income (recommendation 6.7).

### **Maintain CCS eligibility for children who have changing or challenging family circumstances**

Maintaining a child's eligibility for subsidised ECEC when their guardian changes, whether it be permanently or temporarily, would reduce the risk of a child's ECEC attendance being disrupted. The Commission recommends (recommendation 6.8) that when, for any reason, the primary carer of a child changes (for example due to the parent no longer being able to primarily care for a child), the child's CCS eligibility would remain in place for a period of eight weeks while the new guardian puts in an application for CCS. This would provide continuity for the child during a period of uncertainty and change. Inquiry participants that responded to this possible change were supportive.<sup>33</sup>

Related to a change of guardianship, recognising informal kinship carers as carers under ACCS (Grandparent) would assist in reducing barriers to ECEC attendance for Aboriginal and/or Torres Strait Islander children. Currently, to be eligible for ACCS (Grandparent), children must primarily be cared for by their grandparent or great-grandparent. The Commission recommends extending this to include informal kinship carers in recognition that for some Aboriginal and/or Torres Strait Islander children, their primary carer may change without any formal process and that their attendance at ECEC should not be at risk of disruption as a result of this (recommendation 6.8). Data on the number of children in informal kinship care is limited. One piece of research suggests it may be at least 100,000 and could be as high as 450,000 children (Kiraly 2018, p. 3). For some Aboriginal and/or Torres Strait Islander children, their informal kinship carer may be a relative such as an aunt, uncle, sibling, other relative or a family friend rather than a grandparent (Kiraly 2018, p. 4) which would make these children ineligible to receive subsidised ECEC under ACCS (Grandparent). When implementing this change, DoE and Services Australia should ensure that any evidentiary requirements are requested in a culturally sensitive and appropriate way.

### **Increase the eligibility length for ACCS (Child Wellbeing) to support consistent ECEC attendance**

A number of inquiry participants (Gowrie SA, sub. 25, p. 3 and Early Learning and Care Council of Australia, sub. 153, p. 8) supported increasing the length of eligibility for ACCS (Child Wellbeing). ACCS (Child

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<sup>33</sup> Goodstart Early Learning, sub. 277, p. 53; Outside School Hours Council of Australia, sub. 232, p. 16; The Salvation Army, sub. 201, p. 9; The Front Project, sub. 227, p. 61; Early Learning and Care Council of Australia, sub. 299, p. 33.



Wellbeing) is initially provided for a period of six weeks and services must apply for a determination for the relevant child to continue to be eligible for it. If the determination is approved, eligibility can be for up to 13 weeks and up to 52 weeks if the child is on a long-term protection order, in formal foster care or in a formal kinship arrangement (Services Australia 2022d).

Extending the length of eligibility for ACCS (Child Wellbeing) would reduce the burden on services to reapply and would assist in continued ECEC participation for the relevant children. If a child is deemed eligible to receive subsidised ECEC through ACCS (Child Wellbeing) it is unlikely that their circumstances would improve dramatically within the initial 13 week determination period. And for these children there are greater benefits from continuing to attend ECEC (van Huizen and Plantenga 2018, p. 219). Therefore, the Commission recommends that the initial length of determination be extended to 26 weeks with the reapplication determination length also extended for up to 26 weeks (recommendation 6.8).

Consistent ECEC attendance is vital for children who face adversity in their lives to support their development. This could include children on a long-term protection order, in formal foster care or in a formal kinship arrangement. Therefore, the Commission recommends that these children's eligibility for ACCS (Child Wellbeing) remain indefinitely while their circumstances remain unchanged to support consistent ECEC attendance (recommendation 6.8). The Department of Education suggested that revising the role of the relevant state or territory child protection agency in the CCS application process would assist in minimising disruption or delay in ECEC fee support for these children, especially for those in foster care (pers. comm., 3 May 2024). The aim of this would be to retain a child's eligibility for ACCS (Child Wellbeing) so that when there are changes to a child's guardian, their access to subsidised ECEC remains. However, some communities and families may be uncomfortable with state or territory governments being their child's guardian even if it is only for the purposes of CCS eligibility.



### 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.

## A 'one-stop-shop' website about ECEC would make it easier for families to find information

As discussed above, the CCS design and system are inherently complex. Families have to understand how numerous factors impact their ECEC out-of-pocket expenses, including their income, activity levels, ECEC session length, number of children aged 0-5 using CCS-approved services and whether the hourly fee is below or above the hourly rate cap.

Families' understanding of their CCS eligibility would be greatly assisted by one website that contains:

- all the information families need to understand how their CCS eligibility is determined
- a calculator that has the functionality to estimate 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.

It would also assist families in finding a ECEC service by providing transparency on the fees and out-of-expenses families should expect.

The Commission recommends that the Australian Government establish such a website (recommendation 6.9). It will also be important that the information provided is easy to find and navigate, uses accessible language and contains correct and up to date information. Fees and vacancies on the Starting Blocks website should have to be compulsorily updated, at a minimum, once a year. ACECQA should require that services provide this information. To reduce the burden on services, ACECQA could make use of administrative CCS data held by DoE on fees. This 'one stop shop' website could be implemented by enhancing the Starting Blocks website.

Additional information that should be included on this website includes:

- vacancies and fees for dedicated preschools
- information about provider charging and booking policies (such as session lengths, discounts or the ability to access casual places or swap days) (discussed more in paper 7)
- what is and is not included in fees (for example whether nappies and meals are included in fees)

- what families are required to provide themselves (for example nappies or meals).

Many inquiry participants supported improving the online information provided to families about the CCS.<sup>34</sup> Inquiry participants emphasised that this information should be available in multiple languages (The Front Project, sub. 227, p. 35) and sufficiently detailed – for example, by requiring consistent reporting of fees so that families can compare services on a ‘like for like’ basis (Goodstart Early Learning, sub. 277, p. 48). SNAICC (sub. 290, p. 18) also suggested that improved information about the CCS ‘does not necessarily need to be confined to [a] website’ as ‘website based information assumes families have access to the internet and digital literacy’.

Inquiry participants also supported making it easier for families to understand how the CCS withholding rate works<sup>35</sup> with SNAICC (sub. 290, pp. 18–19) suggesting that information on the CCS withholding rate ‘should be readily available to all families in a language and format they understand, at any time’ and that ‘information which is intentionally created for Aboriginal and Torres Strait Islander families would be a beneficial resource, and should be created in partnership with ACCO peak bodies and early years services’.

As mentioned above, the withholding rate is the least understood part of the CCS. Therefore, in establishing a ‘one stop shop’ website, providing clear and easy to find information to families about the CCS withholding rate, and that it can be adjusted, would assist in improving understanding of how it works and its impact on out-of-pocket expenses at the time of fee payment to services. It is important that this information on any government website is easy to find and navigate, uses accessible language and contains correct and up to date information.

If any information is available on different websites (for example on the ‘one stop shop’ and Services Australia websites), the Australian Government should ensure that the information presented on each website is consistent, correct and up to date.

For families who may find it challenging to access ECEC, support in navigating the system via alternative entry points can be helpful. One potential solution could involve a ‘system navigator’ role to help families understand the system, fees, forms and other enrolment processes (paper 7 discusses this further).

### **Minimising debt and the potential for debt**

Making use of greater linkages between government data sources could assist in reducing a family’s potential to incur a CCS debt. The 2019-20 Budget announced as part of the expansion of Single Touch Payroll (STP) that STP information would be shared by the Australian Taxation Office to Services Australia to assist in streamlining Services Australia’s interactions with customers (ATO 2022). It was intended that this would include prefilling customer information, streamlining claims, enhancing Family Tax Benefit processes by sending SMS and email messages to customers when STP data showed changes in circumstances (such as changes to income and working hours), assisting Services Australia to pay customers the right amount and using STP data to understand customers’ recent employment and income history when there are debts (ATO 2022).

<sup>34</sup> Australian Childcare Alliance, sub. 255, pp. 38–39; Early Childhood Australia, sub. 302, p. 18; Early Learning and Care Council of Australia, sub. 299, pp. 12–13; Goodstart Early Learning, sub. 277, p. 48; The Front Project, sub. 227, p. 35; SNAICC, sub. 290, p. 18.

<sup>35</sup> SNAICC, sub. 290, p. 18; The Front Project, sub. 227, p. 37; Goodstart Early Learning, sub. 277, p. 52; Early Learning and Care Council of Australia, sub. 299, p. 13; Early Childhood Australia, sub. 302, p. 18.

Inquiry participants were broadly supportive of using STP information to prompt families to update their activity and income level details.<sup>36</sup> Some participants cautioned that factors such as privacy concerns and unintended consequences for other government support payments should be considered before implementing any data linkages. SNAICC (sub. 290, p. 18) and the Australian Council of State School Organisations (sub. 283, p. 9) suggested that families should be able to opt in or opt out of data linkages when receiving CCS.

STP information could similarly be used in regard to families' CCS eligibility. Similar to the enhanced Family Tax Benefit processes, the Commission recommends that SMS and email messages be sent to families when STP data indicates a change of circumstances. This should mean that families are able to update their details in a more timely manner so that the period during which they receive the incorrect amount of CCS (based on more up-to-date information) is minimised which would minimise overpayment of CCS and the potential of a CCS debt.

The recommendations to remove the activity test would also assist in reducing the potential for a CCS debt. This is because for families that use up to and including 50 hours of ECEC would be subsidised regardless of the parent or guardian's activity level. Any change in activity levels would not affect their CCS amount.



#### **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.

<sup>36</sup> Australian Childcare Alliance, sub. 255, p. 40; Early Learning and Care Council of Australia, sub. 299, p. 13; Goodstart Early Learning, sub. 277, p. 52; The Front Project, sub. 227, p. 36.

## 6.6 Maintaining integrity of the CCS

In this inquiry's terms of reference the Commission was directed to consider 'required regulatory settings, including to manage compliance and integrity risks for Commonwealth programs'.

All government programs have a risk of fraud including the CCS and it is reasonable and expected that government take steps to prevent and reduce fraud. However, there are costs to this activity that need to be balanced with its benefits. Costs to minimise fraud include the fiscal cost to government of identifying and monitoring fraudulent activity, and increased administrative complexity and regulatory burden associated with fraud prevention measures that families or providers must comply with. Benefits include reduced fraudulent payments (fiscal savings) and improved integrity of the government program.

### Increased subsidies can increase the incentive for fraudulent activity

Requiring a co-payment by families assists to reduce fraud because it reduces claims for care that do not occur. Broadly any policies that increase the CCS amount a family is eligible to receive (such as removing the activity test and increasing the level of the hourly rate cap) increases the incentive for fraudulent activity. Therefore, the recommendation to increase the CCS rate to 100% for families with incomes of \$80,000 and below, potentially meaning some families have no out-of-pocket expenses, could motivate increased fraudulent activity.

DoE and Services Australia already have functions to reduce fraud. The 2022-23 October Budget provided funding to strengthen CCS payment integrity and accuracy and expected to save \$173 million over four years (Australian Government 2023, p. 91). The 2023-24 Budget provided additional funding of \$18.6 million for payment integrity activities to safeguard the CCS program, with an expected saving of \$139.4 million over four years. \$13.3 million of the \$18.6 million was for DoE to further support activities to reduce fraudulent CCS claims and \$5.3 million was for Services Australia for their digital forensic capability (Australian Government 2023, p. 98). There were also integrity measures in the 2017-18 and 2018-19 Mid-Year Economic and Fiscal Outlooks, aimed at addressing fraud and non-compliance in the FDC sector which 'have resulted in the cancellation of more than 200 FDC services' (DoE, sub. 90, p. 14).

The cost associated with maintaining integrity of the CCS program should be proportionate to the risk of fraud and the cost of the CCS program overall. For example, the cost associated with 100% compliance of the CCS program is highly likely to be expensive and disproportionate to the cost of the CCS program itself. It could also result in measures that make it onerous for providers and families to comply with. However, having no integrity measures is also not appropriate as it is important that CCS paid out by the government is used for its intended purposes – to subsidise ECEC. Therefore, the costs associated with integrity measures need to be balanced against their benefits. Integrity measures should also not result in a barrier to ECEC participation by families or a barrier to providers in the provision of ECEC.

It is challenging to predict how likely and by how much an increase in subsidies is expected to increase fraudulent activity in the CCS program.

The Commission acknowledges the important work that DoE and Services Australia currently do to reduce fraud in the CCS program and strongly supports the continuation of this work. The Commission also acknowledges that recommendations in this report that increase families' eligible subsidy amount increase the incentives for fraudulent activity. Therefore, if these recommendations are adopted, the Australian Government should provide a proportionately appropriate amount of funding for integrity measures (recommendation 6.11).



### 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.

## Ongoing monitoring and regular reviews would be important to maintain affordability and integrity

Given the large amount of funding the government provides to subsidise ECEC and the further amount of funding that could be provided if recommendations in this report are adopted by government, making services accountable for how these funds are used would assist in maintaining affordability for families and integrity in the CCS. Maintaining integrity in the CCS is important so that public funds are used for the purposes they are provided.

As part of ensuring services are accountable, the Commission recommends that a function be established that monitors fees and out-of-pocket expenses to identify services where increases are out of step with sector norms. This monitoring function should also include monitoring of the hourly rate cap and its ability to maintain ECEC affordability for families. The Australian Government Department of Education already reviews fees and has the option to write to services for an explanation if fee increases are considered excessive (Reed 2023, p. 38), and is therefore the natural home for this function.

Appropriate regulatory action should be taken when the Department finds services that have increased fees unjustifiably. This would assist in keeping providers accountable for fee increases. Reasons for fee increases such as general cost increases or cost increases associated with quality improvements would not attract regulatory action.

The Commission also recommends that a more detailed and periodic review of fees, costs and profits occurs every three years. A periodic review would help to ensure that there is regular oversight of the key determinants of ECEC affordability (as discussed above) and provide transparency on the costs associated with delivering ECEC. It should also consider whether profits are excessive, both on aggregate across the sector and for different parts of the sector (for example, by checking for evidence of profit shifting by providers of all sizes). The ECEC Commission should have responsibility for this review. In the short term, the Australian Government Department of Education should have this responsibility. Short-term responsibility lying with DoE makes sense given that they have been receiving financial information from large providers with 25 or more services since 1 July 2023 as part of financial viability assessments (DoE, sub. 90, p. 31).

The review should aim to:

- understand the costs associated with ECEC delivery and if there have been significant changes to the underlying cost structure associated with the delivery of ECEC, including dedicated preschools
- 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.

These directions are in line with the ACCC's recommendation that government consider a 'stronger role for governments to monitor providers' prices, costs, profits and outcomes, supported by a credible threat of regulatory intervention to place downward pressure on fees' (ACCC 2023a, p. 9).

As part of the review it would be necessary to collect cost data from services to better understand the underlying cost structure associated with delivering ECEC and the ECEC Commission could draw on cost survey templates being used or developed in other countries (ACCC 2023a, p. 228).

This review should identify if it is necessary to reset the hourly rate cap and/or if it is necessary to update the weighting of the indexation of the hourly rate cap. It would also support the ECEC Commission's monitoring function by providing analysis and information to inform it.

The majority of participants that raised an ongoing monitoring function supported it.<sup>37</sup> SNAICC (sub. 290, p. 17) viewed that it would be important that an ongoing monitoring function does not create additional reporting or administrative burden for ACCO early years services, and the Australian Childcare Alliance (sub. 255, p. 35) raised concerns about the additional burden of reporting more generally.

G8 Education (sub. 301, p. 6) expressed concern about the additional reporting burden that could result from collection of cost data. However, given that CCS-approved services deliver ECEC services which are highly subsidised by government, as noted above, requiring them to report cost data is important to accountability for how these funds are being used.

Some supported the ACCC's recommendations for government to play a stronger role supported by a credible threat of regulatory intervention (The Front Project, sub. 227, p. 29; Goodstart Early Learning, sub. 277, p. 47). Some also suggested that providers should 'show cause' if their fees were above the norm (Goodstart Early Learning, sub. 277, p. 47; The Parenthood, sub. 276, p. 14). Given the recommendations to monitor fees, out-of-pocket expenses and the hourly rate cap's ability to maintain affordability for families, and for three-yearly reviews, the additional burden on services to 'show cause' for fee increase above the norm is likely to add little value although it may make services more carefully consider any fee increases.

An ongoing monitoring function would support the integrity of the ECEC sector so that it can continue to deliver high quality ECEC. Increases in prices, especially excessive increases, without any justification would reduce affordability for families and potentially affect ECEC participation.

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<sup>37</sup> National Foundation for Australian Women, sub. 194, p. 3; The Front Project, sub. 227, p. 29; Goodstart Early Learning, sub. 277, p. 48; New South Wales Aboriginal Education Consultative Group Inc., sub. 217, p. 12; Family Day Care Australia, sub. 240, p. 12; WA Not For Profit Consortium, sub. 250, p. 4; The Parenthood, sub. 276, p. 14; Minderoo Foundation, sub. 288, p. 23; SNAICC, sub. 290, p. 17; Latrobe University, sub. 298, p. 10; Early Learning and Care Council of Australia, sub. 299, pp. 10-11; G8 Education, sub. 301, p. 6.



**Recommendation 6.12**

**Monitor rises in fees and out-of-pocket expenses and conduct three-yearly review 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.



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## 7. Meeting the needs of families

### Key points

- ✳ **Families may face a range of challenges accessing early childhood education and care (ECEC) services that meet their needs. These extend beyond the availability and affordability of ECEC.**
  - While their children are likely to benefit from ECEC access, families experiencing disadvantage are more likely to face practical barriers to access, such as lack of transport, or difficulty navigating the system.
  - Families may also find that ECEC services are not sufficiently flexible or responsive to their needs, or that they are culturally unsafe.
- ✳ **Families experiencing disadvantage may require additional support so they do not miss out on ECEC due to practical barriers or challenges navigating the system.**
  - ECEC services should receive funding to address practical barriers to access. A 'system navigator' role should be trialled to support families who find the ECEC system particularly challenging to navigate.
  - Other factors, such as unstable housing, may also affect the ability of families experiencing disadvantage to access ECEC. These issues are outside the scope of this inquiry. But ECEC policy settings, services and staff would ideally be sensitive to the diverse circumstances families experience.
- ✳ **ECEC services cater to a range of families but may not suit all work schedules or needs.**
  - Barriers to providing subsidised wrap-around care in dedicated preschools should be addressed, to expand the ECEC choices available to working families.
  - The Australian Government should continue to encourage the delivery of flexible services and support occasional care for those experiencing disadvantage or vulnerability.
- ✳ **Aboriginal community-controlled organisations (ACCOs) are well placed to deliver culturally safe ECEC but face funding challenges. A new funding model should be considered through a process of shared decision-making.**
  - The Early Childhood Care and Development Policy Partnership, established under the National Agreement on Closing the Gap, is the most appropriate forum for this process to take place.
- ✳ **Integrated services can make a difference for children and families experiencing disadvantage or vulnerability.**
  - ECEC funding programs could contribute to the establishment of integrated services, where there is a clear community need. ECEC services should also be permitted to access inclusion funding to liaise with other services a child may require or be accessing.

Families may experience a range of barriers accessing early childhood education and care (ECEC) beyond limited availability (discussed in paper 5) and affordability (discussed in paper 6). In a universal, high quality and equitable ECEC system, services would be responsive to families' needs and families would not face undue barriers to access.

Even where ECEC services are available and affordable, families may be unable to use them if the services do not offer sufficient flexibility to accommodate their working hours, or if they are culturally unsafe. Families, particularly those experiencing disadvantage or vulnerability, may also face other practical barriers to access.

Barriers may encompass ECEC-related issues, such as the availability or affordability of services, or they may touch on more complex factors or broader social determinants, such as access to transport, stable housing or home situations. Some families may experience few barriers, while others may experience several that compound. Inquiry participants described a range of factors that may affect the ability of families to access services, beyond availability and affordability. These included:

- practical concerns such as lack of transport, food or clothing (Meli, sub. 139, p. 4; Tasmanian Government Department for Education, Children and Young People, sub. 159, p. 6; The Hive Mt Druitt (United Way Australia), sub. 64, p. 3; ACT Government, sub. 27, p. 6; The Front Project, sub. 143, p. 14)
- difficulty navigating the ECEC system and enrolment processes, poor service coordination, not having the required documentation or experiencing language, literacy or digital literacy barriers (The Hive Mt Druitt (United Way Australia), sub. 64, p. 3; The Smith Family, sub. 108, p. 6; SSI, sub. 16, p. 3)
- the ability of services to provide support for children with additional needs (Australian Childcare Alliance, sub. 150, p. 32; The Smith Family, sub. 108, p. 6)
- flexibility and availability of hours (Australian Childcare Alliance, sub. 150, p. 32)
- cultural responsiveness and safety (SNAICC, sub. 133, p. 17; SSI, sub. 16, p. 3)
- limited awareness of services or knowledge of ECEC, or a lack of trust in services (ACT Government, sub. 27, p. 6; SSI, sub. 16, p. 3; The Smith Family, sub. 108, p. 6).

Addressing some of these factors, such as home situations, is outside the scope of this inquiry, although ideally ECEC policy settings and services would be sensitive to them.

Other barriers to access can be alleviated through ECEC policies. This paper considers such policy responses, including:

- options to address barriers to access for families experiencing disadvantage or vulnerability and support them to navigate the system (section 7.1)
- flexibility, including the availability of non-standard hours ECEC, session lengths and charging practices, the availability of casual ECEC and out of preschool hours ECEC (section 7.2).
- the role of Aboriginal community-controlled organisations (ACCOs) in delivering culturally safe ECEC (section 7.3)
- the role of integrated services in meeting whole-of-child and whole-of-family needs (section 7.4).

## 7.1 Making the ECEC system more accessible for those who face greater barriers to access

Some families are more likely than others to face barriers to access. Data on ECEC participation suggests they include: families with low-incomes or from low socio-economic areas, Aboriginal and Torres Strait Islander families, those from regional or remote areas and those from non-English speaking backgrounds (SCRGSP 2024).<sup>1</sup> This paper does not assume that all families or children in the identified groups are inherently vulnerable or disadvantaged, although some may be in vulnerable situations.

It is difficult to provide an estimate of the number of families from these groups who may be experiencing vulnerability and facing greater barriers to ECEC access. It is likely, however, that these families are among the most likely to benefit from access to ECEC. While quantifying benefits is challenging, targeted and well-designed measures to support their access to ECEC are more likely to yield net community benefits. This section discusses:

- ways to address practical barriers to access (such as transport)
- overcoming system complexity and the potential role of ‘system navigators’
- the role of playgroups.

### Practical barriers can have a significant effect on ECEC access

Inquiry participants noted families may face a range of practical barriers to accessing ECEC. Research undertaken for the South Australian (SA) Royal Commission into ECEC showed that services were offering a range of supports in response to the needs of families; for example, one in five long day care services in South Australia directly offered a foodbank or similar programs (Deloitte Access Economics 2023b, p. 18). Some services may also assist families with items such as shoes, lunch boxes or clothes, or with groceries (Gowrie Australia, sub. 79, p. 5). When services in three low socio-economic status communities used small amounts of funding (accompanied by professional learning) to address the practical issues impeding access, this supported higher ECEC attendance (Harrison et al. 2023, pp. 25–30).

Overcoming such barriers can support ongoing ECEC attendance for children experiencing disadvantage:

we had a case where a child wasn’t attending, so I wanted to understand why. I spoke to mum and she said she didn’t have enough food, so she didn’t send the child. Mum was feeling a lot of shame and embarrassment. So, we reassured her and set up a plan where she would bring an empty lunchbox and the teacher would fill up the lunchbox and no-one else in the room would know. Now they can sit at the table with their friends and have their lunchbox and look the same as everyone else. (Early years practitioner interviewed in The Smith Family 2021, p. 34)

Transport, including limited public transport options, lack of access to private vehicles or a driver’s licence, high travel times and high travel costs, was a common practical barrier mentioned by inquiry participants (for example, The Hive Mt Druitt (United Way Australia), sub. 64, p. 3; The Smith Family, sub. 108, p. 6; Early Childhood Australia, sub. 154, p. 59; Binarri-binyja yarrowoo Aboriginal Corporation, sub. 85, p. 9; The Shop, Distributive and Allied Employees’ Association, sub. 72, p. 20).

These barriers may affect a range of cohorts, but they are most likely to impact families experiencing disadvantage or vulnerability. For example, families on low incomes or where parents are unemployed may

<sup>1</sup> Based on data from the Report on Government Services on children who are under-represented in ECEC. While this data is focused on the characteristics of the child, these are also likely to be shared characteristics of the family. Children with disability are also under-represented among some cohorts.

find it hard to afford the transport costs to access ECEC (Beatson et al. 2022, p. 2938). And inquiry participants noted transport barriers may impact rural and remote, Aboriginal and Torres Strait Islander and culturally and linguistically diverse (CALD) families (ACT Government, sub. 27, p. 6; Early Learning Association Australia, sub. 48, p. 2; SSI, sub. 16, p. 3; Binarri-binyja yarrowoo Aboriginal Corporation, sub. 85, p. 9; Regional Development Australia Loddon Mallee, sub. 15, attachment 1, p. 20). While these cohorts should not be assumed to be inherently disadvantaged or vulnerable, they are among those more likely to experience disadvantage or vulnerability.

While it is not a mandatory requirement, some services support families with transport. In a 2019 survey, 6.9% of surveyed Child Care Subsidy (CCS) services offered transport assistance to low income and vulnerable families (Bray et al. 2021, p. 218). Of this group, the rate was significantly higher for former Budget Based Funded services (36.4%) (Bray et al. 2021, p. 218). Government programs may also provide transport assistance or funding to services to assist families (box 7.1). One inquiry participant noted that some ECEC services also assist families with taxi vouchers or bus fares without dedicated funding (Gowrie SA, sub. 25, p. 16).

Although responsibility for addressing the above barriers should primarily rest with broader social policy initiatives, ECEC programs may also be able to assist where these barriers cannot be addressed through other government services or programs.

### **Box 7.1 – Examples of programs that support or provide transport assistance to enable greater ECEC access**

#### **Community Child Care Fund (CCCF)**

The CCCF provides a range of grants to CCS services, including to support services in disadvantaged and vulnerable communities to increase the number of children in early childhood education and care (ECEC). Under the CCCF Open Competitive (disadvantaged and vulnerable communities) grant, one of the permitted purposes includes providing transport assistance to facilitate attendance by isolated families (DoE 2024a, p. 10). Grants were also available under the CCCF Limited Supply grant for newly established ECEC services in identified priority areas to provide transport assistance (DoE 2023a).

#### **Victorian Government School Readiness Funding**

The Victorian Government provides School Readiness Funding to ECEC services delivering three- and four-year old preschool, with the amount of funding varying depending on the profile of the children enrolled. Part of this funding can be allocated for a transport program aimed at improving preschool attendance for children with transport access issues (Victorian Department of Education 2023; 2023b).

#### **Tasmanian Working Together program**

This program provides 20 hours of free early learning per week for eligible children in the year before preschool. It also provides support to families, including transport assistance for their child to attend (Tasmanian Department for Education, Children and Young People 2023).



## Addressing barriers to access through a new approach to inclusion funding

The Australian Government Community Child Care Fund (CCCF) provides grants to CCS-approved services, including to address community-level barriers to ECEC participation, such as for:

- working with local organisations
- building relationships with families experiencing vulnerability or disadvantage who are not using ECEC
- providing transport assistance
- developing and implementing a community stakeholder engagement plan (DoE 2024a, p. 10).<sup>2</sup>

As of time of writing, the last completed grant round for established services was in 2021 (DoE 2021), with \$20.7 million awarded to 180 services to address community-level barriers (DoE, pers. comm., 20 May 2024). Another round was conducted in the first half of 2024. To be eligible, services needed to be located in or servicing families in identified priority areas, regional, remote or very remote areas, providing specialised services to a vulnerable or disadvantaged sector of the community (such as an Aboriginal or Torres Strait Islander-specific service, or a service targeting children with additional needs), or have been receiving funding under the first or third round as at time of the application (DoE 2024a, p. 8).

Goodstart Early Learning considered that the CCCF is too piecemeal and too small in terms of funding quantum and areas targeted to address barriers to access (sub. 277, p. 65). It noted CCCF funding is insufficient to cover costs of addressing practical barriers and is insufficiently flexible. Inquiry participants also raised concerns about the CCCF more broadly, including views that the fund:

- has inadequately frequent and time-limited rounds (Australian Childcare Alliance, sub. 255, p. 115; Outside School Hours Council of Australia, sub. 232, p. 19; Goodstart Early Learning, sub. 277, p. 65; KU Children's Services, sub. 303, p. 13)
- is administratively burdensome and confusing to engage with (Australian Childcare Alliance, sub. 255, pp. 115–116)
- does not target enough areas (Goodstart Early Learning, sub. 277, p. 65, KU Children's Services, sub. 303, p. 13) or provide adequate funding (Goodstart Early Learning, sub. 277, p. 65; KU Children's Services, sub. 303, p. 13; Outside School Hours Council of Australia, sub. 232 p. 19)
- is restricted to CCS services (KU Children's Services, sub. 303, p. 13) and is not available for for-profit providers (Australian Childcare Alliance, sub. 255, p. 115). While the guidelines preference not-profit providers, they do not exclude for-profits.

Considering this feedback and broader recommended reforms to inclusion support, the Commission is of the view that funding should be available under the recommended ECEC Inclusion Fund (recommendation 2.3) to address practical barriers to access. Under the Commission's proposal, the Inclusion Fund would provide services funding based on the characteristics of children enrolled (including but not limited to children with disability), their families and the service they attend. Services would then be able to spend this funding flexibly on a list of prescribed activities or supports and would be required to acquit this funding.

As a principle, this would mean all current CCCF funding to address community-level barriers would be transferred into the Inclusion Fund. This would improve the responsiveness of funding and services to family needs as services would not need to wait for a grant round to access funding. It would also remove the need for services to navigate two separate funding streams to address 'inclusion' and 'community-level barriers'. And it would allow the ECEC Development Fund (which should replace the CCCF (recommendation 5.2) to focus on supporting service provision in thin markets.

<sup>2</sup> In the first three grant rounds, activities to address community-level barriers were included in their own separate stream. In the most recent fourth round, these activities were included in the sustainability support stream.

The CCCF is not specific about the types of activities eligible for funding, with the guidelines only providing examples of activities to address community-level barriers that could be funded (such as providing transport assistance). The Australian Government Department of Education would need to examine the activities currently funded to address community-level barriers to determine whether they would all be suitable for incorporation under a new Inclusion Fund.



### **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.

## **The ECEC system can be complex for families to navigate**

The ECEC system can be confusing and hard for families to navigate, with multiple funding sources, programs and governments involved. Inquiry participants raised the difficulties families experience in navigating this system (Early Learning Association Australia, sub. 48, pp. 6, 8; KU Children's Services, sub. 83, p. 4; Waverley Council, sub. 132, p. 10; Community Early Learning Australia, sub. 92, p. 8). As noted in paper 6, families can find the CCS system hard to understand, particularly in relation to their subsidy entitlement, out-of-pocket expenses and engaging with Centrelink. Others may find navigating and selecting a service for preschool confusing (The Smith Family 2021, p. 22) and some families may not be aware of ECEC and its benefits (Early Learning Association Australia, sub. 48, p. 8; The Hive Mt Druitt (United Way Australia), sub. 64, p. 4; SSI, sub. 16, p. 3).

For some families, this complexity is compounded by other factors, such as low English proficiency, lack of digital access or digital literacy, lack of access to government offices, fear or mistrust in governments, or other circumstances (One Tree Community Services, sub. 121, p. 12; SSI, sub. 16, p. 3; Australian Childcare Alliance, sub. 150, p. 65; Early Childhood Australia, sub. 302, p. 38; The Hive Mt Druitt (United Way Australia), sub. 64, p. 3, SSI, sub. 16, p. 3). The 2021 Australian Institute of Family Studies evaluation of the Child Care Package (AIFS evaluation) heard feedback from services that for some families, particularly those where English was not their first language, the terminology used by Centrelink was at times 'confusing' (Bray et al. 2021, pp. 54–55). The Smith Family noted:

enrolment and subsidy application processes assume a level of agency, literacy and mobility which some families struggle to navigate without support. Families often do not understand their out-of-pocket expenses for [early childhood education] which impacts their ability to make an informed choice. (sub. 108, p. 6)

## **System navigators could help families engage with the ECEC system**

Simplifying the CCS and making information more accessible to families will go some way towards addressing these issues (paper 6). But given the need to maintain integrity and accountability in public

funding, a degree of complexity is likely to remain in the system. As a result, more targeted approaches may be necessary to support families that find the system particularly challenging to navigate and who would otherwise be unlikely to engage with ECEC.

One solution could involve a ‘system navigator’ role that could provide support to eligible families to understand the system, fees, forms and other enrolment processes and address barriers to access. There are already examples of these types of roles in the ECEC sector, with some receiving government funding (box 7.2).

### **Box 7.2 – Examples of system navigator roles in ECEC**

- The Victorian Government provides funding for councils to create centralised preschool enrolment points and funds 22 councils to employ a Culturally and Linguistically Diverse (CALD) outreach worker to address barriers to preschool access for CALD families (Victorian Government 2023a, 2023c).
- Goodstart Early Learning partners with the Victorian Government to deliver outreach and support to families to address barriers to accessing the Additional Child Care Subsidy (Child Wellbeing), including providing a Family and Community Engagement Worker who facilitates the administrative process and develops an orientation plan for the child and family (sub. 125, pp. 67–68).
- The Institute for Urban Indigenous Health (IUIH) runs a Deadly Kindies Program, funded by the Queensland Government, which encourages families to complete a health check at a IUIH clinic and enrol in kindergarten (Institute for Urban Indigenous Health nd, nd). IUIH and/or clinic staff can follow up with families to support kindergarten enrolment (Institute for Urban Indigenous Health nd).
- The Hive Mt Druitt Early Learning Linker initiative supports families to seek information about early education or preschool options (The Hive Mt Druitt 2021). It assists families in navigating the CCS process such as enrolment paperwork or accessing their child’s birth certificate. For families who cannot afford the early childhood education and care bonds, the initiative assists with paying brokerage for bonds or arrears.
- Gowrie Australia notes some services may provide additional support to families to help them navigate enrolments and Services Australia processes, and may provide translation services (sub. 79, p. 5).
- One Tree Community Services receives funding from the Community Child Care Fund for some of its services, which have a Community Liaison Officer to support families in remote communities where there is no Centrelink office (sub. 121, attachment 2, p. 33).

There are also examples of ‘navigators’ conducting outreach with families who may not be aware of, or are otherwise unlikely to engage with, ECEC. For instance, the Municipal Association of Victoria noted that following an expansion of the Victorian CALD Outreach Worker program in 2021, enrolments in targeted preschool and early learning programs provided for priority cohorts increased from 399 to 947 in 2022 (sub. 117, p. 13). Policy makers and service providers with expertise in delivering services to families experiencing disadvantage considered that outreach and brokerage were essential activities to bring ECEC to families experiencing isolation or exclusion (Skattebol, Adamson and Blaxland 2023, p. 7).

In its draft report, the Commission sought information from inquiry participants on whether existing supports are sufficient, or whether investment in a ‘system navigator’ initiative may be required. Inquiry participants generally supported a system navigator role (for example, The Salvation Army, sub. 201, p. 11, Early Learning and Care Council of Australia, sub. 299, p. 48). But participants expressed caution about the need for further evidence on the efficacy of navigators and the skills and training required for people in these roles

(Early Childhood Australia, sub. 302, p. 40; Australian Research Alliance for Children and Youth, sub. 268, p. 6; Restacking the Odds, sub. 291, pp. 14–15; SSI, sub. 196, pp. 5–6). They also noted potential interactions with the National Disability Insurance Scheme (NDIS) review’s proposed system navigator and the need for these roles to work together (The Benevolent Society sub. 280, p. 7; Brotherhood of St Laurence sub. 289, p. 4, Restacking the Odds, sub. 291, pp. 14–15).

It is difficult to establish what such an initiative would cost and whether it would be cost effective. Uniting NSW.ACT (2024, p. 5) estimated that replicating its Links to Early Learning program (box 7.3) would cost \$7,000 per child placed in an ECEC service. A trial could help build a better understanding of costs and efficacy.

### **Box 7.3 – Uniting Links to Early Learning Program**

The Links to Early Learning Program run by Uniting NSW.ACT aims to reduce barriers to ECEC participation and increase school readiness. The program was evaluated in 2021, with the following discussion drawing upon details available in the evaluation report.

The program is targeted to children who would not otherwise access ECEC, prioritising those experiencing multiple risk factors. Under the program, an early childhood professional (Early Learning Linker) works with families referred to the program. They build relationships with families and then try to assist them to navigate the ECEC sector and address any barriers to accessing and maintaining participation in ECEC. Early Learning Linkers hold an ECEC tertiary qualification and have knowledge and experience in working with early learning services, allied health professionals, family support services and other community services.

The program team also helps build the capacity of ECEC staff to understand and meet the needs of children and families experiencing vulnerability. Linkers also have access to brokerage funding to assist families with issues such as ECEC bonds, paediatrician appointments, treatment of nits, and purchasing clothes and groceries.

At the time of the evaluation, the program team included a Links to Early Learning Coordinator (1 full-time equivalent) and Early Learning Linkers (3.2 full-time equivalents).

Over the three years to the evaluation, 238 families had engaged with the program, with 142 of these going on to enrol in ECEC. This represents around six in ten families overall, but when considering the last year of the program in isolation this figure the evaluation expected this figure to be around eight in ten families.

Source: dandolopartners (2021, p. 1,2,7,10,18).

### **A trial could help build the evidence base on what works**

The Commission considers that provision of a system navigator may be warranted for families who experience complex barriers to navigating and accessing the ECEC system. While the need to simplify arrangements for families more broadly would remain (paper 6), even with simplification, families experiencing complex barriers may still find the system hard to navigate or engage with.

To help build the evidence base, a navigator role could be trialled in select communities. This would provide an opportunity to better understand the efficacy of system navigator roles, their financial cost as well as required skills, training and other implementation requirements. It would also provide the opportunity for robust evaluation prior to considering further investment or expansion.

Inquiry participants had a range of views on who should deliver such an initiative, with suggestions including local community organisations, not-for-profit organisations, local governments, ECEC services, ACCOs, integrated services, inclusion support agencies and other government, community or social services (The Salvation Army Australia, sub. 201, p. 11; Brotherhood of St Laurence, sub. 289, p. 1; SNAICC, sub. 290, p. 35; Restacking the Odds, sub. 291, p. 14; Goodstart Early Learning, sub. 277, p. 72; The Hive Mt Druitt (United Way Australia), sub. 234, p. 3; Early Childhood Australia, sub. 302, p. 41). SNAICC submitted that ACCOs are best placed to perform this function for Aboriginal and Torres Strait Islander families, noting ACCOs currently perform this role but are not funded to do so (sub. 290, p. 35). Similarly, the National Child and Family Hubs Network considered system navigation a core function of integrated services (sub. 220, p. 6).

A navigator would need to have a broad understanding of the ECEC system, but to avoid conflicts of interest, navigators should not be ECEC services.

Instead, a navigator role could be embedded in Inclusion Agencies as part of the Inclusion Support Program (ISP). The Commission acknowledges concerns that delivery through ISP would be inappropriate given the program's focus on children with disability (SSI, sub. 196, p. 6). However, in the Commission's view, there is an opportunity for the program to achieve broader inclusion goals. Incorporating a navigator role into ISP would also not preclude other services, such as integrated services or ACCOs, from helping families to navigate and access ECEC. ACCOs are discussed separately in section 7.3.

As the families most likely to require a navigator would also likely be connected to other support services (such as family support or child protection), the navigator could operate in the first instance by receiving referrals from other services. But the need for outreach could be examined as part of implementation of the trial and adjusted as needed.

The navigator should also have access to a small pool of funding to address practical barriers to access that families may face. This funding should not provide ongoing assistance or address matters that should be the responsibility of other programs. But it could be used to provide support where other programs are unable or to address small, practical barriers, such as assisting with ECEC bonds, clothing, lunchboxes or other issues as necessary. Such items may make a substantial difference to the ability of a family to send their children to ECEC. For example, the Institute of Urban Indigenous Health's Deadly Kindies program, which was set up to encourage preschool attendance among Aboriginal and Torres Strait Islander children, provides families with a 'Deadly Kindies Kit', which includes a hat, backpack, lunch box, cot sheet and other items necessary for preschool attendance (Deadly Kindies 2022).

The navigator should be trialled alongside immediate changes to ISP (recommendation 2.2). This would ensure evaluation findings are available to inform decisions on whether further investment or expansion would be warranted as part of a future ECEC Inclusion Fund (recommendation 2.3).

Should the NDIS review's proposed system navigator for disability support be adopted, guidelines would also be needed to outline the interactions between the two roles. Under the Commission's proposal, an ECEC navigator would work primarily with families experiencing significant barriers to navigating the ECEC system. It would not preclude the disability support navigator from assisting families to navigate ECEC but could accept referrals where those families experienced significant barriers to access and required additional assistance.



### **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).

## **Playgroups can be more accessible than other ECEC services for some families**

While outside of the formal ECEC system, playgroups also have a role in supporting families and children in their early years. Unlike formal ECEC services, family members participate in playgroups alongside their child.

Playgroups can be delivered in different models. They can operate informally with families or community members (community playgroups) or be run by a trained facilitator for certain cohorts of families (supported playgroups) (Commerford and Robinson 2016, p. 3). Some playgroups may be offered as part of an ECEC or an integrated service. Some local governments also provide playgroups (Municipal Association of Victoria, sub. 117, p. 7).

Playgroup funding is provided by a range of sources, including the Australian, state, territory and local governments (for example, DSS 2023; Playgroup Victoria 2023; Victorian Department of Families, Fairness and Housing 2023).

## **Playgroups are a valuable part of the early years system**

While there is no national data collection on playgroups, an analysis of 2021 Australian Early Development Census (AEDC) data suggests around one in three children attended playgroup before they started school (Lam, Terauds and Brinkman 2023, p. 21).<sup>3</sup>

Playgroup Australia submitted that playgroups provide 'a triple benefit: play-based learning and development for children; social support for parents and carers; and connections that build communities' (sub. 160, p. 2). More broadly, inquiry participants underlined the role and importance of playgroups in a range of settings (box 7.4). In 2015 AEDC data, playgroup attendance was positively associated with development at school entry for children from a range of backgrounds, after adjusting for confounding factors (Sincovich et al. 2020). Analysis using 2021 AEDC data produced a similar result (Lam, Terauds and Brinkman 2023, p. 28).

<sup>3</sup> Around 65% of teachers completing the census said they did not know if the child attended playgroup (Lam, Terauds and Brinkman 2023, pp. 13–15). These responses have been excluded for the purposes of the calculation.

#### **Box 7.4 – Inquiry participants’ views on the benefits of playgroups**

Inquiry participants have noted that playgroups:

- provide a relaxed and friendly environment (Pathways in Place research program, sub. 130, p. 55)
- provide opportunities for children to play with their peers and support early childhood development (Pathways in Place research program, sub. 130, p. 55; Academy of the Social Sciences in Australia, sub. 116, p. 7; Playgroup Australia, sub. 160, p. 7)
- provide opportunities for parents to strengthen social and community connections, build skills and gain knowledge and information on their child’s development (Pathways in Place research program, sub. 130, p. 55; Catholic Education South Australia, sub. 13, p. 2)
- provide valuable community engagement and safe pathways for referral for migrant and refugee families (KU Children’s Services, sub. 83, p. 9)
- can be ‘non-stigmatising’ soft-entry points to ECEC for culturally and linguistically diverse families (SSI, sub. 16, p. 4)
- play an important role for families in rural and regional locations, with several participants highlighting the role of mobile playgroups (Isolated Children’s Parents Association Australia, sub. 58, p. 8; Regional Education Commissioner, sub. 102, p. 1; Royal Far West, sub. 41, p. 6).

Supported (or targeted) playgroups are run by a trained facilitator and generally cater to families with diverse needs or vulnerabilities. They may be specific to young parents, parents or children with a disability, those who are socially isolated, experiencing mental ill-health, or from a CALD or Aboriginal or Torres Strait Islander background (Commerford and Robinson 2016, p. 3). While providing social support, supported playgroups can also link families to formal supports when needed (Commerford and Robinson 2016, p. 14), such as ECEC, health, family, and other services.

Some playgroups may be run specifically for CALD or Aboriginal and Torres Strait Islander families (box 7.5). Inquiry participants noted the importance of playgroups for CALD families and described how they could provide ‘soft entry’ points to ECEC (SSI, sub. 16, p. 4). And some playgroups have had success in engaging with CALD families – for example, for approximately 90% of families accessing early years services as part of the National Community Hubs Program (an integrated service for CALD families), a playgroup provided through the hub was the first early years program they had engaged with in Australia (Deloitte Access Economics 2021, p. iv).

### **Box 7.5 – Examples of playgroups for culturally and linguistically diverse and Aboriginal and Torres Strait Islander families**

#### **National Community Hubs Program**

Established in 2013, the National Community Hubs Program uses a place-based, person-centred approach to support culturally and linguistically diverse families to connect with their community, schools, health, education and settlement services. There are around 100 hubs co-located in primary schools across four states. As part of their service offering, community hubs run playgroups for children and families.

#### **Gumala Aboriginal Corporation, 3a playgroup**

Gumala is a community-controlled organisation. It delivers playgroups in six sites across the Pilbara in Western Australia, for local Aboriginal and Torres Strait Islander children aged 0–5 years and their families.

Where possible, playgroups are run five days a week, with culturally and age-appropriate content that prioritises local languages. They make long-lasting relationships with families, with a key aspect of success being the local staffing. Gumala can also assist families by providing referrals and visits from multidisciplinary teams (such as child health nurses or medical officers) who may attend the playgroups when required.

The playgroups also offer parents and caregivers opportunities to become learning assistants. Once confident, they can progress to becoming a playgroup facilitator.

Source: Deloitte Access Economics (2021, p. ii); Community Hubs (2022, pp. 3, 8, 12); SNAICC (2022a).

Similarly, in a report on a supported playgroup run by the Victorian Aboriginal Child Care Agency (VACCA), SNAICC (2022c, p. 3) noted that:

in recognising that Aboriginal and Torres Strait Islander people are best placed to determine what works for their families, these playgroups become valuable places for children and their parent/carers to gather with other Aboriginal and Torres Strait Islander families, build social connections, access formal and informal supports, discover their heritage, and learn about their culture. In turn, the playgroups work towards VACCA's core purpose of supporting culturally strong, safe and thriving Aboriginal and Torres Strait Islander communities and realising Aboriginal and Torres Strait Islander peoples' right to self-determination.

SNAICC (2022c, p. 8) also described how VACCA facilitators could help connect families with mainstream preschools.

Inquiry participants supported the important role played by playgroups across the community. The Centre for Research in Early Childhood Education noted playgroups can be an entry-point into ECEC (sub. 22, p. 8), while Playgroup Australia highlighted playgroup's 'significant role in early childhood development, parent wellbeing, and the fostering of healthy parent/child relationships' (sub. 223, p. 1).



## 7.2 Flexibility is important to many families

For families, ECEC plays a key role in enabling labour force participation (paper 4). For this to be effective, families require ECEC that is available during their working hours and is compatible with their work arrangements.

For many families, particularly those with non-standard work arrangements, the ability to access flexible ECEC services is important for enabling this participation. This may include access to services that are able to accommodate non-standard hours, shorter sessions or access on a casual or occasional basis. And some families experiencing vulnerability may require access to flexible ECEC to enable other activities, such as attending appointments or interviews (The Salvation Army, sub. 56, p. 10; Bridge Darebin, sub. 3, p. 1).

Other families, including those working standard hours, may face challenges managing preschool hours, which do not align with a standard-work week.

This section considers:

- the flexibility of CCS services, particularly for families with non-standard work arrangements
- the structure of preschool hours and the challenges this may create for families requiring additional hours of ECEC.

### Do CCS services provide adequate flexibility?

Flexibility is an important consideration for families, particularly as many have non-standard work arrangements (figure 7.1).

In a 2023 survey of New South Wales parents, finding providers who had suitable operating hours and/or could accommodate flexibility in required days was the third largest barrier to using ECEC (NSW PC 2023, p. 20). Similarly, in a separate 2023 survey, 17% of parents not using 'paid education and care' said this was due to options not being flexible enough or not fitting the days or hours needed (The Front Project 2023, pp. 21, 23).<sup>4</sup> And in a 2021 survey, 80% of parents agreed there need to be more affordable and flexible options for families working 'unusual hours' (The Front Project 2021, pp. 47, 48).<sup>5</sup>

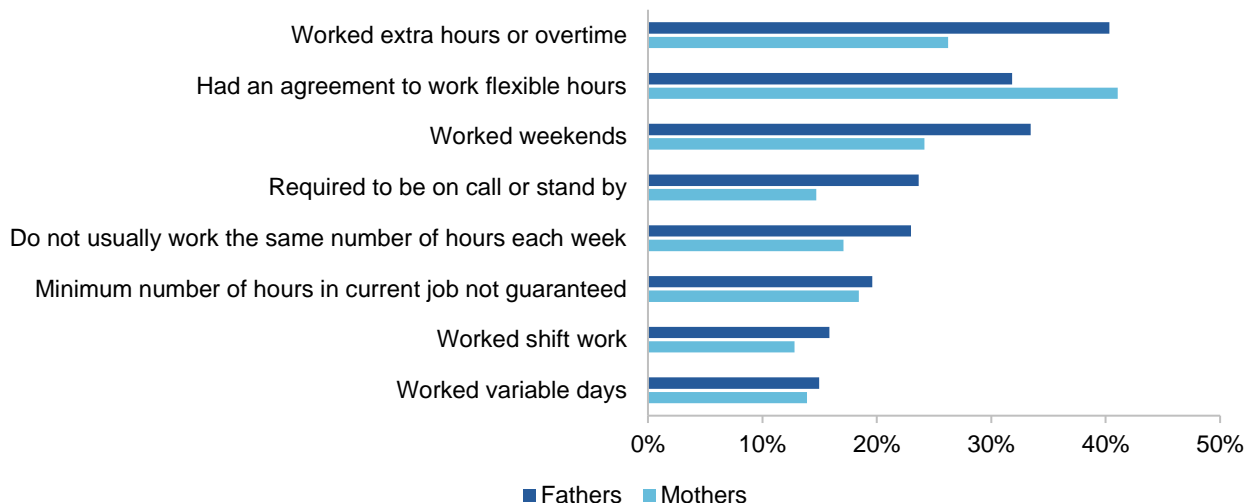
Some of these findings (for example, those relating to access to required days or hours) may also reflect broader availability issues (paper 5), although it is challenging to determine the extent. For example, parents may regard the system as relatively inflexible if they are unable to access their preferred days, even if they are within 'standard hours'. The AIFS evaluation noted it was common for parents to answer questions about flexibility in terms of access (such as vacancies or lack of services) or affordability, suggesting these concepts are linked for many families (Bray et al. 2021, p. 147).

<sup>4</sup> Among parents of children aged 0–5 years not yet at school. 'Paid education and care' includes home-based care, such as nannies or au pairs. Parents were able to nominate multiple reasons.

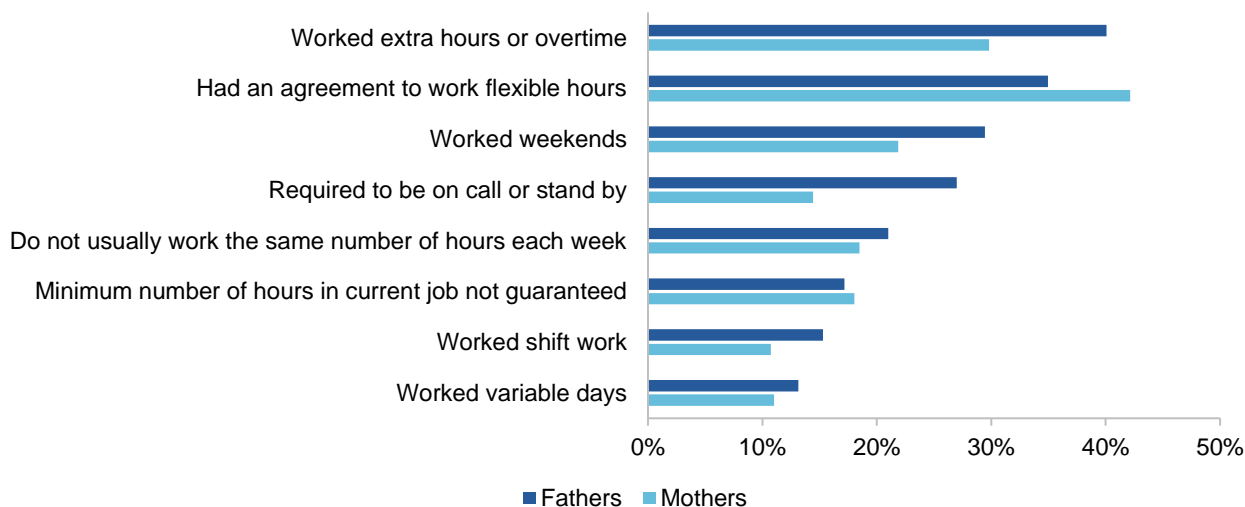
<sup>5</sup> Among parents of children aged 0–5 years not yet at school. Includes parents who strongly agreed or *somewhat* agreed with the statement.

**Figure 7.1 – Non-standard work arrangements are relatively common<sup>a,b,c</sup>**  
**Select usual work arrangements of employed parents by age of youngest child, August 2022 and August 2023**

**Child aged 0–5 years**



**Child aged 6–12 years**



**a.** Data is collected over alternating years. Data on proportion of people who do not usually work the same number of hours each week and who do not have a guaranteed number of minimum hours is from 2022. All other data is at 2023.  
**b.** Data on ‘worked variable days’, ‘worked weekends’ and ‘worked extra hours or overtime’ is for all respondents’ jobs. The other variables are only for respondents’ main job **c.** Excludes contributing family workers in their main job. **d.** The proportion of parents who do not have a minimum number of hours guaranteed in their main job excludes owner managers of unincorporated enterprises for whom this question is not asked. Owner managers of unincorporated enterprises are included for all other variables. **e.** Does not capture parents whose child resides in another household.  
 Source: Productivity Commission estimates based on ABS (August 2022; August 2023), *Characteristics of Employment, Australia*, TableBuilder, accessed 9 June 2024.

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The AIFS evaluation found mixed levels of parental satisfaction with the flexibility of services (Bray et al. 2021, pp. 151–152). In one set of surveys conducted in 2018 and 2019, about 20–30% of parents who answered questions about how ECEC could be improved nominated issues related to flexibility. The three most common areas were:

- flexible session lengths, including only paying for hours of ECEC used, and charging per hour or half-days
- service operating hours, with being able to drop off and pick up children earlier and later than currently available being most frequently cited
- ability to book days on a casual basis or swap days, which was most commonly mentioned by parents working rotating rosters or casually. (Bray et al. 2021, p. 147).

Similar views were also captured in a 2023 survey of parents where:

- 83% agreed there should be more casual care options for people who work casually or flexibly
- 73% agreed people should have the ability to pay services based on the hours they use rather than on a daily basis
- 63% agreed services should operate on weekends and outside of office hours for people who work shift or casual jobs (The Front Project 2023, p. 61).<sup>6</sup>

These findings generally align with the views of inquiry participants (box 7.6), with concerns largely focussed on the challenges experienced by families with non-standard work arrangements. But while non-standard work arrangements are relatively common (figure 7.1), it is hard to assess how many of these families will require flexible ECEC services to facilitate their labour force participation. Survey responses only reflect stated preference – they do not guarantee flexible services will be taken up if provided. For those that considered flexibility could be improved, it is unclear if these reflect general views or a direct experience of a lack of flexibility impacting their use of ECEC or workforce participation.

Some families will manage non-standard work arrangements through the family unit, or through accessing informal care arrangements. Others may use non-standard work arrangements to help them manage their caring responsibilities. In June 2017, 64% of surveyed families reported either parent used flexible work arrangements (such as flexible working hours, shift work, working at home, part-time work, job sharing or other arrangements) to care for their children aged 0–11 years (ABS 2018). As highlighted in the evaluation of the 2013-14 Child Care Flexibility Trials, it should not be assumed that formal ECEC is sought by all parents working non-standard or irregular hours (Baxter and Hand 2016, p. 6).

Nonetheless, there is likely a cohort of families for whom the current structure of ECEC hours does not work. This section considers the availability of non-standard hours ECEC, session lengths and charging practices and access to ECEC on a casual basis.

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Among parents of children aged 0–5 years not yet at school. Includes parents who strongly agreed or somewhat agreed with the statement.

### **Box 7.6 – Inquiry participants' views on flexibility**

One participant reflected on the challenges faced by shift workers:

it's extremely difficult for shift workers to continue their career with the currently available childcare scheme. Most centres are only open from 6:30-7am to 6-6:30pm. This makes it near impossible to return to work with young children, as often shifts will start at 7am or earlier (be 12 or more hours in length, due to urgent patient care requirements) and may end at 8pm to 11:30pm or be overnight. (Brief comment 26)

The Salvation Army submitted:

a lack of flexibility complicates access to ECEC for families due to a lack of appropriate service availability. For example, many parents and carers work outside of standard ECEC hours. This includes shift workers, and parents working casually and requiring ad hoc care arrangements. Further ECEC is often required on an ad hoc basis to allow parents and carers to attend appointments such as interviews and housing inspections. (sub. 56, p. 10)

The Shop, Distributive and Allied Employees' Association submitted findings from research into their members' experiences of managing their work and care responsibilities. Findings included that:

- many families pay for formal childcare that they do not use ... Families sometimes book more care than they need because their child care service requires regular bookings, but their employers do not offer regular hours. ... When their roster becomes available, they may discover they only need two or three of those days, but still need to pay for the days their child doesn't attend. Other times, families pay for childcare that their child doesn't use because the service will not accept a sick child, or because the parent's roster has changed with short notice, and they do not require the care (sub. 72, p. 7)
- the most commonly mentioned challenge was the need to pay for a full day of long day care, even if a child attends for short hours ... Child care becomes unaffordable for SDA members as a result. (sub. 72, p. 8)

Australian Council of State Schools Organisations stated:

due to the demands of our working lives, many of us require overnight or weekend childcare options. However, unfortunately, most childcare centres operate only during regular business hours and have yet to adapt to these changes (sub. 115, p. 4).

Dr Carina Garland MP detailed feedback from the Chisholm electorate indicating that:

early childhood education and care was not flexible for all families. Shift workers, part time workers and casual workers expressed challenges finding care for their children that fit their work schedule ... Additionally, families expressed a desire for flexibility for absent days, holidays and suspending care ... (sub. 263, p. 4)

Glenelg Shire Council noted that:

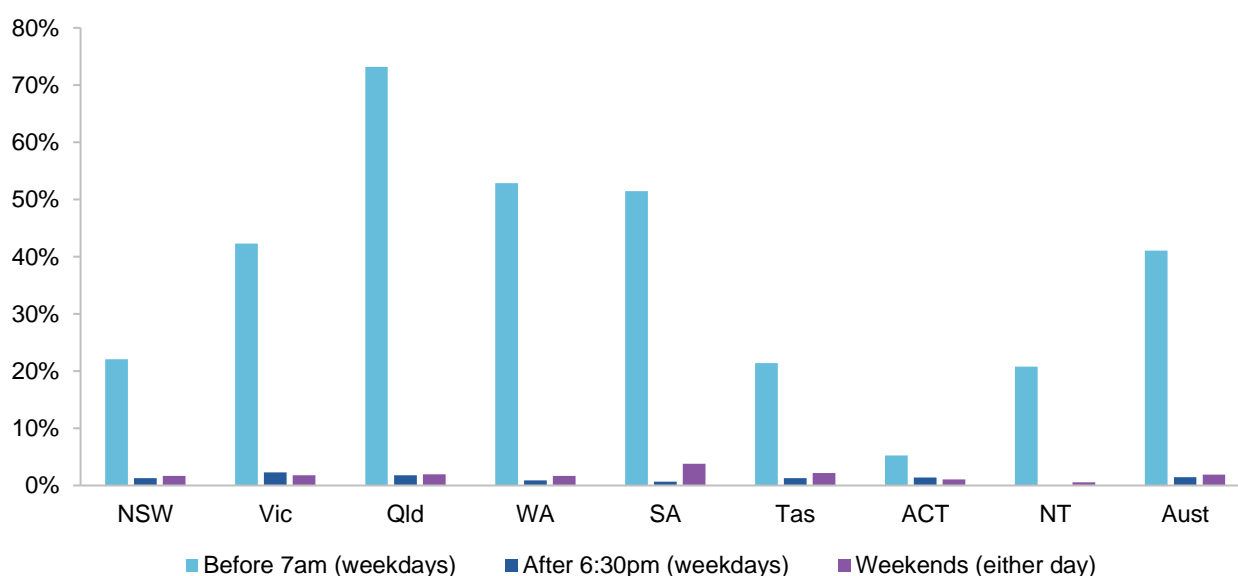
The need for ECEC services to be flexible and responsive is particularly pronounced in the more remote areas within our Shire, where families may be required to travel long commutes for work, may work in neighbouring states, may work in jobs that are seasonal (farming) or be employed in a workplace with varying shift patterns. (sub. 242, p. 2)

## Service operating hours may not suit all families

Overall, the operating hours of CCS-approved services are likely to suit most families. But families working non-standard hours (such as evenings or weekends) may find it harder to access a service that offers ECEC in the hours they need.

While around 41% of services are available before 7am on weekdays, the proportion of services open after 6.30pm on a weekday or on the weekend is very small (figure 7.2).

**Figure 7.2 – Early opening hours is the most common non-standard hours service provided<sup>a</sup>**  
**Proportion of CCS-approved services available during non-standard hours, March quarter 2023**

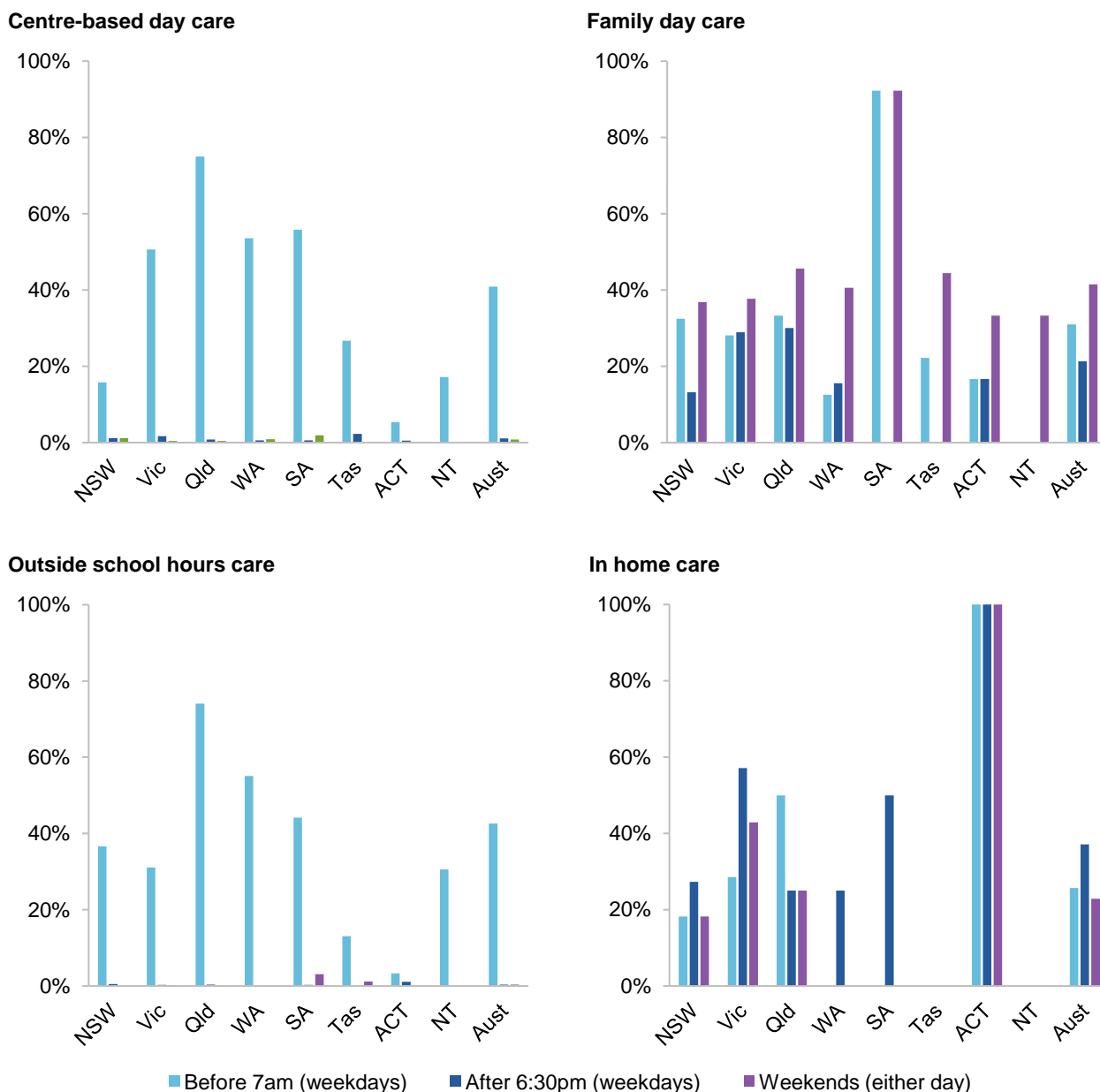


a. The opening hours of some services were unknown for the March 2023 quarter. Proportions are calculated as a percentage of the total services where opening hours were known.

Source: SCRGSP (2024).

This varies by service type, with family day care (FDC) and in home care (IHC) services typically offering more flexible operating hours (figure 7.3). But numbers of FDC services have declined in recent years (paper 5).

**Figure 7.3 – Non-standard hours service offerings vary by service type<sup>a</sup>**  
**Proportion of CCS-approved services available during non-standard hours, by service type, March quarter 2023**



a. The opening hours of some services were unknown for the March 2023 quarter. Proportions are calculated as a percentage of the total services where opening hours were known.

Source: SCRGSP (2024).

### There is a range of barriers to non-standard hours ECEC

Previous trials of non-standard hours ECEC provision have fared poorly. The Child Care Flexibility Trials conducted in 2013 and 2014 tested different models of flexible ECEC delivery, including non-standard hours ECEC. This included extended operating hours in long day care and outside school hours care (OSHC) settings, weekend and evening ECEC in a school-age setting, and FDC available 24/7 and changeable at short notice (Baxter and Hand 2016, pp. 1–3). Take up of the first two options was low – except for services

that provided extended hours at no additional cost to families or without the need to book. In FDC there were challenges matching families with educators willing to provide a flexible service.

The cost of ECEC can be prohibitive for parents who work over weekends or at night (Council of Single Mothers and their Children, sub. 100, p. 3). For eligible families, IHC offers an alternative option. But one IHC provider noted they typically charged higher fees for non-standard hours and that families found the out-of-pocket expense too high (Australia's Leading Home Care Agency, sub. 167, pp. 2–4).

ECEC services highlighted a variety of barriers to providing non-standard hours ECEC, including lack of staff, regulatory requirements and the prohibitive cost of providing these services (box 7.7). These views align with the AIFS evaluation, which noted the costs services incur from extended operating hours, including the need to pay penalty rates and potentially offer staff other incentives to work non-standard hours (Bray et al. 2021, p. 173). These additional costs are not currently reflected in the CCS hourly rate cap.

In addition, some providers participating in the evaluation survey reported regulation and licensing issues, such as restrictions on service hours of operation (Bray et al. 2021, p. 152).

While the Commission has not undertaken a comprehensive stocktake of planning requirements, it notes findings from the NSW Productivity Commission that planning regulations may restrict service opening hours in New South Wales (NSW PC 2023, pp. 22, 42). For example, NSW planning guidelines suggest the hours of operation of ECEC services should be confined to 7am to 7pm on weekdays for centres in predominantly residential areas and some local NSW councils further restrict operating hours (NSW PC 2023, p. 42).

### **Box 7.7 – Service providers' views on barriers to extended opening hours**

One Tree Community Services submitted:

the cost of delivering non-standard hours of care or flexible care is prohibitive. This is primarily related to the salary costs and NQF requirements. Our experience is families are not prepared to pay the higher fees. It is also extremely difficult (if not impossible) to staff these arrangements. (sub. 121, p. 15)

The Australian Childcare Alliance stated:

there are often calls for more flexible care models, this requires ECEC staff to work outside of regular hours, with different work conditions and agreements in place. Without funding mechanisms to support these extended hours of care in addition to the 6am to 6pm [long day care] model, and the critical workforce issues – this often seems out of reach. (sub. 150, p. 39)

Gowrie SA noted:

[ECEC in non-standard hours] tends to remain unviable given the staffing costs and limited use by paying families. (sub. 25, p. 15)



### 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.

### The case for a non-standard hours rate cap should be explored further

Given the additional costs of provision, the Commission's draft report recommended raising the hourly rate cap for ECEC provided during non-standard hours (draft recommendation 7.3). While several inquiry participants supported the idea, some suggested changes to the rate cap were not a priority or should not be made due to experiences of low demand (Early Learning and Care Council of Australia, sub. 299, p. 16; Guardian Childcare and Education, sub. 254, p. 8). Some considered that FDC or IHC would be better alternatives to provide non-standard hours ECEC (Goodstart Early Learning, sub. 277, p. 45; Australia's Leading Homecare Agency, sub. 179, p. 2). Two participants expressed concerns about children's wellbeing when accessing ECEC during non-standard hours in centre-based or FDC services (Australia's Leading Homecare Agency, sub. 179, p. 2; Allanson, sub. 180, p. 1). And the United Workers Union raised concerns about the impact of providing non-standard hours ECEC on the attraction and retention of educators and teachers, particularly those with family commitments (sub. 222, p. 12).

In the absence of sufficiently clear data about the level of demand for non-standard hours ECEC and the costs of providing this service, the Commission considers further analysis is required to evaluate the costs and benefits of any change. In principle, policy settings should support the provision of flexible services that respond to families' needs. But equally, the costs of supporting these families should be proportionate – any change should deliver net community benefit.

The Commission has recommended the Australian Government review the hourly rate caps for FDC and IHC to ensure they reflect operating costs (recommendation 6.3). This would also provide an opportunity to examine if a higher rate cap for non-standard ECEC hours is required. This should include considering demand, what level a non-standard hours rate cap would need to be set at to incentivise supply and the associated fiscal costs to government. It should also include consideration of whether there may be more appropriate alternatives, such as adjusting the base hourly rate cap for FDC and IHC or limiting a non-standard hours rate cap to these services.

### Planning regulations should also be examined

In its draft report, the Commission recommended state, territory and local governments examine their planning regulations to ensure they do not unnecessarily restrict non-standard hours ECEC (draft recommendation 7.4).

This recommendation was generally supported or supported in principle by inquiry participants (National Foundation for Australian Women, sub. 194, p. 3, The Front Project, sub. 227, p. 42; Children and Young People with Disability Australia, sub. 238, p. 22; Australian Childcare Alliance, sub. 255, p. 47; SNAICC, sub. 290, p. 24; Early Childhood Australia, sub. 302, p. 23; Early Learning and Care Council of Australia, sub. 299, p. 16; Goodstart Early Learning, sub. 277, p. 105). Guardian Childcare and Education did not support as it did not consider extended hours were needed (sub. 254, p. 8) and the Municipal Association of Victoria suggested further clarification about the intent and problem was needed (sub. 213, pp. 4–5).



In response to the draft report, participants reported varied experiences. Some services noted the issue had not generally come up for them (Goodstart Early Learning, sub. 277, p. 105), while others noted requirements vary depending on the state, territory or local government (Australian Childcare Alliance sub. 255, p. 47; Early Childhood Australia, sub. 302, p. 23). The Early Learning and Care Council of Australia noted experiences of its members varied, but that some had experienced difficulty receiving agreement to operate after 6pm (sub. 299, p. 16).

The Commission considers there would be value in examining planning regulations to ensure they do not unreasonably restrict services from providing non-standard hours of care. This does not presume that planning regulations are a barrier for all services, or that restrictions on operating hours are inherently unreasonable. But it would help provide further information on the extent to which planning regulations restrict services from operating in non-standard hours, which would then inform a more thorough assessment of the need for any policy change. This work should be undertaken by the Australian Government.



### 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.

## Families pay for ECEC ‘sessions’ – but children may attend for fewer hours than a full session

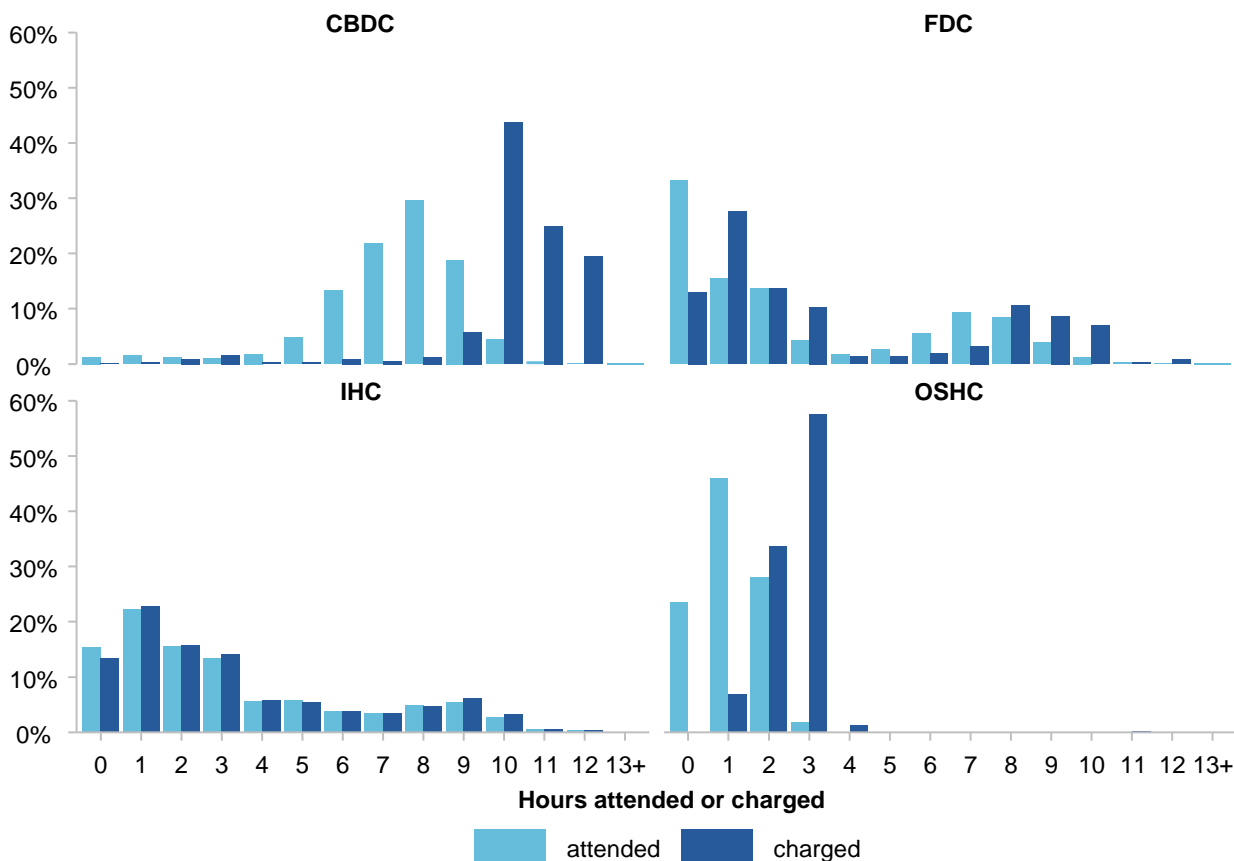
Charging practices vary by service type, but families are charged for ‘sessions of care’<sup>7</sup> rather than the actual hours their child attends. In centre-based day care (CBDC), services most commonly charge a daily fee for a full-day session (such as 10 or 12 hours) although some may offer shorter or part-day sessions (ACCC 2023a, p. 72).

Children usually do not attend for a full session, although usage patterns vary across service types (figure 7.4). Across a year, children attend about two-thirds of the hours for which their families are charged (Productivity Commission estimates based on DoE administrative data (unpublished)).<sup>8</sup>

<sup>7</sup> A session of care is the period that a provider charges a fee for providing ECEC (DoE 2023b, p. 93).

<sup>8</sup> For the 2022-23 financial year. Excludes records where no data was recorded on attended or charged hours.

**Figure 7.4 – Attendance patterns in some services differ to charging patterns<sup>a,b</sup>**  
**Distribution of hours attended per session compared to hours charged per session, by service type, 2023**



a. Hours attended or charged have been rounded down to the nearest hour. Based on a select week ending 19 November 2023. b. Excludes sessions where a child did not attend, or where there is insufficient information available to determine attendance.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

### Participants disputed there is ‘unused’ ECEC

In its draft report, the Commission characterised the difference between attended hours and charged hours as ‘unused ECEC capacity’ that families (and taxpayers) pay for, and suggested there may be scope to release these ‘unused hours’ to other families (draft finding 7.5). This finding was strongly contested by inquiry participants (Bray and Gray, sub. 279, pp. 21–22; Goodstart Early Learning, sub. 277, pp. 53–54; The Front Project, sub. 227, p. 6, Early Learning and Care Council of Australia, sub. 299, p. 50).

Participants argued that:

- **there is limited evidence of services being overstaffed during hours of low attendance** (Bray and Gray, sub. 279, p. 21), with one participant outlining how staffing is adjusted over the day based on attendance (Goodstart Early Learning, sub. 277, p. 54) and another noting non-attended time is used for programming and professional development (G8 Education, sub. 301, p. 12). While participants acknowledged there may be a degree of cross subsidisation between families attending shorter hours and those attending longer hours (Goodstart Early Learning, sub. 279, p. 54; Bray and Gray, sub. 279, p. 21), Goodstart Early Learning argued on average across a service, there was no overpayment (sub. 279, p. 54)

- **longer session lengths provide flexibility for families by allowing flexible pick up and drop off times** (Goodstart Early Learning, sub. 277, p. 53, Early Learning and Care Council of Australia, sub. 299, p. 50; G8 Education, sub. 301, p. 12). Bray and Gray noted that, in effect, families are charged for the right to use ECEC over the duration of the session (similar to the approach in industries such as gyms) (sub. 279, p. 31)
- **CBDC services use longer sessions to lower the derived hourly fee charged to families**, thus reducing the likelihood it exceeds the hourly rate cap (beyond which CCS is not paid) (Goodstart Early Learning, sub. 277, pp. 53–54)
- **if services charged based on attended hours, costs to parents would likely be about the same as a service would still need to recover costs** (Goodstart Early Learning, sub. 277, pp. 53–54). The derived hourly rate of a session does not accurately reflect the actual hourly cost of providing ECEC (Bray and Gray, sub. 279, p. 21)
- **releasing ‘unused hours’ would increase staff costs and is not conducive to quality early learning** (Goodstart Early Learning, sub. 277, p. 54; G8 Education, sub. 301, p. 12)
- **there is limited demand for sessions during the ‘unutilised’ part of the day** (Goodstart Early Learning, sub. 277, p. 54, G8 Education, sub. 301, p. 12).

### Services appear to be responding to incentives

Services are not prohibited from offering shorter session lengths. The Child Care Provider Handbook, published by the Australian Government Department of Education, states:

child care providers should consider changes that deliver flexible, cost-effective care and learning services for families. For example, providers could choose to offer parents receiving 36 hours of subsidy under the preschool category six sessions of six hours or four sessions of nine hours per fortnight. (2023b, p. 66)

In CBDC, there is evidence services optimise session lengths to maximise the number of hours subsidised under the activity test (ACCC 2023b, pp. 174–175). But session lengths in CBDC are still typically 10 to 12 hours. And as the Australian Competition and Consumer Commission (2023b, p. 174) noted, CBDC providers generally charge a daily fee, which is often similar across a range of different session lengths.

Providers, particularly in CBDC, face constraints on their ability to offer shorter or more flexible sessions. Goodstart Early Learning outlined how it had previously offered six-hour sessions but had to cease this offering due to low demand and the fact it had to cross subsidise the sessions (box 7.8).

#### **Box 7.8 – Case study: challenges in offering shorter sessions**

Goodstart Early Learning noted it previously offered two six-hour sessions in the middle of the day to support families entitled to 24 hours of subsidised ECEC per fortnight under the low-income activity test exemption. However, it noted these were not successful because:

- families found the offer inconvenient and hard to navigate around other commitments, such as picking up and dropping off older children, especially when using public transport
- educators found it challenging to plan and program for high quality, intentional early learning experiences and to support peer-to-peer learning when most children were attending for longer days. We also had reports of children not wanting to ‘always leave early’ while other children got to ‘stay with their friends’

### **Box 7.8 – Case study: challenges in offering shorter sessions**

- at a provider level, shorter sessions had to be heavily subsidised as costs for the ‘unsold’ hours each day could not be recovered
- demand for six-hour sessions has declined further each year, particularly since COVID, and the impact of the hourly fee cap has meant out-of-pocket costs for families increased despite ongoing cross subsidisation by Goodstart. (sub. 125, p. 31)

In response to the draft report, inquiry participants outlined the interplay of various factors, which combine to make provision unviable:

- there are fixed costs to provision of ECEC, such as rent, insurance, regulatory requirements and wages, which means services must either recover these through a higher fee or secure bookings for all other periods of the day to maintain viability (Australian Childcare Alliance, sub. 255, pp. 124 -125, G8 Education, sub. 301, p. 12)
- there is low demand from families for the ‘unused’ parts of the session (G8 Education, sub. 301, p. 12) and difficulty aligning parent availability with the remaining ‘unused’ time (Australian Childcare Alliance, sub. 255, p. 126)
- ratio requirements restrict the ability of services to respond to changing demand throughout the day (Early Learning and Care Council of Australia, sub. 299, p. 50), although one participant outlined that services adjust rostering to align with attendance patterns (Goodstart Early Learning, sub. 277, p. 54)
- there is a risk of going outside of ratio requirements where there are two sessions on the same day – for example if a parent is late to pick up their child (G8 Education, sub. 301, p. 12)
- difficulty finding staff willing to work the shorter sessions (Australian Childcare Alliance, sub. 255, p. 126)
- difficulty meeting required occupancy levels to support viability (Australian Childcare Alliance, sub. 255, p. 125).

The AIFS evaluation also identified the challenges shorter or more flexible sessions create for services in having to maintain staff ratios and resourcing, and in managing occupancy, budgeting and administration (Bray et al. 2021, pp. 152–153). In addition, some inquiry participants noted concerns that shorter sessions create disruption for children and impact upon consistency of care and access to the early learning program (G8 Education, sub. 301, p. 12; Early Learning and Care Council of Australia, sub. 299, p. 50).

In contrast to CBDC, hourly charging models are relatively common in FDC and IHC (Bray et al. 2021, p. 160). In their submission, Bray and Gray noted that in FDC the use of individual educators, without the need to schedule employees, has allowed this flexibility (sub. 279, p. 21).

### **Any changes would involve trade-offs**

Providers configure their sessions and pricing to meet demand while maintaining the viability of their service.

Promoting shorter sessions would involve trade-offs. For example, raising the hourly rate cap for shorter sessions would acknowledge the higher hourly costs for providers, given the need to recoup fixed costs. But it would also add significant complexity to the system and may not actually result in a significant saving if total daily provider costs are relatively fixed. And should a provider have families in their service whose schedules align to allow them to ‘share’ a place, a higher hourly rate cap would overcompensate.

While some inquiry participants argued for shorter session lengths to provide greater flexibility to families, in some circumstances shorter session lengths may in fact create less flexibility for families by reducing the window of time they have to drop off and pick up their children. The Commission acknowledges full-day

sessions will not suit all families. Other more flexible services such as FDC or, where eligible, IHC may be options for some of these families, where available.

This does not mean services should not try to be flexible where they are able – for example, by releasing cancelled places as casual bookings, or offering families discounts when they are absent on holidays. This is discussed further below.

### **Access to ECEC on a casual basis is important for some families**

For some families, the ability to access ECEC on a casual or occasional basis plays a key role in supporting their labour force participation. Inquiry participants highlighted the role such flexibility plays in supporting families working unpredictable hours (The Shop, Distributive and Allied Employees Association, sub. 72, p. 7) and those who may require care for activities such as job interviews (The Salvation Army, sub. 56, p. 10).

Other inquiry participants highlighted the role occasional care services play in supporting families experiencing vulnerability, who may require ECEC to attend English classes, training, appointments or court cases (Bridge Darebin, sub. 3, p. 1; Neighbourhood Houses Victoria, sub. 124, p. 3). These services were previously a separate service type for the purposes of the Child Care Benefit (CCB), but in 2018 were combined with long day care services under the CBDC service type (Bray et al. 2021, p. 8). Under previous CCB policy settings, these services were defined as centre-based services that families could access regularly or irregularly on a sessional basis and could provide ECEC at short notice (Australian Government Department of Education 2014, pp. 27–28). They did not generally provide full-time, all day ECEC and were predominantly for children under school age. Some occasional care services also operated outside the CCB system.

This section uses the term ‘casual ECEC’ to refer any ECEC accessed on casual basis, regardless of service type. It uses ‘occasional care’ to refer specifically to casual ECEC accessed through a service comprising, or similar in its characteristics to, the former occasional care sector.

### **Casual ECEC appears to be harder to find**

There is limited data on the prevalence and availability of casual ECEC.

Analysis of Starting Blocks data suggests CBDC services that report having at least one casual vacancy are less common than those that report having at least one permanent vacancy (figure 7.5). But not all services choose to specify the type of vacancy and others do not report at all. Other services, such as FDC or OSHC, may be more flexible.

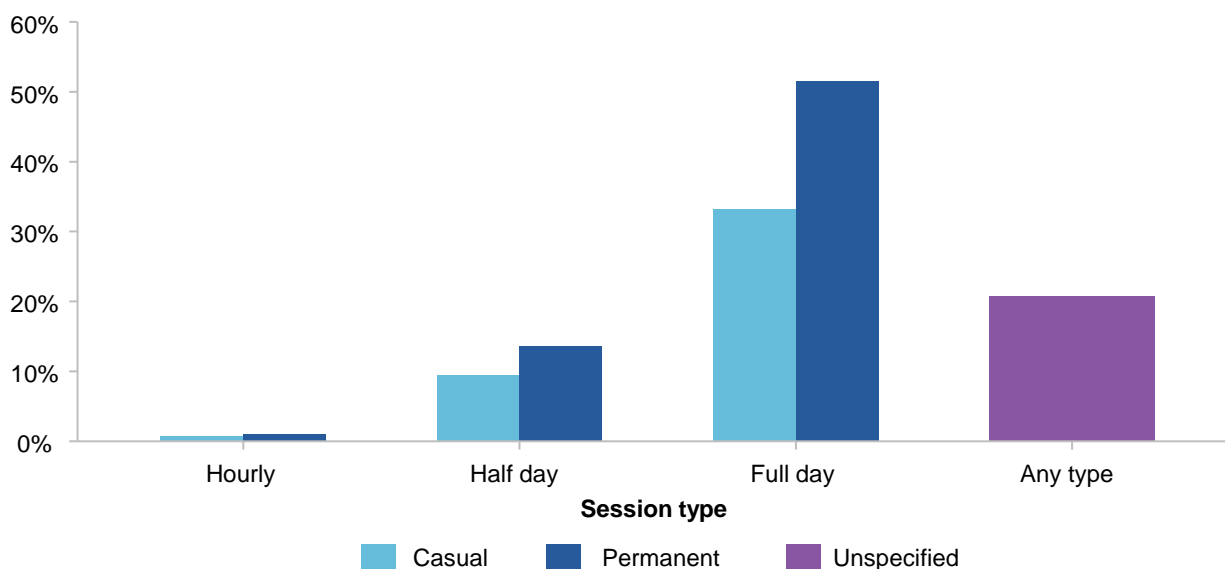
Analysis of Care for Kids listings (a non-government website where families can search for ECEC services) shows services offering ‘occasional, casual or flexible’ ECEC represent a small proportion of services listed (table 7.1). But again, not all services choose to make a listing.

Similarly, analysis of DoE administrative data shows that of the 105 former occasional care services approved for CCB in the first half of 2018, 57% were approved for the CCS and operating in the December 2023 quarter (Productivity Commission estimates based on DoE administrative data (unpublished)). A degree of caution should be used when interpreting these figures as they do not account for services that may have changed ownership or merged. They also do not capture new services that may have entered the market. And not all occasional care services were CCB-approved. However, the figures suggest there has been a decline in former CCB-approved occasional care services in the market.

Some occasional care services also operate outside the CCS system, such as some services provided through neighbourhood houses or local or state governments. There is no national data collection on these services.

**Figure 7.5 – Fewer CBDC services report having a casual vacancy than a permanent vacancy<sup>a,b</sup>**

**Proportion of CBDC services on Starting Blocks with at least one vacancy for a weekday, by vacancy type, 2022**



**a.** Data is for a reference week in November 2022. Excludes services that did not provide vacancy information. 6,400 CBDC services recorded information on vacancies for the given week, about 70% of all CBDC services. A service is recorded as having a vacancy if they have a vacancy on any weekday from Monday to Friday **b.** The category ‘Unspecified’ represents CBDC services that nominated they had any type of vacancy (casual or permanent) for any session type during the week but did not specify the type.

Source: Productivity Commission estimates based on DoE Starting Blocks data (unpublished).

This analysis aligns with feedback provided to the NSW IPART review of ECEC affordability, access and consumer choice, which heard from stakeholders that the availability of occasional care services has declined in recent years (NSW IPART 2023, p. 61).

**Table 7.1 – A small proportion of services offer occasional, casual or flexible care<sup>a,b</sup>**  
**Services listed on Care for Kids as providing occasional, casual or flexible care services, May 2024**

State	Number of services	Proportion of all services listed
New South Wales	404	5.2%
Victoria	390	6.4%
Queensland	243	5.5%
South Australia	85	5.8%
Western Australia	185	8.5%
Tasmania	10	3.6%
Northern Territory	7	2.5%
Australian Capital Territory	35	6.8%

**a.** Care for Kids describes occasional, casual or flexible services as providing short periods of care for children under school age, which families can access on a regular or casual basis. **b.** Data extracted on 9 May 2024.

Source: Productivity Commission estimates based on Care for Kids (2024).



### 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.

### Challenges managing variable demand affect the availability of casual ECEC

CCS services are not prohibited from offering ECEC on a casual basis. But they likely have an incentive to enrol families seeking permanent places prior to making casual bookings. Were bookings to fluctuate significantly, it would likely be hard for ECEC services to manage this variable demand. The need to ensure adequate ratios and provide notice to staff of work arrangements limits the ability of services to manage changes in attendance.

In response to the draft report, inquiry participants identified a range of barriers to providing or accessing casual ECEC, including:

- a higher cost of provision (Australian Childcare Alliance, sub. 255, p. 48; Early Learning and Care Council of Australia, sub. 299, p. 51)
- limited family visibility of casual places across CBDC services (G8 Education, sub. 301, p. 12)
- requirements to complete an enrolment process if not already enrolled at the centre (G8 Education, sub. 301, pp. 12–13)
- administration challenges for providers and difficulty managing irregular attendance (Early Learning and Care Council of Australia, sub. 299, p. 51; KU Children's Services, sub. 303, p. 6)
- the need to manage staff ratios (Early Learning and Care Council of Australia, sub. 299, p. 51).

Services may have an incentive to offer casual bookings where it provides them an opportunity to fill places when families cancel or children are absent due to illness or other reasons. Some ECEC software providers offer services the ability to use a booking system that enables families to see and book casual places if available.

Occasional care services have historically been more flexible – offering families the ability to book short sessions on an irregular or regular basis and at short notice. But inquiry participants described how occasional care services are struggling under current funding models (box 7.9). The Community Child Care Association and Community Early Learning Australia noted that:

occasional care services funded under the CCS have become increasingly unviable, and alternative funding for provision of these services may be needed. (sub. 318, p. 13)

## **Box 7.9 – Case study: neighbourhood houses in Victoria**

### **Neighbourhood Houses Victoria**

Neighbourhood Houses Victoria (NHV) is the peak body for the neighbourhood house sector, representing 400 independent, community-based organisations across Victoria.

Since their inception in the 1970s, most neighbourhood houses offered occasional care. NHV's submission outlines how these services enable women to gain skills and training and also support women in cases of domestic and family violence or family breakdown.

NHV submitted there has been a long-term decline in occasional care, with 72 neighbourhood houses in Victoria offering occasional care as at December 2023, compared to around 150 in 2011. 52% of these providers are approved for the CCS.

NHV considered there were three factors contributing to this decline, including:

- the removal of state funding and use of the CCS as the single funding instrument, which NHV noted does not meet the fixed costs of smaller, shorter hours providers and requires services to be open for 48 weeks a year (a number of Victorian Neighbourhood Houses that offer occasional care operate for 40 weeks a year)
- the introduction of three-year-old preschool, which NHV notes has exacerbated workforce issues and skewed demand to younger children who require higher staffing ratios without additional funding or increased willingness or ability of families to pay
- improved child safety standards and cultural safety guidelines for Aboriginal and Torres Strait Islander children, which NHV noted are welcome but have increased costs.

NHV noted that in 2022, 37% of Victorian Neighbourhood House occasional care providers reported financial viability as one of their top three challenges. NHV outlines how Victorian Neighbourhood House providers operate with ongoing bookings to maintain viability, with some capacity for occasional use.

### **Bridge Darebin**

Bridge Darebin is a neighbourhood house and adult learning organisation based in Preston and Thornbury, Melbourne. As part of its services, it delivers occasional care to support women studying 'adult education classes, newly arrived migrants studying English, refugees and women who have escaped family violence and need to deal with the courts, Centrelink and other support agencies'.

Bridge Darebin's noted the erosion of government funding for occasional care has seen the number of Victorian neighbourhood houses offering occasional care decline from around 150 in 2011 to 88. It noted that without annual funding and change in eligibility criteria for state and federal grants, occasional care will continue to decline.

In response, Bridge Darebin became CCS registered increased fees, introduced minimum seven-hour bookings, and no longer provides free early childhood education and care to those who need it. Bridge Darebin closed one of its two services in 2020 due to it no longer being financially viable and expects that without external funding it will close the other within three years.

Source: Bridge Darebin (sub. 3); Neighbourhood Houses Victoria (sub. 124; sub. 230; 2022).



These services were previously funded under a mix of arrangements. Some were eligible for the CCB and Child Care Rebate. Those funded directly by the Australian Government were generally eligible for some form of operational support to assist with the day-to-day costs of delivery. In addition, the National Occasional Care Program provided funding to support non-CCB approved services in participating jurisdictions, particularly in rural, regional and remote areas. The Australian Government contributed 55% of costs to participating jurisdictions under a national partnership, with \$12.6 million provisioned over four years in the federal 2014-15 Budget (Australian Government 2014, p. 82). These arrangements ceased in 2018 with the introduction of the Child Care Package. Since 2018, the CCS has been the primary Australian Government funding source, with a small number of non-formula funded services eligible for supplementary funding under the CCCF-R.

There are also examples of state delivery, with the South Australian Government offering occasional care at some of its government preschools and Children’s Centres for Early Childhood Development and Parenting (SA Department for Education 2022). Other organisations, such as local governments or neighbourhood houses, may also provide occasional care (for example, Hobsons Bay City Council 2024; Neighbourhood Houses Victoria, sub. 124; sub. 230).

### **Efforts to improve the availability of casual ECEC should focus on those who need it most**

Given the link between service capacity and casual bookings, recommendations to improve the availability of ECEC (paper 5) may also help increase the availability of casual ECEC.

Changes to increase availability beyond this (for example, requiring services to offer a certain proportion of casual places) are likely to raise the cost of provision as they would require paying for a degree of spare capacity in the system (and remove places from families requiring permanent bookings). And while the requirement for families to complete new enrolments when they change services may limit their ability to access ad hoc casual bookings at other services, this is also an important integrity measure.

Funding casual ECEC places across the sector is unlikely to be cost effective. But there are cases where the benefits of access to casual ECEC might warrant government funding – for example, for families experiencing vulnerability or disadvantage.

There may be a case for grant or other additional funding for occasional care services to meet these needs, in certain communities. This funding would likely be small – Neighbourhood Houses Victoria estimated that in Victoria \$5 million per annum would be sufficient to reverse the decline in neighbourhood houses offering occasional care (sub. 124, p. 5).

### **Supporting occasional care through a new ECEC Development Fund**

In its draft report, the Commission recommended additional funding for occasional care be provisioned through the Community Child Care Fund, with an ECEC Commission responsible for advising on the communities in which services are needed (draft recommendation 7.5).

Inquiry participants generally supported the idea that occasional or casual care be available where needed.<sup>9</sup> However, some participants questioned whether the CCCF is the most appropriate mechanism. The Early Learning and Care Council of Australia recommended further consideration of the funding source (sub. 299, p. 17) and Neighbourhood Houses Victoria noted that a number of neighbourhood house providers in Victoria are not eligible for the CCS (and therefore the CCCF) due to not meeting the minimum 48-week operating period for CBDC services (sub. 230, p. 3). Participants also raised concern about the role of an

<sup>9</sup> The Front Project, sub. 227, p. 43, Children and Young People with Disability Australia, sub. 238, p. 22; New South Wales Aboriginal Education Consultative Group, sub. 217, p. 11, KU Children’s Services, sub. 303, p. 6; La Trobe University sub. 298, p. 14; Neighbourhood Houses Victoria, sub. 230, p. 2.

ECEC Commission and whether it would be appropriately placed to advise government on local community need (Burman, sub. 317, p. 22; Bray and Gray, sub. 279, p. 6; NSW Government, sub. 312, p. 8).

Two participants also raised concerns about impacts on children and the need to manage disruption, with one noting they did not support a drop in model in long day care (Early Learning and Care Council of Australia, sub. 299, p. 17; Guardian Childcare and Education, sub. 254, p. 8). While the Commission agrees continuity is preferable, it also acknowledges that some families face limited alternative choices.

On balance, the Commission considers the CCCF – or a new ECEC Development Fund – still to be the most appropriate mechanism, but notes this funding should be targeted to support those most in need (that is, families experiencing high levels of disadvantage or vulnerability). This would ideally be through a small, dedicated pool of funds that services could access via application. Eligibility would need to be adjusted to allow non-CCS-approved occasional care services to access funding. Depending on services' CCS status, the funding could either be supplementary to the CCS (to acknowledge the higher costs of delivery), or instead of the CCS (in which case the funding amount would likely need to be higher).

However, there is also significant diversity in the 'occasional care' sector, which would need to be considered in the policy design. Some occasional care services are CCS-approved, while others are not. Some, as Neighbourhood Houses Victoria noted, operate with ongoing bookings to retain viability, with some capacity for occasional use (sub. 230, p. 3). Others may only allow families to book a week in advance (for example, Hume City Council 2024; Northern Beaches Council nd), or place a limit on the number of hours a family can book a month (for example, Canterbury Bankstown Children & Families Services nd). And some may operate in areas of socio-economic advantage, while others may give priority to families experiencing disadvantage or vulnerability.

The Commission is not suggesting the Development Fund should support all of these services, particularly where other sources of funding (such as state government funding) are adequate. Rather, the Development Fund should operate as a funding mechanism of last resort, to ensure the availability of casual ECEC for families experiencing high levels of vulnerability and for whom alternative options are unavailable. As such, the total number of places supported would likely be small.

Given the apparent diversity and current poor visibility of the occasional care sector, the Australian Government Department of Education should first engage with the sector to determine the scope of services delivered (and whether this is predominantly casual or permanent ECEC), the characteristics of families who use these services and funding needs. This would then inform the exact design of a funding mechanism and how it would operate.

The department would also need to ensure there are appropriate mechanisms in place such that funding is not provided to CBDC services predominantly providing regular bookings of 'long day care'. Guidelines would also need to be developed about the cohort of families for whom a service would be eligible for funding under the Development Fund but should be focused on families experiencing high levels of vulnerability or disadvantage. Other families, such as those working variable hours, should also be permitted access to funded places where there are vacancies, but the focus and first priority for funded places should be families experiencing vulnerability.

There may also be scope to explore whether some of these services could be brought into the CCS system. For example, there could be scope to provide occasional care services an exemption, on a case-by-case basis, to the minimum 48-week operating requirement where they can demonstrate a clear community need for the service and that operating for a shorter period of time is consistent with community demand. This would be consistent with the current process that allows services to seek an exemption where there are special circumstances affecting the service. This may not remove the need to access the Development Fund

for supplementary funding to support the higher cost of provision of casual places, or to support families who need ECEC at short notice and do not have sufficient time to apply for the CCS. But it would potentially move a portion of service operations over to the CCS and provide a consistent base funding stream.



#### 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'.

### Flexibility should continue to be considered as access to ECEC expands

Recommendations in this paper to explore whether a non-standard hours rate cap is required and to support access to occasional care for families experiencing high levels of vulnerability and/or disadvantage could assist some families. But they would not address all issues raised by parents.

Some providers already offer forms of flexibility to families. For example, some services accommodate changes of days or allow families to pick up additional days where available (Goodstart Early Learning 2023, p. 9). And some offer discounts to families when they are absent due to holidays (Bambini Early Learning 2024; First Five Early Learning 2024; Goodstart Early Learning nd).

In comparison to schools or dedicated preschools, CCS services are much more flexible. CBDC services typically offer ECEC for 10–12 hours and operate for at least 48 weeks a year. Where available, FDC and IHC services also offer other flexible options to families.

Improving the availability of ECEC (paper 5) may allow providers to offer greater flexibility to families. And making information about provider charging and booking policies (such as session lengths, discounts or the ability to access casual places or swap days) more transparent to families so that they can more easily compare between services may also help (paper 6).

The Australian Government Department of Education should continue to consider ways it could encourage providers to offer greater flexibility to families. For example, the current NSW Early Childhood Education and

Care Flexible Initiatives Trial may provide insights about how flexibility could be encouraged or supported. The trial provides grants to services to test and trial new or adapted operating models, such as extended hours, flexible pick up and drop off times and allowing irregular care arrangements (NSW Department of Education 2024).



### 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.

## Preschool hours do not align with a standard work week

The structure and length of preschool hours were raised by some inquiry participants, with some noting it can be a barrier to preschool or labour force participation (Restacking the Odds, sub. 149, pp. 6–7; Brief comment 62; Early Learning Association Australia, sub. 48, p. 17).

The Australian Government provides funding to states and territories under the Preschool Reform Agreement to support the delivery of 15 hours of preschool a week (or 600 hours a year) for children in the year before full-time school (appendix E). These hours are delivered differently across Australia, depending on the setting and the state or territory. Dedicated preschools are generally less flexible, with programs usually operating for limited hours and days of the week (for example, between 9am and 3pm and only on select weekdays) and during school terms. In contrast, preschool delivered through CBDC provides families greater flexibility, allowing them to access additional ECEC hours beyond the 15 hours of preschool provided under the Preschool Reform Agreement. The reasons for this difference are largely historic, reflecting differences in the way these two service types evolved – one from ‘education’ and the other from ‘care’.

Arrangements in dedicated preschool may suit some families (Creche and Kindergarten Association, sub. 306, p. 8). But for others they may create challenges in balancing preschool hours with work commitments. In some cases, this may lead to families combining preschool with other ECEC services or informal care or may mean some children miss out on the full 15 hours per week of preschool.

## Some services offer longer hours or support parents to access wrap-around ECEC ...

Some services provide additional flexibility to families to help them manage preschool hours. This may be through longer preschool hours, or through access to ‘wrap-around’ ECEC, where preschools hours can be supplemented by additional ‘non-preschool’ ECEC. There are examples where this has been implemented.

- The Early Learning Association Australia<sup>10</sup> noted some dedicated preschools offer extended hours or days to families but have done so at full fees (sub. 48, p. 17). For example, one dedicated preschool offers up to 37.5 hours of preschool at a cost of around \$2,600 per term but families cannot access the CCS to subsidise this cost (Glen Education 2024).
- Bermagui Preschool’s described how it provides integrated preschool, long day care, before and after school care and vacation care (sub. 49, p. 2), while another participant outlined how her preschool service offers extended hours but runs this at a loss (O’Hare, sub. 189, p. 1).
- The ACT Government is expanding a trial of OSHC for preschool children (ACT Government nd). Under this model, preschool children stay in their preschool room and OSHC and preschool educators transition in and out depending on the ECEC being delivered.
- The Creche and Kindergarten Association provides extended ECEC hours in some of its kindergartens, which it has obtained CCS approval for (sub. 306, pp. 7–8). This includes offering hours during school holidays. In some of those services, families are given the option to purchase additional hours while in other services families are required to purchase the full day (including the preschool hours, additional hours and school holiday hours).
- CBDC services delivering a preschool program can offer parents the ability to combine preschool and other CCS-subsidised ECEC in the same setting.

Some dedicated preschools may be co-located with CBDCs or on a school site with an available OSHC, allowing parents to use these services to supplement preschool hours. For example, in 2021, there were 41 SA government preschools operating alongside a CBDC, with a further 41 co-located with an OSHC (SA Department for Education 2023, p. 21).

OSHC services are able to provide places to preschool aged children, although as of time of writing, CCS requirements stipulated these services must primarily be for children attending school.<sup>10</sup> For example, in the December 2023 quarter, about 9,800 children aged 3–4 years attended OSHC services (Productivity Commission estimates based on DoE administrative data (unpublished)).<sup>11</sup>

### ... but this flexibility is not always available

Where available, families can be expected to select services that suit them best. For example, in states and territories where preschool delivered through CBDC is a readily available option, parents seeking more flexible preschool hours may choose to enrol their children in these services (although may not receive ‘free’ preschool as a result).

<sup>10</sup> Child Care Subsidy Minister’s Rules 2017 (Cth), s. 45(2)(b).

<sup>11</sup> Based on existing data, it is not possible to identify whether these children were attending preschool. This figure does not capture all children of preschool age attending OSHC. Some children in preschool are aged over 4 years, depending on the age they start full-time school in their state or territory. Not all three-year-old children are eligible for state and territory funded or delivered preschool programs.

This suggests managing preschool hours is most likely an issue for families where dedicated preschools form a larger share of the preschool delivery mix and there is not an available OSHC, or where a CBDC providing a preschool program is not an available or affordable option.

For example, analysis conducted by the SA Department for Education estimated that at least 81% of children enrolled in government preschools in SA did not have access to on-site ECEC outside of preschool hours (SA Department for Education 2023, p. 21).<sup>12</sup> But it is unclear what proportion of these children required additional hours of ECEC.

### **Arrangements under Family Assistance Law have made it hard to access CCS for additional hours of ECEC in dedicated preschools**

While dedicated preschools are not prohibited from offering additional hours of ECEC, provisions under Family Assistance Law have made it hard for families to receive the CCS for this.

There are two models through which these additional hours might be accessed – either within the preschool service itself, or through a separate service providing ECEC outside of preschool hours. But arrangements under Family Assistance Law have acted as a barrier for these service offerings to be approved for the CCS.

Under current arrangements, dedicated preschools can modify their business models to operate as a CCS-approved CBDC service providing preschool sessions. However:

- ECEC services are ineligible to receive the CCS if they primarily provide an early education program to children in the year before full-time school,<sup>13</sup> meaning preschool sessions would need to comprise the minority of ECEC provided
- CCS-approved CBDC services are required to operate for at least 48 weeks per year,<sup>14</sup> which does not align with the 40-week operating model often used in dedicated preschools.

Alternatively, a second option could involve establishing a separate service to provide the additional hours (either on or off site), similar to how OSHC operates at schools. However, if established as a CBDC, the service must operate for at least 48 weeks per year as noted above. And, as of time of writing, if established as an OSHC service, the service has been required to primarily deliver ECEC to children who attend school.



#### **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.

<sup>12</sup> This estimate predates a trial of wrap-around care at 20 SA preschool sites from July 2024 (SA Department for Education 2024a).

<sup>13</sup> *A New Tax System (Family Assistance) (Administration) Act 1999* (Cth), s. 194D(a)(vi).

<sup>14</sup> *A New Tax System (Family Assistance) (Administration) Act 1999* (Cth), s. 195C(2)(a).

## Barriers to wrap-around care should be addressed

In response to the SA Royal Commission into Early Childhood Education and Care, the South Australian Government will trial the delivery of wrap-around care at 20 SA government preschools from July 2024, ‘increasing care outside of the regular preschool operating hours’ (SA Department for Education 2024b).

Three models will be trialled, including:

- the SA Department for Education operating the service
- third-party providers providing the service
- in-venue family day carer providing the service (SA Department for Education 2024b).

To support delivery of the trial, the Australian Government is examining changes to the Child Care Subsidy Minister’s Rules 2017 to facilitate access to the CCS (DoE, pers. comm., 20 June 2024). As of time of writing, there was limited information available on what these changes may involve.

The Commission considers that Family Assistance Law should not pose a barrier to providing subsidised wrap-around care in dedicated preschools where there is sustainable demand. The form this should take (for example, extending CCS eligibility to dedicated preschools or enabling a separate ‘outside preschool hours care’ service) and the exact mechanism through which it is achieved should be a matter for Australian Government, after considering the needs of families and children and any legislative or other implications.

Current National Quality Framework (NQF) requirements should continue to apply to any wrap-around care offered. That is, where the service predominantly provides ECEC to children of preschool age (and is not an FDC service) – NQF requirements as they relate to CBDC and dedicated preschool should apply.



### 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.

## Wrap-around care strikes a balance between the needs of children and parents

Inquiry participants had varied views on wrap-around care. Several supported the idea,<sup>15</sup> highlighting the positive impacts for families, and some had views about a preferred model. The Early Learning and Care Council of Australia suggested it needed further consideration, including considering existing pilots (sub. 299, p. 17). And some CBDC provider organisations did not support the idea, in part due to concerns about impacts on CBDC viability (G8 Education, sub. 301, p. 4; Australian Childcare Alliance, sub. 255, pp. 49–50; Goodstart Early Learning, sub. 277, p. 109). These concerns are discussed more fully in the following section.

Some participants raised concerns about quality and impacts on children, as there would still be a degree of fragmented care for children. The Creche and Kindergarten Association considered that consistent staff and

<sup>15</sup> National Foundation for Australian Women, sub. 194, p. 3; The Front Project, sub. 227, p. 44, The Hive Mt Druitt (United Way Australia), sub. 234, p. 2; Early Learning Association Australia, sub. 237, pp. 7–8; Uniting Early Learning, sub. 275, p. 1; NSW Aboriginal Education Consultation Group, sub. 217, p. 11; Australian Council of State School Organisations, sub. 283, p. 11; KU Children’s Services, sub. 303, p. 6; Ann O’Hare, sub. 189, p. 1, Menindee Children’s Centre, sub. 203, p. 1.

child cohorts (key features of dedicated preschools) must be maintained (sub. 306, p. 7), while the Early Learning and Care Council of Australia noted it would not support a model that brought in a different staff member for the 'non-preschool' hours (sub. 299, p. 17). Goodstart Early Learning suggested a better option would be for dedicated preschools to convert to CBDCs (sub. 277, p. 109) and another participant sought to ensure NQF requirements as they relate to CBDC or preschool apply (Creche and Kindergarten Association, sub. 306, p. 7).

In addition, two participants raised concern about increased system complexity, for both services and families (Goodstart Early Learning, sub. 277, p. 109, ACECQA, sub. 256, p. 14).

While the Commission acknowledges these concerns, it considers resolving them fully would require consideration of broader funding issues (such as a single ECEC funding stream), which would best be considered in a future review (paper 9).

### **Monitoring impacts on the market**

In response to the draft report, some inquiry participants raised concerns about the impacts wrap-around care could have on the market and CBDC viability if families currently using CBDC switch to dedicated preschool or reduce their CBDC usage as a result (G8 Education, sub. 301, p. 8; Australian Childcare Alliance, sub. 255, p. 49; The Parenthood, sub. 276, pp. 26–27; Goodstart Early Learning, sub. 277, p. 109; Guardian Childcare and Education, sub. 254, p. 8).

Enabling wrap-around care may mean some families switch from CBDC to dedicated preschool, particularly given preschool in dedicated settings generally has a lower out-of-pocket expense. Their ability to do so will be constrained by the capacity of dedicated preschools to expand their current enrolments, which may be restricted by workforce or infrastructure constraints.

As part of its functions, the ECEC Commission (recommendation 10.2) will play a role in monitoring ECEC market health, which could include the impact of preschool expansion on CBDC viability. This would make the Commission well-placed to monitor the impact of wrap-around care on the ECEC market, and to advise government if any response is required.

## **7.3 Ensuring Aboriginal and Torres Strait Islander families can access culturally safe community-controlled services**

Cultural safety is an important factor in ensuring ECEC services suit the needs of families and children (paper 2). This section highlights the role of community-controlled organisations in providing culturally safe services for Aboriginal and Torres Strait Islander families and children.

While this discussion focuses on Aboriginal and Torres Strait Islander families, experiencing cultural safety in services is also critical for CALD families. Other aspects of ensuring culturally responsive services are considered throughout this inquiry, including in mainstream ECEC services (paper 2) and in the professional development priorities for the ECEC workforce (paper 3). Issues affecting the recruitment and retention of Aboriginal and Torres Strait Islander educators within the ECEC workforce are discussed in paper 3.



## Community-controlled services play a significant role for Aboriginal and Torres Strait Islander children, families and communities

While all ECEC services should be inclusive (paper 2), the National Agreement on Closing the Gap recognises that ACCOs are often preferred by Aboriginal and Torres Strait Islander people and achieve better results (clause 43).

Under the National Agreement on Closing the Gap, an ACCO is defined as an organisation that:

delivers services, including land and resource management, that builds the strength and empowerment of Aboriginal and Torres Strait Islander communities and people and is:

- incorporated under relevant legislation and not-for-profit
- controlled and operated by Aboriginal and/or Torres Strait Islander people
- connected to the community, or communities, in which they deliver the services
- governed by a majority Aboriginal and/or Torres Strait Islander governing body. (clause 44)

In an ECEC context, ACCOs may include a variety of organisations, such as Multifunctional Aboriginal Children's Services (MACS) and Aboriginal Child and Family Centres (ACFCs) (box 7.10).

### Box 7.10 – The early years community-controlled sector

As at 2022, there were 175 Aboriginal and Torres Strait Islander-focused integrated early years services (PC 2023). These include Aboriginal Child and Family Centres (ACFCs), Multifunctional Aboriginal Children's Services (MACS), Aboriginal and Torres Strait Islander preschool services and other Aboriginal and Torres Strait Islander-operated long day care centres.

In 2022, around three in five of these services were Aboriginal and/or Torres Strait Islander community-controlled (PC 2023). The remainder were government and/or non-Indigenous controlled services but may operate with various Aboriginal and Torres Strait Islander community advisory and input arrangements.

A recent SNAICC report identified 106 early years ACCOs. 60 of these services were CCS approved, with another 31 operating as dedicated preschools (SNAICC 2024, p. 61).

#### Aboriginal Child and Family Centres

38 ACFCs were established through the National Partnership Agreement on Indigenous Early Childhood Development (Joint Council on Closing the Gap 2021, p. 7), signed by governments in 2009. The agreement envisaged these centres would provide a mix of services, including ECEC, early learning and parent and family support services (s. 27).

The partnership agreement ceased in 2014. However, centres continue to operate with state and territory government funding (Joint Council on Closing the Gap 2021, p. 7). Programs in ACFCs are supported through a variety of Australian, state and territory government funding, including the Australian Government Indigenous Advancement Strategy, Australian Government early childhood education and care (ECEC) funding and state and territory education and community services.

In 2021, approximately half of ACFCs were operated by community-controlled organisations (Joint Council on Closing the Gap 2021, p. 7). Analysis by Social Ventures Australia identified 44 ACFCs in

### **Box 7.10 – The early years community-controlled sector**

2023 (Social Ventures Australia 2023, p. 22). And a recent SNAICC report identified 25 community-controlled ACFCs, 11 of which were CCS approved (SNAICC 2024, p. 61).

#### **Multifunctional Aboriginal Children's Services**

MACS were first funded in 1987 (Social Ventures Australia 2023, p. 27). In 2003, funding for MACS was consolidated with a range of other services under the Budget Based Funded Program, which provided block-based funding to services (Australian National Audit Office 2010, p. 13). The program ceased in 2018 and these services transitioned to the Child Care Subsidy (CCS) and Community Child Care Fund Restricted grant funding, which provides supplementary funding to the CCS (Social Ventures Australia 2023, p. 27).

There were previously 37 MACS but in 2021 fewer than 30 remained (Joint Council on Closing the Gap 2021, p. 7). A recent SNAICC report identified 26 community-controlled MACS, all of which were CCS approved (SNAICC 2024, p. 61).

As the Commission noted in its Review of the National Agreement on Closing the Gap, ACCOs are well placed to design and deliver culturally safe and effective services for Aboriginal and Torres Strait Islander people (PC 2024, p. 49). In part, this is because ACCOs 'employ more Aboriginal and Torres Strait Islander people, have greater cultural expertise, skills and knowledge and have stronger ties to the community' (PC 2024, p. 49).

Similarly, consultations undertaken for the Australian Human Rights Commission's *Wiyi Yani U Thangani (Women's Voices)* report highlighted that, for Aboriginal and Torres Strait Islander children and families, successful models of early childhood learning were community-owned and controlled, engaged Aboriginal and Torres Strait Islander staff in delivering the curriculum, were family-inclusive, and had a balance of cultural learning and Western education priorities (Australian Human Rights Commission 2020, p. 459). The strengths of ACCOs include their connections and accountability to their communities and use of a holistic model to deliver integrated and culturally safe services, which can lead to better health and wellbeing outcomes (SNAICC 2022b, p. 26).

Binarri-binyja yarrowoo Aboriginal Corporation highlighted the value of ACCOs to Aboriginal and Torres Strait Islander children and families.

We know ACCO services achieve outcomes for both our children and adults. We know our children and families prefer to access ACCO services over services run by others, which achieves better outcomes for our children's learning and development. (sub. 85, p. 11)

In addition to delivering culturally safe ECEC services, ACCOs also play a key role in delivering integrated services for Aboriginal and Torres Strait Islander children and families. For example, SNAICC submitted that:

ACCOs provide a broad range of education, family and early intervention services ranging from community-based playgroups to fully integrated early education and family support hubs which provide holistic wraparound services to families. These services have a significant impact on supporting children and families, preventing child protection intervention, support self-determination and work to ensure children are connected to their families, communities, cultures and Country. (sub. 133, p. 6)

In its draft report, the Commission highlighted that ACCOs are well-positioned to provide culturally safe ECEC (draft finding 7.3). This was well-aligned with the views of inquiry participants. For example, in response to the draft report, the Parkville Institute highlighted that ACCOs are trusted and safe resources in their communities (sub. 231, p. 11). SNAICC noted that:

ACCOs are also uniquely placed to provide high-quality, culturally safe programs consistent with Aboriginal and Torres Strait Islander cultural ways of child rearing ... (sub. 290, p. 31).

## **Governments have committed to strengthening ACCOs**

Under Priority Reform 2 of the National Agreement on Closing the Gap, governments committed to building Aboriginal and Torres Strait Islander community-controlled sectors, including in early childhood care and development (clauses 42, 48–50).

Under the agreement, parties agreed that a strong community-controlled sector was where:

- there is sustained capacity building and investment in ACCOs to deliver services according to a set of relevant standards
- there is a dedicated Aboriginal and Torres Strait Islander workforce with wage parity
- community-controlled organisations delivering common services are supported by a Peak Body, governed by a majority Aboriginal and Torres Strait Islander Board, which has strong governance and policy development and influencing capacity
- community-controlled organisations delivering common services have a dedicated, reliable, and consistent funding model to suit community and individual needs (clause 45).

To support this reform, the Joint Council on Closing the Gap agreed in-principle the Early Childhood Care and Development Sector Strengthening Plans (ECCD SSP) in December 2021 (NIAA 2023). The ECCD SSP includes 18 ECEC-related actions related in the areas of: workforce, capital infrastructure, service delivery, governance, a consistent funding model, and a peak body (Joint Council on Closing the Gap 2021, pp. 21–40).

## **Participants and services have raised concerns about the ACCO funding model**

A key objective of the ECCD SSP is the ‘development of dedicated, reliable and consistent funding models’ for ACCOs (Joint Council on Closing the Gap 2021, p. 19).

However, SNAICC’s initial submission raised concerns about the adequacy of the funding model for ACCOs. SNAICC argued that an ACCO funding model should reflect the integrated and tailored support services ACCOs provide, the limited economies of scale, costs associated with operating in rural and remote areas, and support for the Aboriginal and Torres Strait Islander workforce (sub. 133, p. 13). In its final submission, SNAICC elaborated that ACCOs experience challenges owing to the design of the Child Care Package as well as the other funding streams ACCOs access to fund their integrated services (box 7.11).

### **Box 7.11 – SNAICC views on challenges posed by current ACCO funding models**

SNAICC's final submission raises concerns about funding provided to ACCOs through both the Child Care Package and other additional funding streams.

#### **Child Care Package**

SNAICC argued the current CCS and associated Child Care Safety Net discourages and limits participation by Aboriginal and Torres Strait Islander children and contributes to funding challenges for ACCOs. This included concerns about:

- the administrative barriers families face accessing the CCS
- the fact that the CCS does not fund outreach or holistic support to address barriers for families to access learning and development services
- families experiencing stigma and fear about accessing the Additional Child Care Subsidy
- the funding model promoting a perception that services are primarily or only available for working families
- the market model being ineffective to ensure services reach the most vulnerable children and families and are tailored to their needs.

#### **Other funding streams**

SNAICC noted ACCOs also receive other additional funding from a range of other sources. It noted the mixture of funding streams creates challenges for ACCOs, including:

- inequitable funding between ACCOs funded through state-funded integrated early years programs and those receiving funding under the Community Child Care Fund Restricted grant
- administrative burden on services from managing multiple and different reporting and acquittal processes
- difficulty securing funding as ACCOs, particularly small ACCOs, find it hard to compete against larger non-Indigenous organisations in grant and tender processes, or to dedicate sufficient resources to an application
- lack of funding certainty, as contracts are too short (less than 5 years)
- restrictions that only allow funding to be used in accordance with programmatic guidelines and under pre-determined activities and timeframes
- a lack of backbone support for ACCO business, policy, workforce and program development.

Source: SNAICC, sub. 290, pp. 36–38.

Similarly, in a recent research report, SNAICC outlined that current funding approaches are not fit for-purpose because they:

- create barriers for Aboriginal and Torres Strait Islander children and families to access ECEC and integrated services
- limit the capacity of ACCOs to deliver holistic, child-centred services
- are not sufficiently improving outcomes (2024, p. 11).

Australian Government early years funding for ACCOs has changed over time. In 2014, funding provided for ACFCs under the National Partnership Agreement on Indigenous Early Childhood Development ceased, and in 2018 MACS and other former Budget Based Funded services transitioned to the Child Care Package (box 7.10). Where these services receive direct Australian Government ECEC funding, they are now

incorporated into mainstream ECEC funding arrangements (Joint Council on Closing the Gap 2021, p. 10). Funding for child and family functions varies based on the government funding the program (Joint Council on Closing the Gap 2021, p. 10). MACS are also eligible for supplementary funding through the Community Child Care Fund Restricted grant (CCCF-R) (Social Ventures Australia 2023, p. 27).

The ECCD SSP observes:

Aboriginal and Torres Strait Islander ECEC services have noted the impact of the shift from a dedicated funding model to CCS, with fees now dependent on enrolments and attendance. In particular, former [Budget Based Funded] and Indigenous Advancement Strategy services who still receive a similar amount of funding through the [Community Child Care Fund Restricted grant] and CCS, have noted that that their attention has shifted from supporting the most vulnerable children and families within their communities to thrive, to meeting the needs of working families – the key target group for CCS. Many of these services also report reduced attendance by Aboriginal and Torres Strait Islander children and families related to additional challenges and barriers to access childcare funding and attend their early education and care service. (Joint Council on Closing the Gap 2021, p. 11)

In a 2023 report on integrated services, Social Ventures Australia found that while the CCCF-R operates as a temporary ‘stop-gap measure’, MACS were reliant on the grant for continued operations in non-viable markets (Social Ventures Australia 2023, pp. 27–30). Many Aboriginal and Torres Strait Islander integrated early years services are reliant on multiple funding streams and sources, which may be short term or one-off (Social Ventures Australia 2023, p. 54).

In its draft report, the Commission highlighted the funding challenges experienced by ACCOs (draft finding 7.3). This was generally consistent with inquiry participant views. In its final submission, SNAICC supported a new funding approach for ACCOs and outlined its views on what that should entail, which are discussed below (sub. 290, pp. 36–39).

The Hive Mt Druitt (United Way Australia) noted the need to also increase the representation of Aboriginal and Torres Strait Islander staff in the ECEC sector, given the small number of ACCOs (sub. 234, p. 3).



#### **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.

## An ACCO funding model should be considered through a process of shared decision-making

Addressing concerns about the early years ACCO funding model goes not just to the design of ECEC funding, but also to the design and funding of other early years and family services (such as maternal and child health, family services and allied health).

Recommendations made elsewhere in this report, including a 100% CCS rate for families earning less than \$80,000, removal of the activity test and greater use of supply-side funding in thin markets, would improve families' access to the CCS and increase the funding available to services through existing mechanisms. But they will not address other concerns – for example, around the administrative complexity of multiple funding streams accessed by ACCOs to provide integrated services, or the fear and stigma SNAICC describes families can experience accessing the Additional Child Care Subsidy.

In its final submission, SNAICC argued for a national, systemic and sustainable approach to funding ACCO integrated early years services (sub. 290, pp. 38–39). It recommended this incorporate block and needs-based funding for a range of integrated supports (not just ECEC), funded through a co-contribution model between the Australian, state and territory governments and underpinned by a national policy framework embedded in a national partnership agreement. It noted the need to provide long-term certainty alongside flexibility to adjust funding as needed and also recommended the provision of 'backbone support' for ACCO business, policy, workforce and program development.

In line with the principles of the National Agreement on Closing the Gap, decisions on an ACCO funding model should be made through a process of shared decision-making with Aboriginal and Torres Strait Islander people. Under Priority Reform 1 of the agreement, governments committed to 'building and strengthening structures that empower Aboriginal and Torres Strait Islander people to share decision-making authority with governments to accelerate policy and place-based progress against Closing the Gap' (clause 28). And under Priority Reform 3, governments also committed to ensure that when 'undertaking significant changes to policy and programs that primarily impact on Aboriginal and Torres Strait Islander people, they engage fully and transparently' (clause 59f).

The Early Childhood Care and Development Policy Partnership (ECPP) was established as part of commitments under Closing the Gap to shared decision-making and formal partnership. The partnership brings together Australian, state and territory governments and Aboriginal and Torres Strait Islander representatives 'to develop recommendations to improve early childhood outcomes for Aboriginal and Torres Strait Islander children and families' (DoE 2024b).

SNAICC recently undertook research for ECPP on funding model options for ACCO-delivered ECEC (box 7.12), which further elaborates on the case for its proposed model and how it would operate. Consistent with Priority Reform 1 of the National Agreement on Closing the Gap, the partnership is the most appropriate forum for this report to be considered through a process of shared decision-making.

### **Box 7.12 – Research undertaken for the Early Childhood Care and Development Policy Partnership on funding models for ACCO-delivered ECEC**

The Early Childhood Care and Development Policy Partnership commissioned SNAICC to undertake research on funding model options for ACCO-delivered ECEC, including integrated early years services.

### **Box 7.12 – Research undertaken for the Early Childhood Care and Development Policy Partnership on funding models for ACCO-delivered ECEC**

The report recommended a new dedicated funding model for early years ACCO services, outside of the Child Care Subsidy. It argued this model should provide needs-based block funding for all components of ACCO service delivery (including but not limited to ECEC), consisting of a base funding entitlement (for core services and the integration ‘glue’ and adjusted based on need) and a flexible funding entitlement (for community-designated services). It recommended the model also include provision for ‘backbone support’ and a framework to guide investment.

The report recommended the new model be funded through co-contributions by the Australian and state and territory governments. It notes a national policy framework and National Partnership Agreement would be needed to establish governance and roles and responsibilities.

The report notes complementary reforms would also be needed in: accountability and reporting, data and regulatory processes; sector governance; service planning; workforce planning and capacity building; and adjustments to mainstream ECEC funding.

Key aspects of the recommended funding model are outlined below.

#### **Base funding entitlement**

The base funding entitlement would support the delivery of core services, including ECEC, family support services, cultural and community programs, allied health and disability support and child and maternal health. This would be provided as block-based recurrent funding, determined using a needs-based funding formula. Base funding would also include funding for the ‘glue’ to support integrated service delivery, including administrative, staffing, training and capital costs.

#### **Flexible funding**

ACCOs would receive a supplementary funding entitlement that they could use flexibly to deliver services tailored to community need. This would also be needs-based.

#### **Needs-based loadings**

Needs-based loadings would ensure base funding and flexible funding respond to remoteness, population size and vulnerability.

#### **Backbone support**

A backbone support organisation would provide guidance and support to ACCOs in delivering their services and meeting obligations, such as by providing support on administration, governance or regulatory compliance. It also would support sharing of information and learning between ACCOs, respond to workforce development needs and support practice and curriculum development. In addition, it would work to grow the ACCO sector, broker partnerships with jurisdictions and play an advocacy role with governments.

#### **Framework to guide investment**

A framework would be developed to guide future investment in service establishment and development.

Source: SNAICC (2024).



**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.

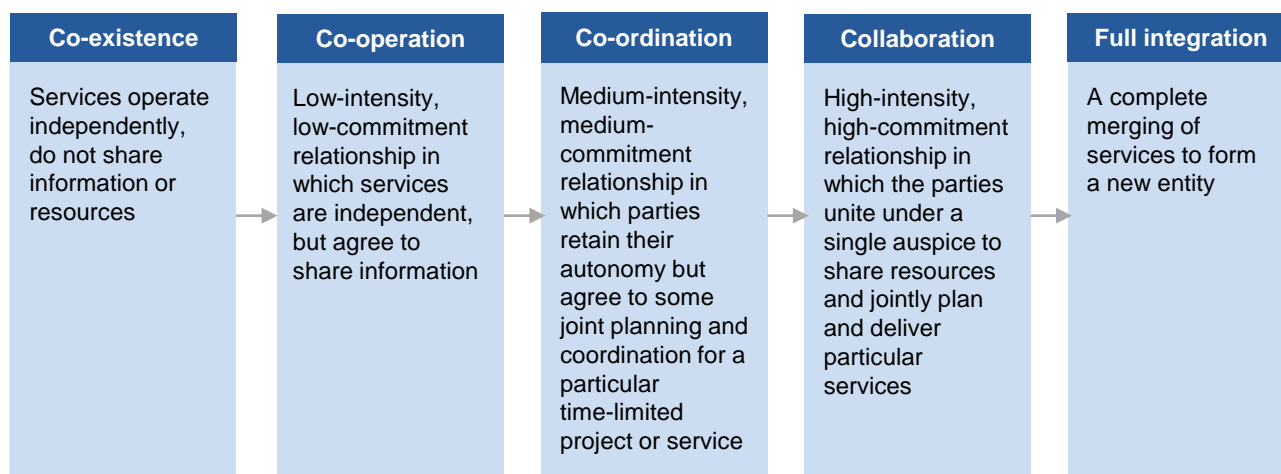
## 7.4 Integrated services can respond to a range of children’s and families’ needs

A range of inquiry participants advocated for integrated services to support children and families experiencing vulnerability or requiring services beyond ECEC (for example, The Salvation Army, sub. 56, p. 17; Early Learning and Care Council of Australia, sub. 153, p. 19).

Integrated services can take many forms, operating along a continuum from co-existence (where services operate independently) to the complete merging of activities under a single entity (full integration) (figure 7.6). The types of services integrated can vary and can include schools, playgroups, allied health, or family or other services. While ECEC is not always included in integrated services, inquiry participants have highlighted the role ECEC can play in an integrated service setting (for example, Early Childhood Australia, sub. 154, p. 37). A range of integrated services operate across Australia, and models vary (box 7.13). Some are funded by the Australian, state or territory governments while others may rely on philanthropic or other funding. Integrated services:

provide access to multiple services to children and families in a cohesive and holistic way. They recognise the impact of family and community contexts on children’s development and learning and focus on improving outcomes for children, families and communities. Through respectful, collaborative relationships, they seek to maximise the impact of different disciplinary expertise in a shared intent to respond to family and community contexts. (Press, Sumsion and Wong 2010, p. 53)

**Figure 7.6 – Integrated services operate on a continuum**



Source: Adapted from Moore and Skinner (2010, p. 17).



### **Box 7.13 – Examples of integrated services in Australia**

#### **Queensland Early Years Places**

At Early Years Places, families can access multiple services or referrals to specialist services (Queensland Government 2023). Each place has a different mix of programs including playgroups, ECEC, health services and parenting support.

#### **Western Australian Child and Parent Centres**

The centres are located at schools in partnership with a non-government organisation (WA Government nd). A range of services are offered, including maternal and child health, allied health, psychological services and counselling, antenatal classes, early learning programs, playgroups, school holiday programs, parenting and family support, multicultural programs and services, and referrals to other services. The centres do not provide ECEC but four are co-located with ECEC services (WA Government, sub. 162, p. 23).

#### **Tasmanian Child and Family Learning Centres**

The centres provide place-based affordable and flexible early learning that parents can attend with their child (Tasmanian Department for Education, Children and Young People, sub. 159, p. 8). Through the centres, families can connect with services, such as adult learning, allied health and social supports.

#### **Northern Territory Child and Family Centres**

The centres operate in six locations and provide a range of services including ECEC, the Families as First Teachers program, and maternal and child health (NT Government 2023). They can also connect families to other services. The centres are not 'one stop shops' but promote a 'no wrong door' approach.

#### **Aboriginal Child and Family Centres**

As an example, Bubup Willam Aboriginal Child and Family Centre provides ECEC, a transition to school program, health and developmental screening, therapies and interventions for children with developmental delay or disability and other family services (Bubup Willam Aboriginal Child and Family Centre 2020a, 2020b).

#### **Multifunctional Aboriginal Children's Services**

As an example, Oorunga Wandarrah MACS Centre offers long day care, with regular visits from primary and allied health services (Tharawal Aboriginal Corporation 2023). The centre also invites families to share skills and participate in their child's learning and development.

#### **Australian Government Connected Beginnings program**

The program provides grants to integrate local services so Aboriginal and Torres Strait Islander children and families can access culturally appropriate services (DoE 2023c). This may include maternal and child health, ECEC, family support, preschools and schools, local government and council support.

#### **Doveton College, Victoria**

The college provides an early learning centre and education from prep–year 9. Wrap-around health, family and children's services are provided on site (Doveton College 2022).

## Integration recognises that children and families have a variety of needs

Several inquiry participants highlighted the role of place-based integrated services in supporting families experiencing vulnerability who have multi-faceted needs (for example, Social Ventures Australia, sub. 145, p. 8; Goodstart Early Learning, sub. 125, p. 66). A research study that interviewed low-income families to understand their ECEC needs concluded that holistic, integrated or wrap-around services were a closer match to the needs expressed by those in the study, rather than services narrowly focussed on ECEC. (Skattebol, Jennifer et al. 2014, p. 10). Inquiry participants suggested integrated services can:

- make it easier for families to access support (SSI, sub. 16, p. 4), and ensuring 'they do not need to jump through multiple hoops' or repeat their story (Brotherhood of St Laurance, sub. 96, p. 9)
- better identify child and family needs, including developmental concerns (Royal Far West, sub. 41, p. 15; The Benevolent Society, sub. 98, p. 7)
- improve the engagement and retention of families, particularly those experiencing vulnerability (Early Learning Association Australia, sub. 48, p. 18; The Benevolent Society, sub. 98, p. 7)
- have a better ability to support children and families, including considering whole-of-family needs (The Salvation Army, sub. 56, p. 17; Early Learning Association Australia, sub. 48, p. 18).

There are also examples of integrated services providing trauma-informed and responsive support to children and families (box 7.14).

### **Box 7.14 – Integrated services can support children and families in complex circumstances**

Some families and children may experience challenging or vulnerable circumstances, and accessing ECEC may be particularly difficult during these times. This may include experiencing violence, abuse, neglect, exploitation, mental health deterioration, relationship breakdown, housing instability, or other challenging or vulnerable circumstances.

Data from the 2021-22 Personal Safety Survey shows that a considerable portion of Australians have experienced or witnessed family violence and abuse from a young age. About one in six women (18% or 1.7 million) and one in nine men (11% or 1 million) in Australia experienced physical and/or sexual abuse before the age of 15 years (ABS 2023). About 2.6 million people (13%) aged 18 years and over witnessed violence towards a parent by a partner before the age of 15 years (ABS 2023).

Similarly, a 2021 survey of 3,775 participants reported that one in six female carers (17%) said a child residing with them experienced some form of abuse in the 12 months prior to the survey, perpetrated by a current or former partner (Wolbers, Boxall and Morgan 2023, p. ix).

There are examples of ECEC services undertaking integrated activities to support these families and children.

- Victoria's Early Childhood Agreement for Children in Out-of-Home Care sets out roles and responsibilities for partnered ECEC and child protection organisations, with the aim of ensuring enrolment and ongoing support for vulnerable children in ECEC settings (Victorian Department of Education and Training and Victorian Department of Health and Human Services 2019, p. 45).

### **Box 7.14 – Integrated services can support children and families in complex circumstances**

- A trial of an intensive ECEC model for children experiencing significant disadvantage who were engaged with family or child protection services included an infant mental health clinician and family support practitioner as staff members (Tseng et al. 2022, pp. 7, 10).
- Bubup Wilam Aboriginal Child and Family Centre provides wrap-around services for families requiring additional support, including due to trauma (SNAICC, sub. 133, p. 6). This includes ‘family violence assistance, prevention, mental health support, child protection, advocacy and support’.

## **Integration can overcome the siloing of services – including ECEC**

The SA Royal Commission into ECEC refers to the connection function or ‘glue’ that links ECEC services with other early years services such as health and family supports. It notes ‘how funding systems currently fail to adequately recognise its role’ (SA Government 2023a, p. 33). Under current arrangements, most of these services are funded and delivered independently, making the connection function between services key – but also one that often falls between the cracks when it comes to policy and funding.

The SA Royal Commission acknowledged that creating these connections is challenging because of the different layers of government and non-government organisations involved (SA Government 2023a, p. 63). One way to fund this function, as SA Royal Commission noted, is through the creation of integrated services. In the context of integrated services, this paper refers to this connection function as the ‘integration function’.

Research undertaken by Social Ventures Australia suggests funding for the ‘integration function’ is generally well accounted for in state- and territory-funded services (2023, pp. 50–51, 55). However, many of these services do not provide ECEC (2023, p. 60).

Other integrated services may not receive explicit funding for this function. For example, Aboriginal and Torres Strait Islander integrated services, which are primarily funded by the Australian Government, do not generally receive funding for the ‘integration function’ and rely on several funding streams, some of which are short-term (Social Ventures Australia 2023, pp. 54–55).

Given the varied approach to funding and delivery, there is no comprehensive list of integrated services available nationally, or an estimate of the number of integrated services that provide ECEC.

Deloitte Access Economics and Social Ventures Australia undertook a mapping exercise to determine the number of ‘Integrated Child and Family Centres’ (ICFCs) in Australia, which were defined as a hub where families can access key child and family services and connect with other families. This analysis identified 209 ICFCs, around 250 other hubs (that did not meet the ICFC definition) and 80 place-based initiatives nationally (Deloitte Access Economics 2023a, pp. 18–19). Some of these services provide ECEC, but not all.

Modelling undertaken by Deloitte Access Economics suggested there were at least 100,000 children aged 0–6 years experiencing significant disadvantage who did not have access to an ICFC (Deloitte Access Economics 2023a, p. 6).

While it is challenging to form a reliable picture of the level of unmet need, the different ways these integrated services are funded and established may give rise to inconsistent access.

In response to the draft report, inquiry participants reiterated the need to ensure integrated services have an appropriate funding model (Restacking the Odds, sub. 291, p. 16; Social Ventures Australia, sub. 247, p. 6),

including funding for the ‘integration function’ (National Child and Family Hubs Network, sub. 220, p. 5). The National Child and Family Hubs Network recommended a national approach to implementing, funding and evaluating integrated child and family ‘hubs’ (sub. 220, p. 1), while SNAICC considered that Aboriginal and Torres Strait Islander peoples and communities would be best placed to advise on the need for integrated services in their communities (sub. 290, p. 21). And Goodstart Early Learning suggested a new ‘Early Learning Priorities Fund’ could include flexible funding that could be used for integrated service delivery models (sub. 277, p. 66).

The Commission considers a new ECEC Development Fund (paper 5) could play a role in supporting the establishment of integrated services, where such services would meet the needs of communities. Under the Commission’s proposal, the fund would provide a program of funding support in consultation with communities, to facilitate the provision of ECEC in areas of low or no supply (recommendation 5.2). Should the community identify a need for an integrated service, the Australian Government should work with the relevant state or territory government to consider if such a service should be established and if so, how.

This does not mean the Development Fund should fund non-ECEC activities. But it could contribute towards the ECEC proportion of costs of establishment. It could also contribute to operating costs, where the ECEC component of service delivery requires supplementary funding to the CCS to make provision viable.



#### **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.

## But building connections across services is important too

Aside from the examples discussed above, there is a range of other activities that involve a form of integration between services (box 7.15).

Evidence presented to the SA Royal Commission into ECEC showed most SA government preschools offered between one and four additional services or activities per year (SA Government 2023b, p. 35), although it is unclear whether these were offered directly or facilitated through a third-party. These activities included speech pathology, health, parenting support and playgroups. Many of these programs were funded through SA Government preschool funding, but parent fees contributed to funding in some cases.

Work undertaken for the SA Royal Commission also suggested that almost all long day care services in SA identified needs and offered direct supports or referrals where they could (SA Government 2023b, p. 35). Long day care services reported offering an average of eight additional activities on site either directly or through a third party in 2023 (Deloitte Access Economics 2023b, p. 17). Activities included supports such as speech pathology, occupational therapy, other allied health and foodbanks (Deloitte Access Economics 2023b, p. 17).

### **Box 7.15 – Integration can encompass a broad range of activities undertaken by ECEC services**

#### **Plumtree Children’s Service**

As a not-for-profit, community-based organisation, Plumtree provides preschool services, centre-based playgroups, parent educational programs, and therapies for children aged birth to eight years with a disability or developmental delay and their families (Plumtree Services 2023).

#### **Goodstart Early Learning**

Goodstart Early Learning’s submission describes how it provides support to families experiencing hardship, including joblessness, mental illness, homelessness and relationship breakdown. It also notes it provides allied health support within its centres (sub. 125, p. 11).

#### **Koorana Preschools**

Koorana Child and Family Services runs two preschools in New South Wales. It employs allied health professionals to deliver therapy within its preschools (Koorana Child and Family Services 2022).

#### **SDN Children’s Services**

SDN Children’s Services operates two autism-specific preschools programs in New South Wales (SDN Children’s Services 2024a). As an example, at its Beranga Autism Specific Preschool, children can access therapy through onsite therapists at the preschool (SDN Children’s Services 2024b).

Anecdotal evidence would suggest similar activities are happening in other services. For example, the NSW Independent Pricing and Regulatory Tribunal’s (IPART) review into ECEC noted examples of services providing ‘wrap-around’ services to families, such as allied health, family supports or other services or support (NSW IPART 2023, pp. 94–95).

One inquiry participant outlined the additional costs services may incur coordinating with other on-site or external services such as allied health or maternal and child health (Gowrie Australia, sub. 79, p. 5). Similar

feedback was provided to the NSW IPART review of ECEC, which heard coordinating with allied health is burdensome upon services (NSW IPART 2023, p. 78).

The expectations upon ECEC services to undertake this type of work are likely to grow. For example, the SA Royal Commission envisaged preschool should provide pathways to parental and community supports, including on site delivery (SA Government 2023a, p. 104). And the 2023 review of the NDIS recommended significant changes to the way disability support is provided to children and their families, including supporting more children in existing services such as ECEC (PM&C 2023, pp. 41–42) (the implications of the NDIS review are discussed in detail in paper 2).

The draft report of this inquiry recommended an ECEC Commission should be responsible for examining the connections between ECEC and child and family services in different communities and identifying suitable ways to address any gaps (draft recommendation 7.2). Several inquiry participants expressed concern about the role of an ECEC Commission in this context (Australian Childcare Alliance, sub. 255, p. 44; Burman, sub. 317, p. 22; SNAICC, sub. 290, pp. 22–23). Others wanted an ECEC Commission to work with local community services when identifying needs and solutions (Restacking the Odds, sub. 291, p. 16), or for specific services to be considered (Restacking the Odds, sub. 291, p. 16; Early Learning and Care Council of Australia, sub. 299, pp. 15–16; Goodstart Early Learning, sub. 277, p. 73). SNAICC supported the intent but not the implementation approach and considered that ACCOs should be responsible for examining connections between ECEC and other child and family services (sub. 290, p. 22).

Supporting ECEC services to create connections with other services that support children and families requires local knowledge and understanding of community need – as well as time and resourcing. The Commission has separately recommended reforms to inclusion support (paper 2), which could provide an alternative avenue to support connections between services. Under the Commission’s recommended reforms, services will receive funding from a new ECEC Inclusion Fund, based on the profile of children enrolled, their families and the services they attend. Services would then be able to spend this funding on a list of prescribed activities or supports – including to liaise and coordinate with other services a child or family may require or be accessing, such as allied health or NDIS professionals. Services would be required to acquit this funding.

However, these reforms will take time to implement. Pending establishment of the ECEC Inclusion Fund, funding for this type of activity should be available on an application basis through the Innovative Solutions Support component of the Inclusion Support Program.



### **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.

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## 8. Regulating for quality

### Key points

- \* **Governments regulate the quality of early childhood education and care (ECEC) services to ensure children’s safety and promote their development. Aspects of ECEC quality can be difficult for families to discern and poor quality can bring significant risks of harm (such as for child safety). Well-designed regulation can promote trust in services and reduce risks, but it must be cost-effective and regularly evaluated to ensure it is fit for purpose.**
- \* **The regulatory system already has several mechanisms that promote efficiency, transparency and accountability, but there is room for further improvement in reporting by regulatory authorities.**
- \* **ECEC quality appears to have improved on average since the introduction of the National Quality Framework (NQF).**
- \* **Assessment and rating processes should be improved to provide a reliable indication of ECEC quality.**
  - Under-resourcing of regulatory authorities has prevented timely assessment and rating visits. Most services that are not meeting the National Quality Standard (NQS) go more than three years before they are reassessed. This creates missed opportunities for quality improvement and reduces the accuracy of information available to families about quality. An independent review should assess whether additional funding is required.
  - Many inquiry participants expressed concern over the accuracy, consistency and efficiency of assessment and rating processes. While efforts are underway to address some of these issues, their effectiveness is unclear. An independent review of the NQF should identify opportunities for further improvement.
- \* **Ratings against the NQS are seldom used by families to choose between services.**
  - More frequent communication of quality ratings (including when a service receives a new rating) with greater detail and clearer wording would improve information for families.
- \* **Regulators act where there are significant risks to child safety, but could do more to prevent or respond to services continually failing to meet the NQS.**
  - More targeted support should be offered to services that are not meeting the NQS, alongside broader support for continuous quality improvement for all services.
  - The regulatory authorities and the Australian Children’s Education and Care Quality Authority should publish guidance outlining that it is not acceptable for services to be repeatedly rated as Working Towards the NQS. Regulatory authorities should have escalating tools available to deal with underperformance, with enough flexibility to consider the individual circumstances of services and community needs.

Governments regulate early childhood education and care (ECEC) services primarily to improve the quality of the education and care that they provide, including through the provision of information on the quality of services to inform families' decisions.

There is no single definition of 'quality' in ECEC, but it is often assessed by how a service both protects the safety and wellbeing of children, and supports children's education and development (with child safety being the prerequisite for learning and development). The National Quality Framework (NQF) is the primary vehicle for ECEC quality regulation, setting out a regulatory system for most long day care (LDC),<sup>1</sup> family day care, preschool and outside school hours care (OSHC) services. This paper considers the effectiveness and efficiency of quality regulation under the NQF, including:

- why and how the quality of ECEC services is regulated (8.1)
- how sector-level ECEC quality has changed over time (8.2)
- the performance of the ECEC quality regulation system as a whole (8.3)
- whether service assessment and rating processes are working well, in terms of accuracy, consistency, efficiency and timeliness (8.4)
- the extent to which families use National Quality Standard (NQS) ratings (8.5)
- how well the quality regulation system deals with underperforming services (8.6)
- the appropriateness of the NQF for regulating OSHC (8.7).

It also considers whether there are appropriate regulatory mechanisms in place to ensure that ECEC services that are outside the scope of the NQF are delivering quality services (8.8).

## **8.1 Regulation aims to ensure quality ECEC**

ECEC is regulated to ensure that providers are delivering a quality service to children and families. Like other human services, some regulation is necessary where failure to deliver a minimum level of quality can have serious, harmful effects. And beyond the prevention of harm, ECEC regulation can also be used to realise additional benefits to children (such as to support children's development and learning).

In its inquiry into the ECEC market, the ACCC found that once families decided how much ECEC to use and had found available services, they tended to select a service based on quality (2023a, p. 6). However, while families value quality, they may not always be able to discern aspects of ECEC provision that would benefit their children. Others will not have the means to pay for it.

For markets to provide high-quality ECEC, families' perceptions of quality must align with the actual quality of services. But in practice, families often use a range of informal measures to determine the quality of services – and more formal measures such as the quality rating of services are often not used, or are difficult to understand, or not up to date (section 8.5). The evidence about what factors in ECEC specifically drive improved child outcomes is also limited (paper 1), meaning that even formal measures of quality may not necessarily reflect the actual quality of a service.

When a lower quality service can be offered without much effect on demand for the service (and therefore families' willingness to pay), lifting quality requires additional investment that, from a commercial perspective, is unlikely to create commensurate returns. This is especially the case for for-profit providers of ECEC, though not-for-profit providers will also be resource constrained (paper 5). In these circumstances, services

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<sup>1</sup> The NQF categorises service types differently to the classification system used for the Child Care Subsidy (CCS), which has been adopted throughout this report. Long day care services refer to centre-based services providing all-day care to children. Some CCS-approved centre-based day care services also offer shorter sessions or occasional care.

will require additional resources to provide quality, and regulation will be necessary to ensure that minimum standards are delivered.

High-quality ECEC can benefit children, families and communities (paper 1), and children's own perceptions of quality can align with how it is assessed by the regulatory system (box 8.1). Governments also make significant investments in ECEC, and it is important to ensure this investment is going into services that can deliver the greatest benefits to the community. Regulation also imposes costs on ECEC services, and if it is overly burdensome, it can reduce the resources that services can allocate to quality improvements. This means that regulation must be well-designed and targeted to ensure quality ECEC is delivered while avoiding unnecessary regulatory burden on services. Regulations must also be regularly reviewed to ensure they remain cost-effective and fit for purpose.

The remainder of this section covers the current regulatory system, including how it rewards quality, and how its focus has evolved over time.

### **Box 8.1 – 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.

However, 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 centre-based day care services 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 (2024, p. 3).

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 also conducted a study on behalf of the Productivity Commission, which sought to understand children's experiences in outside school hours care (OSHC) services. Consultations were held with 270 children at 15 OSHC sites. Children's perceptions of ECEC quality also aligned with some 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 (Cartmel et al. 2024, pp. 18–24).

## The current regulatory system

Since 2012, quality in the Australian ECEC system has predominantly been regulated under the NQF. (appendix C outlines the NQF in more detail.) The NQF provides a nationally consistent framework covering:

- the application of quality benchmarks through the NQS
- the assessment and rating processes against the NQS
- regulatory requirements that services must meet, and powers for regulatory authorities to enforce compliance with them
- the process of provider and service approvals
- national approved learning frameworks for use in ECEC settings.

The framework is set out in the *Education and Care Services National Law Act 2010* (Vic) (the National Law) and the *Education and Care Services National Regulations 2011* (NSW) (National Regulations).<sup>2</sup> The regulatory authority in each state and territory administers the NQF in their jurisdiction, including by regulating services against the National Law and Regulations. The administration of the NQF is overseen by the Australian Children's Education and Care Quality Authority (ACECQA) – an independent national body.

The regulatory authorities have various monitoring, compliance and enforcement powers, ranging from the ability to assess and rate services against the NQS and monitor their compliance with the National Law and Regulations, to the ability to issue infringement notices, prosecute people committing offences against the National Law, or cancel a service or provider's approval to operate (figure 8.1). They also conduct a range of other activities to encourage high-quality service provision, including education, information and support for services, and service visits. Regulators also have oversight of ECEC services that are out of scope of the NQF (such as in home care) – which tend to be regulated by a mix of state and national regulations (section 8.8).

One of the ways that the regulatory authorities monitor the quality of services is by periodically assessing and rating services against the NQS. In most states and territories, ECEC services are assessed and rated by a regulator within the jurisdiction's Department of Education. The exceptions are Western Australia (whose regulator is within the WA Department of Communities) and South Australia (which uses an independent regulator, the Education Standards Board) (appendix C).


The NQS consists of 40 elements, grouped into 15 standards, which in turn are part of seven quality areas:

- Educational program and practice – requires the service to use and document an approved learning framework and develop an educational program.
- Children's health and safety – relates to policies and procedures regarding hygiene practices, healthy eating, physical activity, preventing harm to children and dealing with injury or illness.
- Physical environment – requires the design of indoor and outdoor areas to be safe, suitable and provide a diverse range of experiences, and for the service to use sustainable practices.
- Staffing arrangements – relates to educator to child ratios, staff qualification requirements and professional staff interactions.
- Relationships with children – relates to interactions with and support for children.
- Collaborative partnerships with families and communities – includes relationships with and information provided to families, engagement with the local community and facilitation of access to support assistance.
- Governance and leadership – includes governance arrangements and the development of key documentation, records and administrative systems.

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<sup>2</sup> The National Law was passed by all jurisdictions except Western Australia, which passed the Education and Care Services National Law (WA) Act 2012, with some minor variations.

**Figure 8.1 – Powers and other measures used by regulatory authorities**

Monitoring	Compliance and enforcement
<ul style="list-style-type: none"> <li>• Targeted campaigns</li> <li>• Service assessments and ratings</li> <li>• Scheduled and unscheduled visits</li> <li>• Investigations into services</li> </ul>	<p><b>Actions that can be taken if an approved provider breaches the NQF</b></p> <ul style="list-style-type: none"> <li>• Infringement notice</li> <li>• Emergency action notice</li> <li>• Compliance direction</li> <li>• Compliance notice</li> <li>• Enforceable undertaking</li> <li>• Direction to exclude inappropriate people from service premises</li> <li>• Adding conditions to or amending service approval</li> <li>• Prosecution</li> <li>• Suspension or cancellation of service or provider approval</li> </ul> <p><b>Actions if a nominated supervisor breaches the NQF</b></p> <ul style="list-style-type: none"> <li>• Infringement notice</li> <li>• Enforceable undertaking</li> <li>• Direction to exclude a person from service premises</li> <li>• Prosecution</li> </ul> <p><b>Actions if a staff member or educator breaches the NQF</b></p> <ul style="list-style-type: none"> <li>• Enforceable undertaking</li> <li>• Prosecution</li> <li>• Family Day Care educators: Infringement notice, enforceable undertaking, direction to exclude a person from service premises</li> </ul>
<p><b>Other measures to promote quality</b></p> <ul style="list-style-type: none"> <li>• Quality Improvement Plans</li> <li>• Risk Assessment and Management Tool</li> <li>• Support, education and resources for services</li> </ul> 	

Source: Based on ACECQA (2020, pp. 495–499, 2023f).

The regulatory authorities rate services against the elements of each of the seven quality areas to determine a service's overall rating against the NQS. The possible ratings are:

- Significant Improvement Required – the service does not meet one of the seven quality areas or a section of the legislation and there is a significant risk to child safety, health and wellbeing
- Working Towards the NQS – the service provides a safe program but there are one or more elements of the NQS that it does not meet
- Meeting the NQS – the service meets all 40 elements of the NQS
- Exceeding the NQS – the service exceeds the NQS in at least four quality areas, with at least two of these being quality areas 1, 5, 6 or 7, and meets the NQS in all other quality areas.

Services that exceed all seven quality areas of the NQS can apply to ACECQA for a further rating of Excellent. These ratings must be displayed by the service and are published through the national registers (which can be viewed on ACECQA's website), and on the Starting Blocks website.

### **Waivers allow services to operate where they are unable to meet some regulatory requirements**

Waivers help maintain the supply of ECEC services to families while a service deals with special circumstances or unexpected events. A service can seek a waiver for specific components of the National Regulations that relate to staffing requirements or the service's physical environment, with the overwhelming share of waivers in force relating to staffing (appendix C).

Waivers are disproportionately held by private for-profit operators: in 2024, 73% of all services with at least one waiver were operated by private for-profit providers, despite only accounting for 53% of the sector (table 8.1).

**Table 8.1 Ratio of waivers to services, April 2024**

Management type	Proportion of all waivers	Proportion of all services
Catholic schools	1%	1%
Independent schools	1%	3%
Private for-profit	73%	53%
Private not-for-profit community managed	9%	19%
Private not-for-profit other organisations	10%	13%
State/Territory and Local Government managed	4%	7%
State/Territory government schools	2%	4%

Source: Productivity Commission estimates using ACECQA data (unpublished).

## The system provides some limited rewards for quality

The regulatory system provides some rewards for quality ECEC services, though these have limitations. Regulatory authorities tend to take a risk-based approach to regulating (including assessing and rating) services (ACECQA, sub. 6, p. 5). This means that services with higher ratings and/or a stronger history of compliance with the National Law and Regulations tend to be reassessed less frequently – meaning they are rewarded with an ‘earned autonomy’ for their performance – though the long average times between assessments for all services (including those not meeting the NQS) (section 8.4), can diminish the relative reward for higher performers.

The most readily comparable aspect of services’ performance – their service rating – also allows services to differentiate themselves from their competitors and attract families if they are rated highly. But for services to attract more families based on their rating, families must first be aware of and value service ratings, and be willing and able to pay more for them – but in practice this is often not the case.

This means that ratings alone are unlikely to compel all services to provide high-quality ECEC, and that other regulatory measures are necessary to induce services to deliver quality services. Section 8.2 considers how ECEC quality has changed over time, and sections 8.3 to 8.8 look at how services can be compelled to improve their quality.

## How does the system support continuous improvement?

One of the principles of the NQF is continuous improvement, which emphasises the importance of services looking to continually improve their service quality (rather than simply meet the NQS) (ACECQA 2023b, p. 583). There are several ways that the system encourages continuous improvement.

- Assessment and rating encourages continuous improvement by engaging the provider and service in a process of self-evaluation, as well as providing them with a detailed report of their performance against the NQS (ACECQA 2023b, p. 495).
- Quality Improvement Plans (QIPs) are prepared by services within three months of their service being granted, and must be updated at least annually. In the QIP, services assess their programs and practices against the NQS and National Regulations, identify areas for self-improvement and include a statement on the service’s philosophy (ACECQA n.d.).
- Visits from the regulatory authority are an opportunity for the service to receive feedback on their performance, and identify ways to improve.
- Educational and support programs can help services to improve quality.



- ACECQA's Self-assessment Tool is an optional tool that services can use to identify their strengths, areas of compliance, good practices and opportunities to improve quality. The Tool can be used to help inform the QIP (ACECQA n.d.).

Each component of the NQF – the National Quality Standard (NQS), the Approved Learning Frameworks (ALFs) and the independent monitoring and assessment and rating of services – is integral to achieving the objective of continuous quality improvement, holding services accountable for their performance and ensuring a return on government investment. (ACECQA, sub. 256, p. 5)

Many inquiry participants spoke about the importance of strengthening a culture of continuous improvement in the sector (for example, Restacking the Odds, sub. 291, pp. 10–13). Some suggested that greater use of technology and data could help services identify areas for improvement including:

Investment in data and learning systems to support continuous improvement and drive equitable service delivery. (Restacking the Odds, sub. 149, p. 2)

Collection and use of data supports continuous improvement and equitable delivery of ECEC. (SVA, sub. 145, p. 4)

There are also some privately delivered programs and tools that services can use to help drive continuous improvement. For example, eQIPd has developed a tool that surveys parents and educators in a service and identifies areas for improvement and benchmarks the service's performance against others in the sector (eQIPd, sub. 216, pp. 3–5). Others, such as 1Place Childcare, have also developed digital self-assessment tools that help services to improve compliance and determine opportunities for quality improvement (Roberts 2021). Services are increasingly making use of technology and data to inform their practices and processes (Hatzgianni et al. 2023).

However, there are some limitations in how the current regulatory system encourages continuous improvement. First, the emphasis on broad service ratings against the NQS does not fully reflect how a service has been improving (or worsening) over time. For example, a service rated as Meeting the NQS for several consecutive assessments may be exceeding an increasing number of NQS standards over time, but this progress is not captured in the overall service rating. In section 8.6, the Commission recommends several measures to better support and reward continuous improvement in the system. This includes recognising the improvements of underperforming services, and increased support for all services to help encourage uplifts in quality.

## The application of the NQF has evolved over time

Since the NQF was introduced in 2012, there have been changes to both the framework itself and how it has been put into practice.

Following the findings of the 2014 review of the NQF, the NQS was simplified in 2018 with the number of elements falling from 58 to the current 40. The criteria for an Exceeding rating in each quality area were changed to require each standard in the quality area to be rated as Exceeding, rather than for there to be at least two standards rated as Exceeding. Other changes to the NQF were also made, including to the procedure for assessment and rating visits.

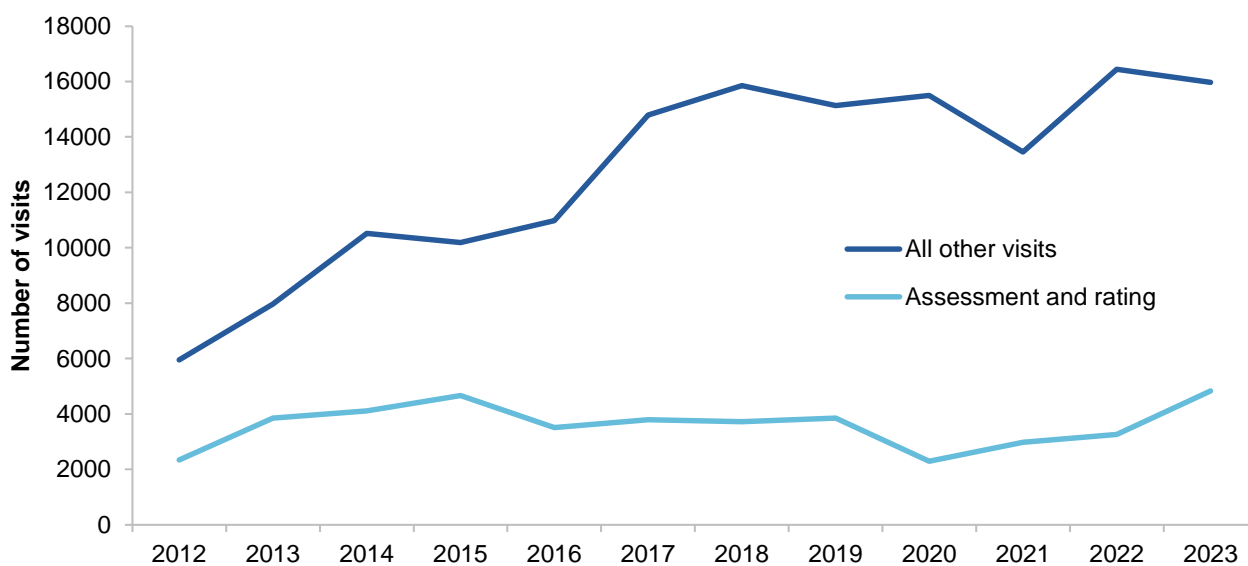
Further changes followed the 2019 NQF review, including a requirement for FDC educators to hold a qualification (not just be working towards one), allowing documentation for children's learning in OSHC to be at the level of the program rather than for each individual child and improving children's safety arrangements.

From 2023, regulatory authorities commenced a transition to an increased use of partial reassessments, which reassess a service against a subset of quality areas, rather than all seven. The notice period before an assessment and rating visit was also reduced to between one and five days, rather than up to four weeks.

Other changes to the NQF were recommended by ACECQA’s review of child safety arrangements in 2023. These include strengthening the NQS’ coverage of child safety and amending the National Regulations, for example by limiting the use of personal electronic devices and reducing notification timelines for physical and sexual abuse complaints. In February 2024, education ministers accepted key recommendations in principle, commencing work on implementation (Education Ministers Meeting 2024).

Regulatory practice has also evolved without explicit changes to the NQF. In particular, focus has shifted from assessment and ratings visits to educative or monitoring and compliance visits. Assessment and ratings visits comprised about 30% of all service visits in the four years after the NQF was introduced, but only about 20% in the subsequent eight years (figure 8.2). While this does partly reflect the increased need for assessment and ratings visits after the NQF was first introduced, almost all the increase in the total number of visits that has occurred since then has been driven by other visit types.

**Figure 8.2 – Assessment and rating visits are becoming a smaller part of quality regulation**  
**Annual number of assessment and rating visits and other service visits, 2012–2024**



Source: ACECQA (2024b).

The National Partnership Agreement on the National Quality Agenda, which established the NQF, included an expectation that Working Towards, Meeting and Exceeding services would be reassessed every one, two and three years, respectively. These timelines are very far from being met (section 8.4), but regulatory authorities often do not see more rapid reassessments as the best use of their scarce resources.

The centrality of the assessment and ratings process in the design of the NQF was underpinned by the assumption that these ratings could and would be used by families to choose between services (this was the only benefit of the quality rating system mentioned by the regulation impact statement for the reforms that introduced it).

But, for a variety of reasons – including a lack of availability, high switching costs, and particular weaknesses in NQS ratings and how they are communicated – it seems rare for families to choose one service over

another because of its quality rating. While improvements could be made to how up-to-date ratings are, and how they are communicated, these seem unlikely to be sufficient to allow competition on quality to play a major role in improving it (section 8.5).

Ratings can improve quality without incentives created by parental choice: regulators may identify areas for improvement and provide guidance on how to achieve this; a poor rating will lead to increased contact with the regulator; and educators and centre directors can be motivated by their NQS rating on a personal level. But full assessment and rating visits, because they are more comprehensive, are more time-consuming for services and regulators, requiring the consideration of all 40 NQS elements. Each educative or monitoring and compliance visit (or partial assessment and rating visit) allows for more frequent contact between services and regulators, focused on areas of particular concern.

Given this, it seems reasonable that regulatory activity may have shifted from a process focused on generating comparable information on quality to other measures that may be more efficient in directly working with services to detect deficiencies and improve quality. Still, there is little explicit recognition of this shift in the NQF itself.

## 8.2 Has ECEC quality improved over time?

There are several metrics by which sector-wide quality of ECEC can be assessed. These include:

- the mix of quality ratings. For example, the proportion of services at least meeting the NQS
- the rate of serious incidents in ECEC services
- the rate of breaches of the National Law and/or Regulations in ECEC services.

Some inquiry participants felt that sector-wide quality had improved over time.

The overall quality of Australian ECEC services has improved since the implementation of the National Quality Standard. (CCC and CELA, sub. 318, p. 25)

The NQS drives continuous improvement and has successfully improved the quality of education and care for children across Australia. Sustained improvements in quality across all areas of the NQS can be seen in the data collected since the introduction of the NQF in 2012. (ACECQA, sub. 256, p. 3)

However, some also pointed to increases in complaints and other compliance issues.

Rates of notifications and complaints are escalating steeply across the sector. (Queensland Government, sub. 319, p. 9)

This section explores these trends in more detail and considers how the data reflects changes in ECEC quality over time.

### A growing share of services are at least meeting the NQS

Most Australian ECEC services meet the quality standard as set out in the NQF. (An outline of the assessment and rating process is detailed in appendix C.)

While NQF quality ratings are one of the best available data sources for examining quality, caution should be used when interpreting this data (box 8.2). Issues include long times between reassessments, the fact that quality can change between assessments, and the fact that the NQF has been revised over time and some services have only been assessed against previous versions.

### Box 8.2 – Reliability of National Quality Framework quality ratings

A range of factors should be taken into consideration when interpreting National Quality Framework (NQF) ratings data.

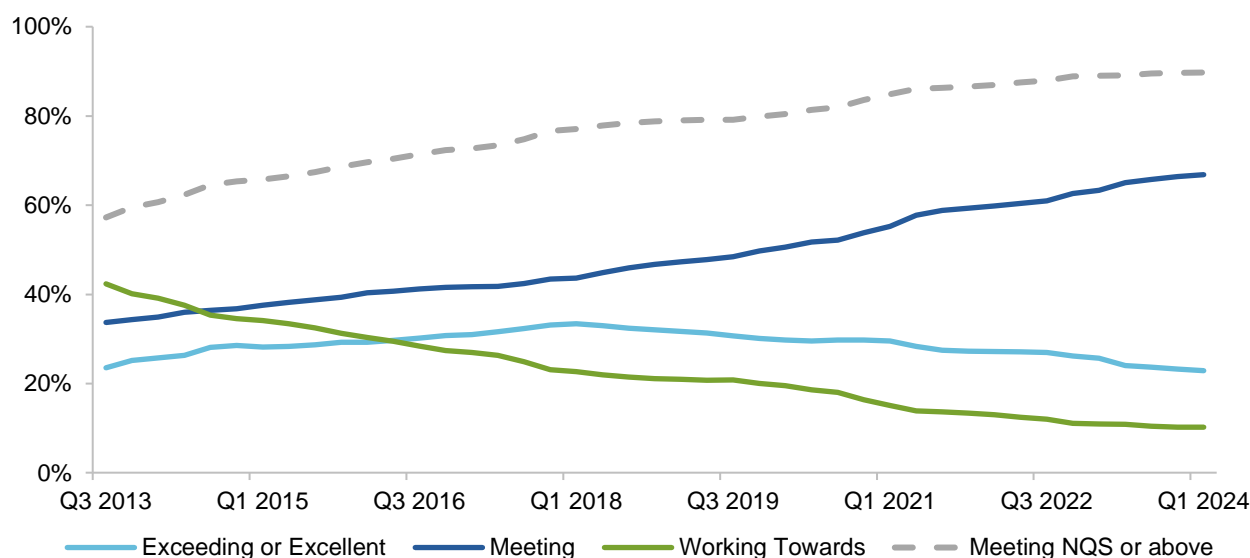
- There can be a long time between reassessments of services. For those services that had received at least two assessments, the average time between assessments was just over four-and-a-half years (as at 1 April 2024).
- Some services have only been assessed against previous versions of the National Quality Standard (NQS). Updates to the NQS were made in 2018, but as at 1 April 2024 about 7% of rated services had only been assessed against the 2012 version.
- Not all NQF approved services have been assessed. As at 1 April 2024, 10% of approved services had not been assessed (and therefore did not have a rating).
- Some services are excluded from the NQF. For example, exclusions include preschools that are part of the school system in Western Australia and Tasmania, In Home Care services and some services funded by the Community Child Care Fund Restricted grant.
- Services are assessed as Working Towards the NQS if one or more of the 40 elements is not met. As at 1 April 2024, 12% of services assessed as Working Towards had not met one element only, and a further 13% had not met two elements only.

Source: Productivity Commission estimates, using ACECQA data (2024a, 2024e, 2024d).

Since the introduction of the NQF, there has been a general improvement in quality ratings across the ECEC sector (figure 8.3). At 1 April 2024, about 90% of assessed services had a rating of Meeting the NQS or higher (Productivity Commission estimates using ACECQA 2024e). This improvement has been driven by an increase in the proportion of services assessed as Meeting the NQS, while the proportion of services either Exceeding the NQS or Working Towards the NQS has declined over time. The declining proportion of services rated as Exceeding the NQS or above since 2018 most likely reflects changes made in 2018 to the NQS and the assessment criteria to receive an Exceeding rating.

Over the period from 2013 to 2024, the proportion of services with a rating also increased significantly from 25% in 2013 to 90% in 2024 (Productivity Commission estimates using ACECQA 2024e). Given the risk-based approach that regulators take, it is also possible that higher-risk services were prioritised for initial assessments in 2013, which could exaggerate the rate of improvement in service ratings since that time. Nonetheless, ratings data does suggest that quality in the sector has improved on average over time.

However, there are variations in quality ratings by locations, service types and provider types (figure 8.4). These variations do not imply causality, and may reflect differences in services' operating models or cost structures. But despite these limitations, the results present a picture of substantial variation in the quality of ECEC that children receive across Australia. And they show that children experiencing disadvantage are more likely to experience ECEC of poorer quality. Services operating in remote parts of Australia and in areas where socio-economic disadvantage is common are *less likely* have a rating of Meeting the NQS or above. These are the services attended by children who are most likely to benefit from quality ECEC.

**Figure 8.3 – Quality ratings have improved over time<sup>a,b,c,d</sup>****Quality ratings of assessed services, as a proportion of all assessed services, 2013–2024**

**a.** Subject to data caveats outlined in box 8.1. **b.** Data covers the period from quarter 3 2013 to quarter 1 2024. **c.** Data captures services that had received at least one assessment by the end of the relevant quarter, regardless of whether the assessment and rating was conducted during that quarter. **d.** Very small proportions of services are assessed as Significant Improvement Required. These have not been depicted graphically but have been included in the total number of assessed services for the purposes of calculating the proportion of services achieving the respective quality ratings depicted above.

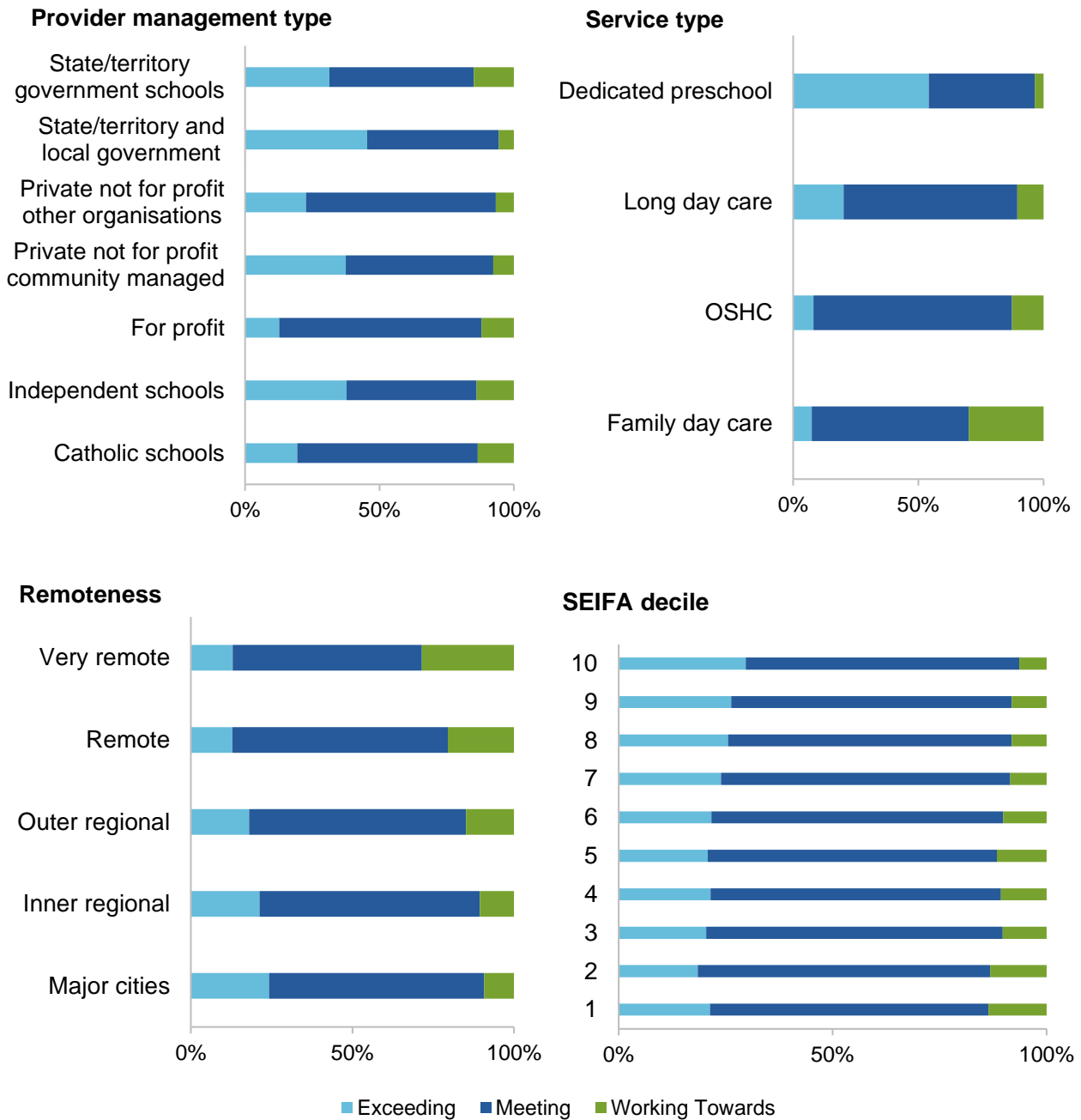
Source: Productivity Commission estimates, using ACECQA data (2024e).

The Commission has undertaken analysis of NQS ratings that adjusts for some of the differences between services to better isolate the role of each individual factor.<sup>3</sup> For example, although observed quality ratings in Tasmania and the Northern Territory are lower than in other states, this gap largely disappears when adjusting for factors such as socio-economic advantage and remoteness. Conversely, differences in quality ratings between for-profit and not-for-profit services expand when adjusting for other factors, suggesting not-for-profit services are more likely to operate in areas in which it is harder to deliver quality.

This analysis can allow for a better comparison of quality levels, but can do little to uncover the reason for these differences. For example, it cannot determine the extent to which they may be due to for-profit providers' need to make a commercial return, relative to the contribution of not-for-profit providers' greater access to tax concessions and likelihood of concessional arrangements in accessing land. Future analysis could be aided by improvements to these processes (section 8.4) and by the introduction of the preschool outcomes measure (paper 1), providing a better indication of how ECEC quality varies according to these factors.

<sup>3</sup> This analysis considered only CBDC services. Timeframes for assessment and ratings processes are long, meaning that in some cases data may be out of date and will reflect any inconsistencies in assessment and rating processes.

**Figure 8.4 – There is variability in quality ratings among service types and locations<sup>a,b,c,d</sup>**  
**Quality ratings by select characteristics of services, 1 April 2024**



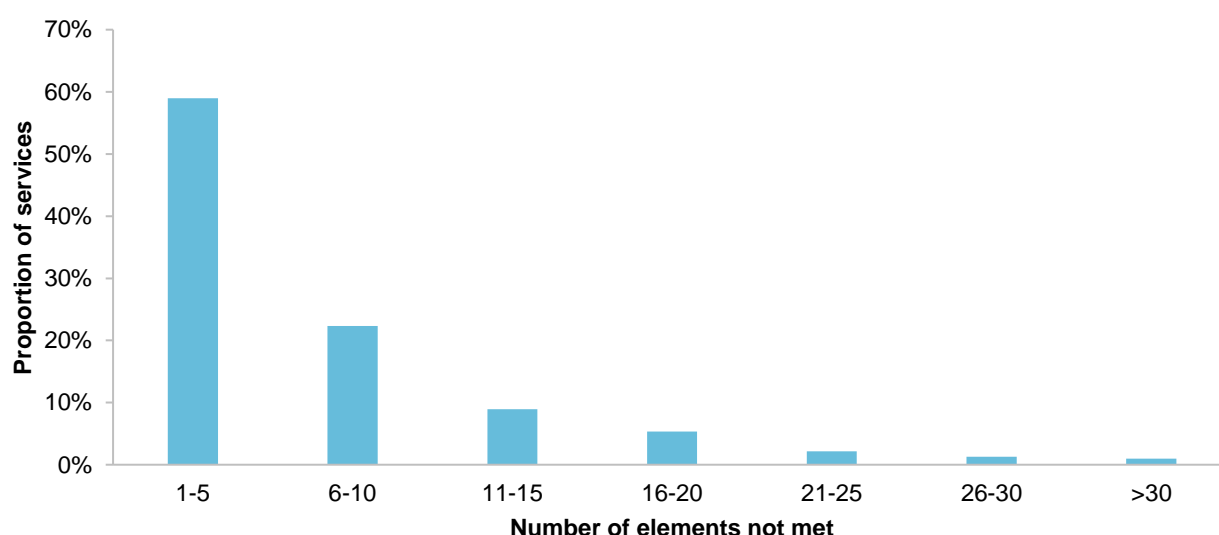
**a.** Subject to data caveats outlined in box 8.2. **b.** Data captures services that had received at least one assessment by the end of the relevant quarter, regardless of whether the assessment and rating was conducted during that quarter. **c.** SEIFA deciles are based on the Socio-Economic Index for Areas – Index of Relative Socio-Economic Advantage and Disadvantage. Decile 1 represents the most disadvantaged areas and Decile 10 the most advantaged. **d.** Very small proportions of services are assessed as Excellent or Significant Improvement Required. These have not been depicted graphically but have been included in the total number of assessed services for the purposes of calculating the proportion of services achieving the respective quality ratings depicted above.

Source: ACECQA (2024e).

## A significant minority of services are not meeting the NQS

While about 90% of ECEC services are either Meeting or Exceeding the NQS, this means that a sizeable minority are not meeting the standards – in April 2024, about 10% of rated ECEC services were not meeting the NQS (ACECQA 2023d, p. 14).<sup>4</sup> Many of these were only failing to meet a handful of elements of the NQS (figure 8.5) – and about 48% of services rated as Working Towards at 1 April 2024 were only failing to meet one or two quality areas (ACECQA 2024c, p. 18). The most common quality areas that services do not meet are Quality Area 1 (educational program and practice), Quality Area 7 (governance and leadership) and Quality Area 2 (children’s health and safety) (ACECQA 2024c, p. 19).

**Figure 8.5 – Most ‘Working Towards’ services are not meeting five or fewer NQS elements**  
**Proportion of Working Towards services and number of elements not met, at April 2024**



Source: ACECQA (2024d).

The services that do not meet the NQS are diverse. They exist across all types of providers and services, and in every geographic category from major cities to very remote areas. But some characteristics are overrepresented in services that do not meet the NQS, which are more likely to be:

- school or private for-profit providers
- family day care and OSHC services
- located in remote and very remote areas
- located in areas with relatively higher levels of disadvantage (figure 8.4).

Many factors can lead to a service not meeting the NQS.

Children in complex and low-income areas are least likely to access services rated Exceeding the National Quality Standard ... A range of factors explain this outcome, including but not limited to: (1) concentration of complexity in an environment of standard staff-child ratios and, (2) greater difficulty of recruiting and maintaining staff and staff wellbeing in complex communities. (Queensland Brain Institute, sub. 252, p. 7)

<sup>4</sup> ‘Not meeting’ the NQS refers to both services rated as Working Towards NQS and Significant Improvement Required – noting that at April 2024, only eight services were rated in the latter category.

But the proportion of services not meeting the NQS at a point in time does not show the full picture. Most services that previously did not meet the NQS demonstrate improvements in their rating when they are next assessed – at April 2024, 68% of services previously rated as Working Towards the NQS had improved their overall rating at reassessment to either Meeting or Exceeding the NQS (whereas 24% of services either Meeting or Exceeding the NQS were subsequently rated as Working Towards the NQS) (ACECQA 2024c, p. 12). There is some evidence that services are more likely to achieve this move if they are not-for-profit providers (relative to for-profit providers), and large providers (relative to smaller providers, including standalone providers) (Harrison et al. 2023, pp. 17–18).

However, a small but persistent minority of services have been underperforming for an extended period of time. In April 2024, about 6% of the services (or about 100 services) rated as not meeting the NQS had held this rating for 10 or more years. Nearly three quarters of these services were operated by for-profit providers, and 74% were long day care services – despite for-profit providers and long day care each making up just over half of all services (Productivity Commission estimates using ACECQA 2024e). While ratings data has some limitations given many services have not been assessed for several years, and some new services have not been rated at all (section 8.4), this data still suggests that the existing regulatory system is not lifting or incentivising quality among all services as effectively as it could be.

## **The rate of serious incidents and breaches is rising – but the reasons for this are complex**

Data on service breaches of the National Law and National Regulations, and serious incidents, gives mixed indications of service performance over time.

Providers, services and staff can breach the National Law and/or Regulations in various ways, such as by failing to adequately supervise children, operating a service without a service approval, not meeting minimum staffing requirements (including ratios and qualifications), or providing false or misleading documents (ACECQA 2023b, pp. 574–578).

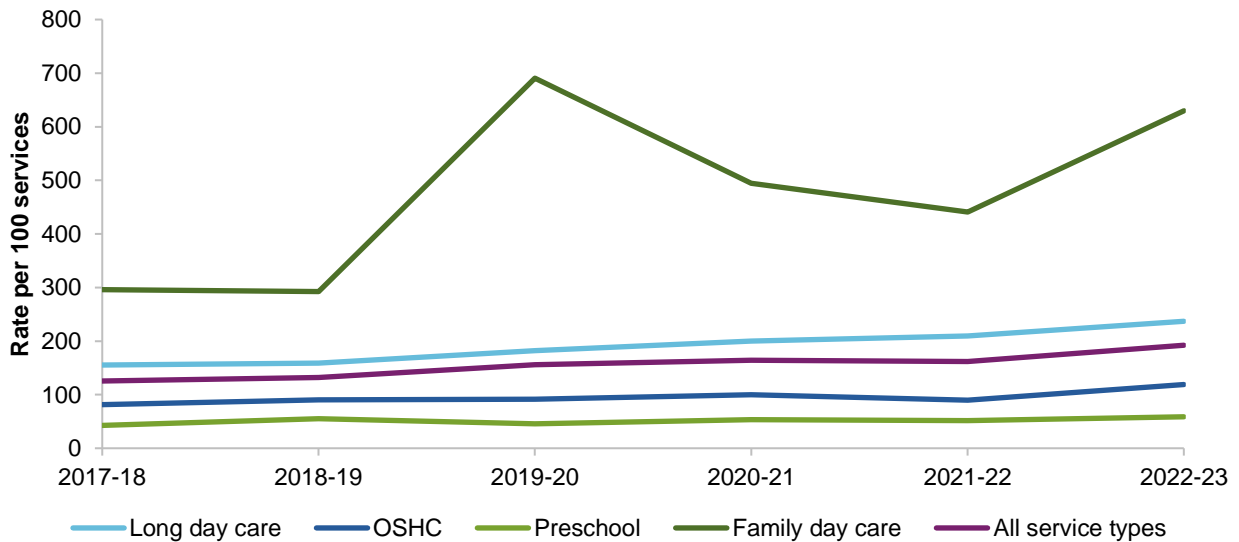
Serious incidents are events that the service must report to the regulatory authority within prescribed time frames. They include death, serious injury or trauma to a child, serious illness of a child, any incident requiring the attendance of emergency services, a missing child or child unaccounted for, a child taken or removed from the service by an unauthorised person, or a child mistakenly locked in or out of a service (ACECQA n.d). There is some overlap between serious incidents and breaches. For example, if a service reports to the regulatory authority that a child was injured while playing, this may result in a breach of the National Law or Regulations if it is found that the injury occurred due to inadequate supervision of children by the service. If the same injury occurred as part of appropriate, supervised play, it would be unlikely to result in a breach, though it would still need to be reported as a serious incident.

The rate of breaches per 100 services increased by 53% in the five years to 2022-23, to about 193 incidents per 100 services (figure 8.6). About 80% of these incidents were injuries, traumas or illnesses – most commonly cuts, wounds and broken bones – and most often caused by tripping or falling, child to child interactions and equipment, furniture or toys (ACECQA 2023g, pp. 4–5). Part of this increase likely reflects the increase in the rate of serious incidents reported over the same period – an increase of 42% (figure 8.7) – as serious incidents may generate a confirmed breach of the National Law or Regulations. About two-thirds of breaches since 2019 were at for-profit services, meaning they are somewhat overrepresented (about 53% of all services at the start of 2024 were for-profit) compared to not-for-profit services (Productivity Commission estimates using unpublished ACECQA data).



**Figure 8.6 – The rate of breaches has been rising<sup>a</sup>**

**Rate of confirmed breaches of the National Law/Regulations, per 100 services, 2017-18 to 2022-23**

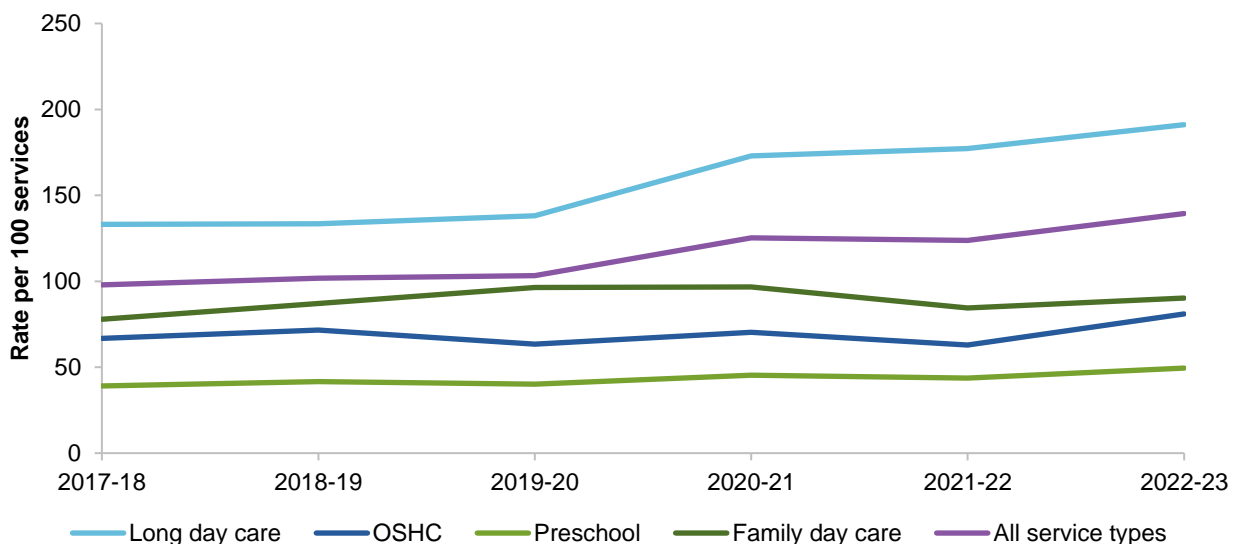


a. Comparisons between family day care and other service types should be made with caution, as family day care services can consist of multiple individual family care residences operating under a single unit.

Source: Steering Committee for the Review of Government Services data (2024).

**Figure 8.7 – The rate of serious incidents has been growing<sup>a</sup>**

**Rate of serious incidents per 100 services, 2017-18 to 2022-23**



a. Comparisons between family day care and other service types should be made with caution, as family day care services can consist of multiple individual family care residences operating under a single unit.

Source: Steering Committee for the Review of Government Services data (2024).

However, the extent to which these trends indicate worsening quality of ECEC services is not clear. The data reflects the rate at which services (and families) report issues – and the rate at which regulators detect, report and act upon issues with services. This means that the data could reflect various factors, such as:

- the effectiveness of services' ability to identify and report serious incidents may have improved over time
- regulators may be increasing their monitoring activities, making use of improved monitoring technology, and/or acting more on complaints about services
- regulators may consider more events to be a serious incident or breach
- in the case of serious incidents, on average services are getting larger, which increases the risk of incidents. The size of long day care services increased on average from about 63 places per service in 2013 to about 74 places in 2024 (ACECQA 2024e).

This means that some of the increase in the rate of serious incidents could reflect *improved* quality in some services – for example, services rated as Exceeding NQS have higher rates of injury, trauma or illness serious incidents than services rated as Meeting NQS, and Working Towards NQS services have the lowest rates of these serious incidents – which ACECQA suggests may reflect higher quality services having stronger reporting processes to identify serious incidents and a higher likelihood of reporting them (ACECQA 2023g, p. 8).

## 8.3 System-level performance has room to improve

### A framework for assessing the regulatory system

One of the principles of any well-functioning regulatory system is that it operates efficiently and with integrity and accountability. This means that regulations should be understandable and have clear objectives, with clear roles, responsibilities and requirements of regulators, and that those who apply regulation are accountable for its performance (box 8.3).

When the National Partnership on the National Quality Agenda for Early Childhood Education and Care (NQA) was first agreed by the Council of Australian Governments (COAG) in 2009, it outlined several principles of best practice regulation.

- The system will operate in a transparent, accountable, efficient, effective and fair manner.
- ECEC and OSHC service providers will have certainty about the regulatory requirements associated with the NQA.
- The regulatory requirements on ECEC and OSHC care service providers will be consistent across Australia.
- To the greatest extent possible legislative requirements contained under other laws will not duplicate the NQA's regulatory requirements.
- Joint governance arrangements will provide scope for individual jurisdictions to have their perspectives considered.
- Jurisdictions will not move unilaterally to change standards or fees in the future.
- The NQS will include provision to recognise location specific conditions in particular circumstances (COAG 2009a, pp. 7–8).

This paper considers the performance of the ECEC quality regulation system, focusing on aspects that were raised most often by inquiry participants. Namely, it examines the extent to which the regulatory system delivers on the following principles:

- the system operates efficiently and with transparency and accountability
- service quality is reviewed and rated in a timely and effective manner
- the ratings system provides useful information to families
- the system supports continuous quality improvement and effectively deals with underperformance
- the system appropriately regulates different types of ECEC services within the NQF
- the system has effective mechanisms to ensure quality in services outside the scope of the NQF.

### Box 8.3 – Principles of good regulation

Governments typically have well-established principles that guide good regulation. While there is variation in the exact principles, they generally outline common themes.

- **Transparency:** regulation should be understandable and have clear objectives, with clear roles, responsibilities and requirements of different regulatory authorities.
- **Accountability:** regulation should have criteria against which its effectiveness can be judged and those who apply the regulation should be held accountable for its performance.
- **Proportionality:** regulation should be appropriate for the issue being addressed.
- **Consistency:** regulation should be consistent within itself and with other regulation.
- **Targeted:** regulation should focus on the problem it aims to address while minimising unnecessary complexity and costs on businesses and people. Enforcement of regulation should be based on risk, and regulation should be regularly reviewed to ensure it is fit for purpose.

Other principles guide the appropriate governance and conduct of regulatory authorities specifically, including that regulators are free of undue political interference, are adequately resourced and have the capabilities needed to perform their role, use resources efficiently and keep administrative costs at an appropriate level.

Source: COAG (2007); PC (2020, p. 99).

## Does the system operate efficiently and with transparency and accountability?

For the most part, the roles of national and state entities in regulating ECEC quality are clear. As noted above, ACECQA oversees the NQF, and the state regulatory authorities regulate ECEC services in their jurisdiction. The scope of regulatory authorities includes services that are covered by the NQF (and corresponding National Law and Regulations), as well as services out of scope of the NQF, which are regulated through a variety of other national and state regulations.

Some aspects of the ECEC regulatory system already promote efficiency. For example, the risk-based approach that regulatory authorities take in assessing and monitoring ECEC services tends to prioritise underperforming services for more regular review and contact with the regulator (section 8.5). And the National Quality Agenda IT System also improves efficiency through consistent data collection on ECEC

services and providers, and by providing a portal through which services can provide information, such as notification of a serious incident (ACECQA n.d.; Lucas 2021).

There is, however, room to improve the efficiency of the ECEC regulatory system.

There could be better consistency in how the states and territories enforce the National Law and National Regulations. Significant differences exist in measures such as the time taken between reassessments of services (section 8.4) and the level of support (and broader regulatory approach) given to underperforming services (section 8.6). While it is neither realistic nor desirable for jurisdictions to take identical regulatory approaches – given the differences in the nature of the regulated services and factors such as geographic dispersion and varying community needs by jurisdiction – significant inconsistencies create unequal treatment of services and can also impose unnecessary costs and uncertainty on service providers that operate across multiple jurisdictions.

The ECEC regulatory system already promotes some accountability and transparency, but there is room for improvement. ACECQA publishes the detailed rating of every service, and various indicators based on this information (for example, the proportion of services in each jurisdiction with each NQS rating). And some of the operations of each state regulatory authority (such as the number of services assessed) are also included in state government department annual reports. But information on the actions – such as the number of complaints and time taken to address them - and funding of regulatory authorities is not readily available in all jurisdictions.

In South Australia, the regulatory authority publishes an annual report that details the regulator's funding and outcomes such as the number of visits, assessments and other activities performed in a year (ESB 2023). This allows various stakeholders, including all levels of government, families and ECEC services, to better understand how quality is being regulated, and how ECEC services are performing.

In its draft report, the Commission recommended that regulatory authorities should publish an annual report detailing how they delivered on broader objectives, including metrics on the number of assessments performed, average time between assessments, funding and other activities (draft recommendation 8.1). There was strong support from inquiry participants for this recommendation.<sup>5</sup>

This recommendation is retained. All regulatory authorities should be required to publish an annual report, including a range of metrics for the previous twelve-month period. This would allow governments, ECEC services and families to better understand how their regulatory authority is performing. It would also promote a more consistent regulatory approach between jurisdictions, to the extent that increased transparency would allow the performance of regulatory authorities to be more readily compared. This information may be included as part of the relevant State Government Department's annual report, if appropriate. The information from each annual report should also be collated and published by the ECEC Commission, to improve the accessibility of the information (paper 10).

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<sup>5</sup> ACA, sub. 255, p. 51; Goodstart, sub. 277, pp. 23-24; Guardian, sub. 254, p. 8; La Trobe University, sub. 298, p. 15; OSHCA, sub. 232, p. 30; The Parenthood, sub. 276, p. 22; SNAICC, sub. 290, p. 25; United Early Learning, sub. 275, p. 1; WA NFP Consortium, sub. 250, p. 13.



### 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.

## The ECEC Commission should monitor the ECEC quality regulation system

At the system level, there is no entity with clear responsibility for quality. Both ACECQA and the state regulatory authorities have some influence over quality, but no entity is held accountable for the ongoing quality improvement of the ECEC system as a whole. There may be some merit to states and territories having primary responsibility for ECEC quality in their jurisdiction – as recommended by the South Australian *Royal Commission into Early Childhood Education and Care* – given that states also regulate ECEC quality in their own jurisdiction (SA Government 2023, p. 6). However, the Commission considers that the Australian Government should have overarching responsibility, given that it is part of a national system, and there is a need for consistency across jurisdictions. Monitoring the ECEC quality regulation system, including how it supports quality improvement and resolves cross-jurisdictional inconsistencies, could be included as an explicit responsibility in the proposed ECEC Commission, as is considered in paper 10.

## 8.4 Are assessment and rating processes working well?

The assessment and rating of services against the NQS is at the heart of the NQF. These processes can ensure services follow the National Law and the National Regulations, assess the quality of the education and care they provide and allow this information to be used to drive quality improvement directly (through support and compliance) and indirectly (by informing families' choices).

This section considers:

- the widespread concerns over the accuracy, consistency and efficiency of the assessment and ratings process, recommending these issues be addressed by an independent review of the NQF
- the infrequency of assessment and ratings visits, recommending an increase in the resourcing provided to regulatory authorities.

## Views on the accuracy of ratings are mixed

Since it took effect, providers' support for the broad framework of the NQF has been consistent and strong, remaining at over 95% for a decade (ACECQA 2022b). Many inquiry participants also conveyed strong support for the NQF (for example, The Creche & Kindergarten Association, sub. 155, p. 14; Family Day Care Australia, sub. 66, p. 6; Goodstart Early Learning, sub. 125, p. 16; KU Children's Services, sub. 83, p. 6; SDN Children's Services, sub. 63, p. 5). But some expressed scepticism about the ability of NQS ratings to accurately measure quality.

These concerns included the potential for the 'gaming' of assessment and rating visits. Until recently, guidance was for regulatory authorities to provide four weeks' notice before a visit, and there had been reports of providers temporarily moving equipment – or even staff – to a service before assessment (Child Development Education and Care Research Group, sub. 19, p. 8, Carter, sub. 177, p. 3, eQIPd, sub. 216, p. 4). The potential for this may be limited by the introduction of shorter notice periods of one to five days before most assessment and rating visits (ACECQA 2023b, p. 353). Educators and centre directors, while acknowledging the issue (with one noting that 'importing an A team during assessment and rating preparation time is a widespread practice in the sector'), had mixed views on whether a shorter notice period would address this (ACA NSW 2023).

The regulators with whom the Commission consulted on this issue viewed it as not particularly common, and able to be detected if the children at the service are unfamiliar with the new equipment or educators. The National Law and Regulations could be amended to explicitly prohibit this behaviour, although this was not viewed by these regulators as a priority.

Concerns also related to the extent to which the assessment and rating process relies on documentation, rather than observations of interactions between educators and children. This was reflected in one inquiry participant's statement that 'assessment and rating is a joke – if you have time to write, [you're] sitting pretty. It's not a real reflection of many services or how they operate day to day' (Brief comment 96). Documentation may not even have been produced at the service being assessed, with reports of services copying and pasting material including QIPs (ACA NSW 2023).

Other inquiry participants were sceptical of whether the quality improvement suggested by changes in ratings data over time (section 8.2) reflects a true improvement, for example arguing that authorised officers can be convinced that a service is high-quality by centre directors who know the right 'lingo' of quality, or if the physical premises of a service are new and modern, even if the quality of education and care provided to children is mediocre.

## The ability to measure the accuracy of NQS ratings is limited but may improve

Comparison of NQS ratings to other measures of quality could help to understand how much the concerns discussed above affect the ability of NQS ratings to accurately measure quality. But there is no perfectly accurate measure of quality against which NQS ratings could be compared, and available measures seem to have at most a minor role in explaining how different ECEC programs have led to different effects on children's outcomes (paper 1). It is difficult to determine how closely aligned NQS ratings are to the 'true' quality of a service.<sup>6</sup>

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<sup>6</sup> There are many conceptions of what comprises ECEC quality, and what the aims of ECEC should be (for example, Dahlberg, Moss and Pence 2013). This report would refer to one service as higher quality than another if it would improve the outcomes of children, on average, to a greater extent – noting that each child's experience will be unique, and that many factors, including ECEC, may affect outcomes.

There are plans for the introduction of a Preschool Outcomes Measure for children attending a preschool program in the year before full-time school, with a trial set to take place in 2025 (DoE nd). This measure, depending on how it is designed and made available, could be used to compare the pace of children's learning between centres with different NQS ratings, at least for older children, and provide some indication of the relevance of these ratings for children's outcomes. Such findings could inform the evolution of the quality regulation system, especially if they identify areas of the NQS that seem particularly important.

### **It is unclear how effectively efforts at promoting consistency are operating**

Many inquiry participants have stated that there is inconsistency within or between jurisdictions in the assessment and ratings process (including G8 Education, sub. 68, p. 11; Goodstart Early Learning, sub. 125, p. 31; The Y Australia, sub. 127, p. 13). For example, Centre Support argued that 'authorised officers often impose their own interpretations and biases onto the assessment process, deviating from established guidelines and regulations' (sub. 113, p. 3).

Promoting consistency in the application of the NQF is one of the primary functions of ACECQA, and efforts are already in place to support this objective. Authorised officers must go through nationally consistent training delivered by ACECQA, and 'drift tests' are conducted in attempts to ensure that authorised officers continue to carry out processes consistently.

But in a 2015 trial, 20% of authorised officers gave an overall service rating that differed from that of the ACECQA lead assessor who was shadowing them (ACECQA 2016a). It is possible that the degree of reliability between the ratings of two authorised officers would be lower, and unclear how consistency between authorised officers may have changed since that trial was conducted, including with the introduction of the 2018 NQS.

When ratings are inconsistent, they are less useful for families. Inconsistency may also misdirect quality improvement efforts, as inadequacies go unrecognised or are falsely identified. And any incentives to improve quality will be dampened if this improvement risks going unnoticed and unrewarded.

### **How are assessment and rating processes affecting educators and services?**

The resources required for educators and services to comply with regulatory requirements can be significant – particularly as the time educators spend producing evidence that will be used in assessment and rating processes is time that cannot be spent providing education and care to children. It is important to ensure that this compliance burden is not unduly costly.

In 2022, about half of providers who responded to an ACECQA survey indicated that they experienced a high level of burden from complying with the NQF. Assessment and rating visits were the component of the NQF that was reported to lead to high levels of burden by the largest share of providers (64%). Only 37% considered that the benefits of assessment and rating visits outweighed their costs (ACECQA 2022b).

Inquiry participants have argued that providing high-quality ECEC is sometimes in opposition to convincing regulators that high-quality ECEC is being provided. For example, the Commission heard from one provider that considered, but eventually decided against, seeking a rating of Exceeding the NQS due to a perception that it would require using resources to *demonstrate* quality that could otherwise be spent *improving* quality, to the detriment of children.

Educators and centre directors are often frustrated with the documentation requirements of the assessment and rating process:

Educators are required to do so much paperwork rather than spending quality time with children. (Brief comment 79)

The level of paperwork required in early childhood education is voluminous and though we endeavour to minimise this, takes away qualified staff from the children. (Brief comment 102)

The paper work side and assessment and rating process needs to change though. Focus needs to be on the children not what paper work needs to be completed. (Brief comment 54)

A common source of complaint is the assessment and planning cycle element of the NQS, which requires documentation of children's learning, and has been specifically mentioned by many providers as a source of administrative burden (ACECQA 2022b). The Commission heard that this documentation is often produced as a box-ticking exercise and can go unused, while taking up a significant proportion of educators' time.

The NQF was designed as an outcomes-based regulatory framework (ACECQA 2022c, p. 3). But the outcomes against which services are assessed are not children's outcomes, and the contribution of ECEC towards these is difficult to assess. Instead, the assessed outcomes are the elements and standards of the NQS. For example, element 1.2.1 states that 'educators are deliberate, purposeful, and thoughtful in their decisions and actions' (ACECQA 2023b, p. 127); authorised officers must determine whether this is the case.

Authorised officers are limited in their ability to directly observe whether such statements are true, particularly as visits may only last six hours, and in that time educators know they are being assessed. The assessment and ratings process leads to the production of written documentation that authorised officers may consider, such as the written program, team meeting minutes, examples of practice, planning documentation and documentation monitoring children's progress. While philosophically the NQF may be outcomes-based, its application seems to place a significant role on inputs.

Guidance on what is required to meet elements of the NQS is high-level and vague, and does not include the expected quantity and level of detail for documentation. Where expectations are unclear, services may feel a need to produce an unnecessary amount of documentation, as otherwise there is a chance that an authorised officer may feel that there is insufficient evidence of their quality. Inquiry participants, including many educators, expressed a desire for greater clarity.

Proper and appropriate guidance needs to be given for programming and planning for children and a clear expectation of what [assessment and rating] wants. (Brief comment 114)

A recently introduced move to greater use of partial reassessments, which do not consider all seven quality areas of the NQS (section 8.1), may affect the experiences of educators and services, with less comprehensive but potentially more frequent visits.

## **A new review of the National Quality Framework is needed**

The issues identified above must be addressed, but doing so may require many changes to a complex system – and specific consultation on these potential changes with providers across jurisdictions, service types, sizes and ownership structures. The Commission, given the broad scope of its inquiry, has not aimed to provide detailed recommendations on the changes necessary to improve assessment and ratings processes, but rather to provide direction for a future review of the NQF.

Five-yearly reviews were a feature of the National Quality Agenda, included in a National Partnership Agreement between the Australian, state and territory governments (COAG 2009a, p. 15). But this agreement has expired, and there has been no public commitment to a future review. This is particularly



important as the current version of the NQS has not been comprehensively reviewed despite playing a central role in the quality regulation system. (The NQS was excluded from the 2019 NQF review because it was significantly changed in 2018 (section 8.1)).

A future NQF review should consider whether simpler, clearer and more consistent assessment against the NQS could improve quality more effectively, provide better information to families, and allow services and educators to spend more time focusing on the education and care of children. While these reviews impose short-term demands on the sector and on regulators (and the need for changes following the child safety review should be considered in its timing), a review with this focus could, in the long run, reduce the demands from the regulatory system.

One option for the review to consider is more explicit guidance on the minimum levels of documentation that providers are expected to produce. This would address the phenomenon described above, where a lack of consistency and clarity leads to the production of an excessive amount of documentation, which educators have to spend time away from children to produce. Clear minimum expectations could increase consistency and free up educators' time, while allowing services to go further if they viewed this as beneficial to quality.

The review of the NQF should be independent from the governments responsible for administering it. While the Education Ministers Meeting has responsibility for reviewing the NQF (Education and Care Services National Law Act, section 220), this should take place at arm's length. The review should also be transparent, by making its thinking public to allow more effective consultation. The final report of the review should also be made public, with governments justifying decisions to not implement recommended reforms. This is consistent with principles for best practice reviews of regulation (OECD 2020).

The Education Ministers Meeting should consider the scope and timing for future NQF reviews. A five-year review cycle for comprehensive reviews may not be appropriate if the recommendations for these reviews can take four years to implement (as with the revised NQS mentioned above). While future changes could be implemented with less delay, getting consultation right and negotiating changes to the NQF between all governments will inevitably take time. Comprehensive NQF reviews may need to be further apart, or if the five-year timeline for reviews is to be followed, reviews could alternate between a focus on the NQS and on the other aspects of the NQF.



### **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.

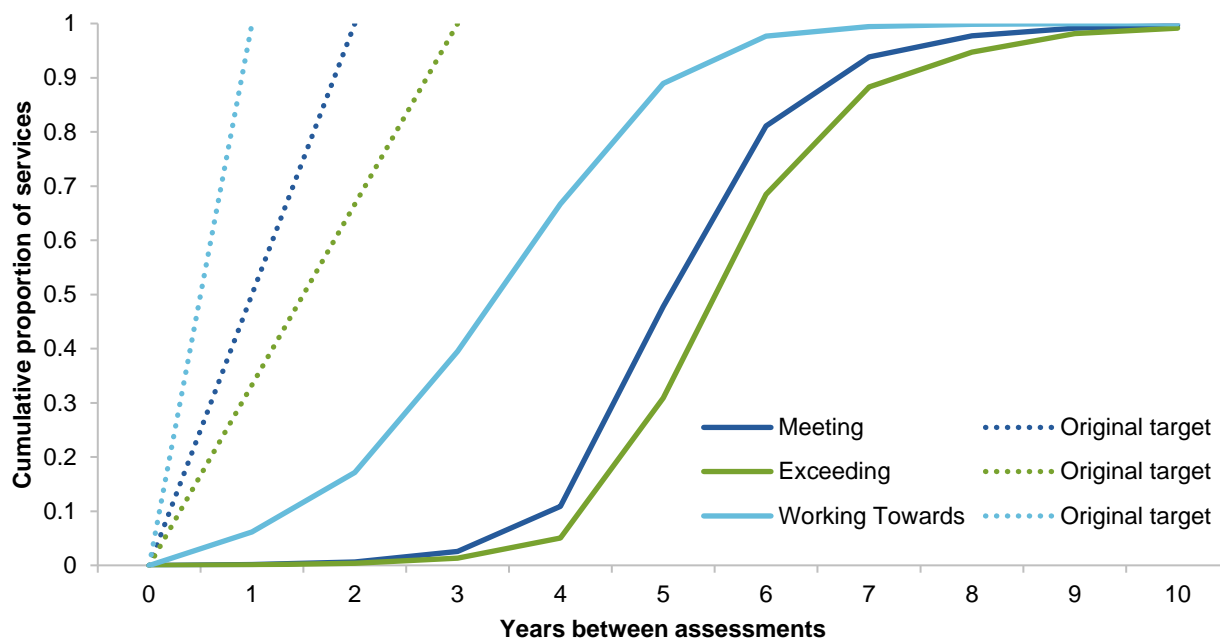
## **Assessments are too infrequent**

In the National Partnership Agreement on the National Quality Agenda, which established the NQF, it was envisaged that Working Towards, Meeting and Exceeding services would be reassessed every one, two and three years, respectively (COAG 2009a). Many inquiry participants argued for a target of reassessments

every year for Working Towards services and every three years for Meeting and Exceeding services (for example, Early Learning Association Australia, sub. 48, p. 25; Early Learning and Care Council of Australia, sub. 153, p. 12; Goodstart Early Learning, sub. 125, p. 41; The Parenthood, sub. 122, p. 4).

Neither of these targets are near being met. There are considerable lags between assessment and rating visits, and many services' NQS ratings are significantly outdated (figure 8.8). Even for services that are Working Towards the NQS, about a third go more than four years between assessments (Productivity Commission estimates using ACECQA 2024a). And in some jurisdictions, lags are significantly longer, for example in South Australia, where the average time between assessments for services with a rating of Meeting or Exceeding is about nine years (figure 8.9).

**Figure 8.8 – Reassessments are much slower than originally envisaged<sup>a,b</sup>**  
**Cumulative proportion of reassessed services by years between assessments and by previous rating, at April 2024 (solid lines), and NQA benchmarks (dotted lines)**



**a.** The National Partnership Agreement on the National Quality agenda included an expectation that services that were Working Towards, Meeting and Exceeding the NQS be assessed every one, two and three years, respectively. Although this has been represented in the figure as taking place at a consistent rate, meeting these expectations would be more likely to involve a disproportionate number of assessments at the end of these timeframes. **b.** This figure only includes the about 73% of services that have been assessed at least twice at April 2024.

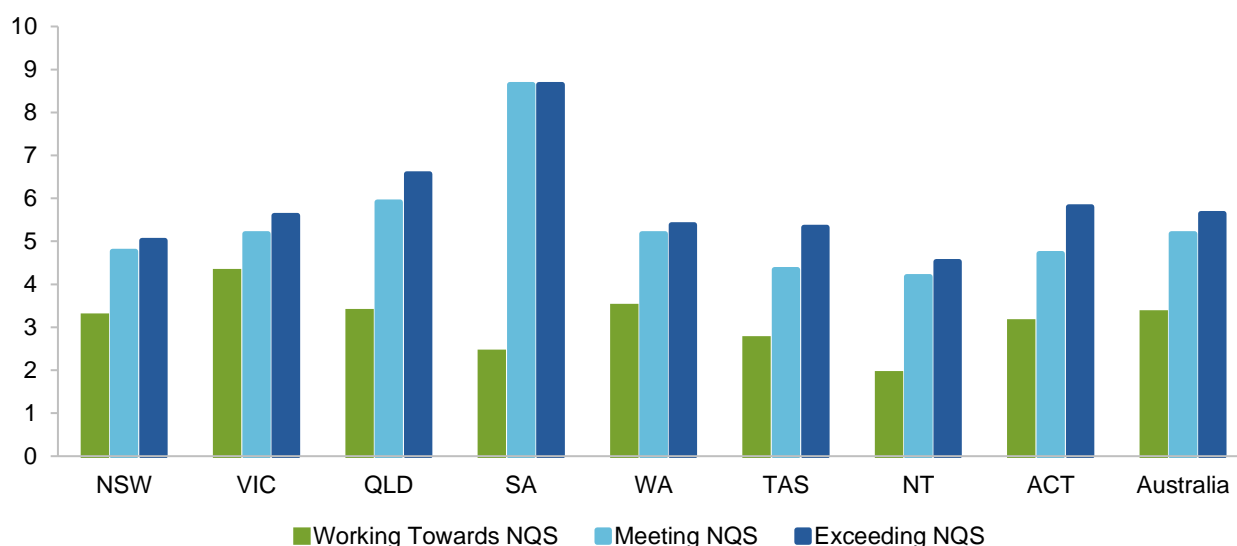
Source: Productivity Commission estimates using ACECQA data (2024a).

Long lags between assessments are particularly problematic for services that are Working Towards the NQS. Although most of these services are, upon reassessment, found to have improved their quality (section 8.2), until that reassessment takes place their rating may be misleading to families. For services that have not improved, their lack of progress may go unnoticed (although regulatory authorities also conduct less comprehensive compliance and monitoring visits).

Assessment delays are a risk to quality even for services currently rated as Meeting or Exceeding. Many that are doing well could still be doing better. And some of these services will not have their current quality levels reflected by their rating. When services with a previous rating of Meeting are reassessed, 15% are rated as

Working Towards. For services previously rated as Exceeding, 9% have their rating downgraded to Working Towards (ACECQA 2024c, p. 12). Many services with a good but old rating may have their quality levels overestimated by families, or not be aware that they need to improve in certain areas.

**Figure 8.9 – Delays in reassessment are particularly long in some jurisdictions<sup>a</sup>**  
**Average years between ratings (by state and territory, and previous rating), April 2024**



a. This figure only includes the about 73% of services that have been assessed at least twice at April 2024.

Source: Productivity Commission estimates using ACECQA data (2024a).

As noted above, about one in ten services has never been assessed. While many of these have only recently been approved, about half have been approved for more than a year without being assessed. Unrated services are more prevalent in some states, for example comprising one in every six services in Western Australia (ACECQA 2024b).

There is little evidence to determine how often reassessments should take place. Assessment and rating visits' requirements on service and educator time, fiscal costs, and use of regulatory authority resources (which could be spent on supporting rather than assessing services) must be balanced against the benefits of more up-to-date ratings. When results from the Preschool Outcomes Measure become available, the development of a timeline could be informed by how the relationship between NQS ratings and children's learning weakens as ratings age, and how this relationship is affected by other risk factors.<sup>7</sup>

But while a clear basis for determining optimal reassessment timeframes may not be available now, it is clearly a problem when services can go several years without assessment, and most services that are found to be Working Towards the NQS go more than three years before they are reassessed (figure 8.8). More frequent assessments are necessary for an accurate indication of the performance of services and would be a powerful tool to increase the quality of education and care that children receive.

<sup>7</sup> For example, a two-year-old rating of a service that has continued operating in a consistent manner may be a better indication of service quality than a one-year-old rating of a service that has changed ownership and undergone considerable staff turnover. While rating age is a key factor in prioritising assessments, it is not the only factor.

Improvements in the efficiency of the ratings process could increase the number of assessment and rating visits that can take place for a given level of funding. An increase in the use of partial reassessments that commenced from 2023 may lead to services that are Working Towards only a small number of elements to have these elements reassessed sooner (ACECQA 2022a). And broader efforts to reduce the time taken by assessment and rating visits may be desirable. But efficiency improvements alone are unlikely to be sufficient for timely ratings.



#### **Finding 8.1**

#### **The timeframe between service assessments is too long**

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

### **Regulatory authorities need to be adequately resourced**

The resources provided for regulators to carry out assessment and rating visits, alongside other functions, do not seem to be sufficient to allow for the current number of operating services to be assessed in a reasonable timeframe (figure 8.10). Previously, through the National Partnership Agreement on the National Quality Agenda, the Australian Government provided funding to each state and territory government to support the operation of their regulatory authority (COAG 2009a, 2016). The most recent agreement expired in 2018, and was not replaced with any other mechanism for Australian Government funding.

Goodstart Early Learning has argued that this ‘removed the Australian Government’s key lever to influence and work with state-based regulators’, and that ‘as a result, regulators are underfunded, and basic regulatory tasks (such as assessment and rating) have fallen behind the originally intended three-year cycle’ (sub. 125, p. 37).

Inadequate resourcing, and the resulting inability of regulatory authorities to carry out core functions with sufficient frequency, needs to be addressed as a matter of priority. An independent review should determine a regulatory resourcing standard that is sufficient for assessments to occur in a reasonable timeframe, compliance with the NQF to be monitored and services to be supported to improve their quality. In moving towards this standard, the Australian Government should reestablish funding of regulatory authorities given its role in the establishment of the NQF, its greater revenue-raising capacity and the potential for coordinated funding to be used to further promote consistency in the application of the NQF.<sup>8</sup>

Although Australian Government funding could in due course be made part of a new national agreement on ECEC (paper 10), there would be benefits if it commenced before a broader agreement. Participation in ECEC will expand if other recommendations made by the Commission are implemented. Safeguarding quality during this expansion will be critical but requires addressing the current constraints on regulatory activity.

Improvements in the efficiency of the ratings process could increase the number of assessment and rating visits that can take place for a given level of funding. An increase in the use of partial reassessments that commenced from 2023 may lead to services that are Working Towards only a small number of elements to have these elements reassessed sooner (ACECQA 2022a). And broader efforts to reduce the time taken by

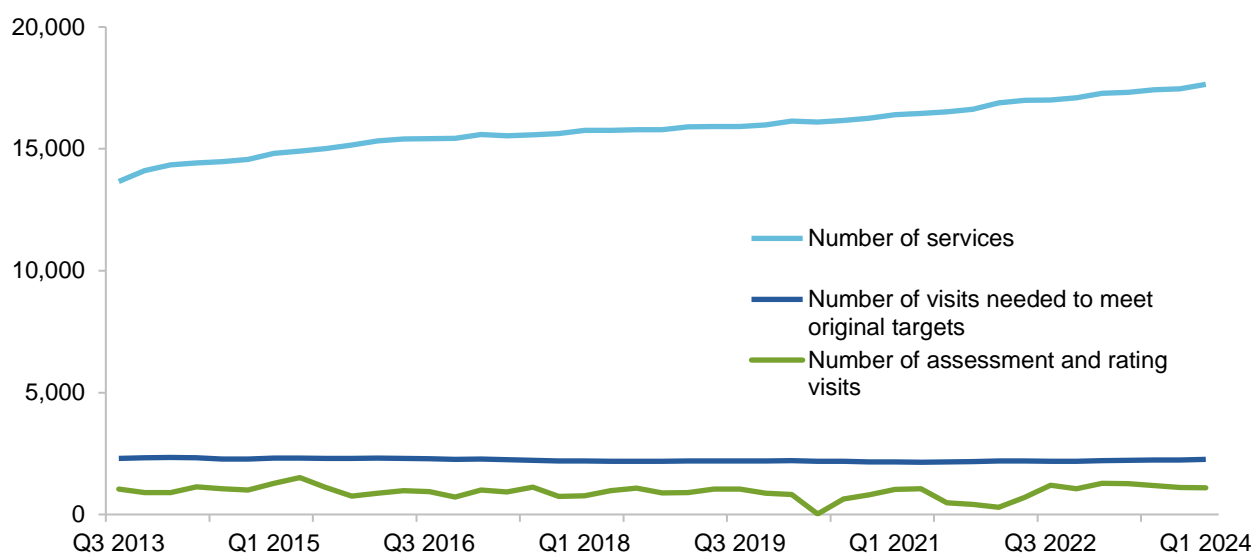
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<sup>8</sup> The Queensland Government has noted that ‘shared investment’ will be critical in states’ consideration of changes to quality regulation (sub. 319, p. 10).

assessment and rating visits may be desirable. But efficiency improvements alone are unlikely to be sufficient for timely ratings.

**Figure 8.10 – The number of services has grown; the number of assessment and rating visits has not<sup>a,b</sup>**

**Approved services, number of assessment and rating visits, and number of visits needed to meet National Quality Agenda targets in each quarter, 2013–2024**



**a.** The number of visits required to meet NQA targets has fallen slightly despite a greater number of services as ratings against the NQS have improved, and these targets include longer periods between visits for better-rated services. **b.** This chart treats unrated services as rated, with their ratings assumed to follow the same distribution as rated services. This will underestimate the required number of visits to meet NQA targets, as the NQA included an expectation that new services would be rated three to six months after approval. However, this approach allows for easier comparisons across time, as otherwise the proportion of unrated services shortly after the introduction of the NQF would create a short-term pattern in the early years of the NQF that would mask long-term trends.

Source: Productivity Commission estimates using ACECQA data (2024e, 2024b).

This review should also consider timelines for reassessment and other forms of regulatory activity, including targeted support for underperforming services (section 8.6). The National Quality Agenda included envisaged timelines for reassessment, but these were set before the operation of the quality rating system could be observed, which has presented some potential lessons.

The premise underpinning the centrality of the assessment and ratings process to the NQF – that parental choice based on NQS ratings would play a meaningful role in driving quality improvement – does not seem to have been borne out. While this role can and should be enhanced (section 8.5), there remain limits to its potential. This may have implications for the extent to which regulatory authorities should be encouraged to focus on improving quality indirectly through parental choice rather than directly through compliance and support.

Regulatory authorities are already making greater use of monitoring and compliance visits rather than full assessment and rating visits (section 8.1). While contributing to delays in reassessment and making ratings less informative, this will still be preferable if these visits are more efficient in supporting quality (as one regulatory authority has argued). Although targets could be set, for example for assessment and rating visits, they create risks when there are multiple regulatory activities. Targeting only one activity can misdirect resources away from others. Targeting all forms of regulatory activity simultaneously requires an understanding of the optimal balance between them.



### 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.

## 8.5 Are the ratings produced by regulators useful to families?

### NQS ratings are seldom used in families' decision-making

A key impetus for the inclusion of the rating system in the National Quality Framework was to enable families to make informed decisions based on these ratings, strengthening services' incentives to improve their quality (COAG 2009b, pp. 8, 56; ECDWG 2010, p. 31). The rating system does not seem to be meaningfully fulfilling this objective.

Families' use of NQS ratings is low. In one survey, only 11% of respondents were sure they knew the quality rating of their child's service (with another 31% thinking they might know what that rating was, but unsure) (Song et al. 2023, p. 57). In a larger 2023 survey from ACECQA, 44% of respondents were not even aware of the existence of the rating system, and 71% were either unaware of the system, or did not know the rating of the service they used or planned to use. 75% were either unaware of the rating system, unaware of the specific service's rating or did not find this rating helpful in making their choices (ACECQA 2023c, pp. 46–47).

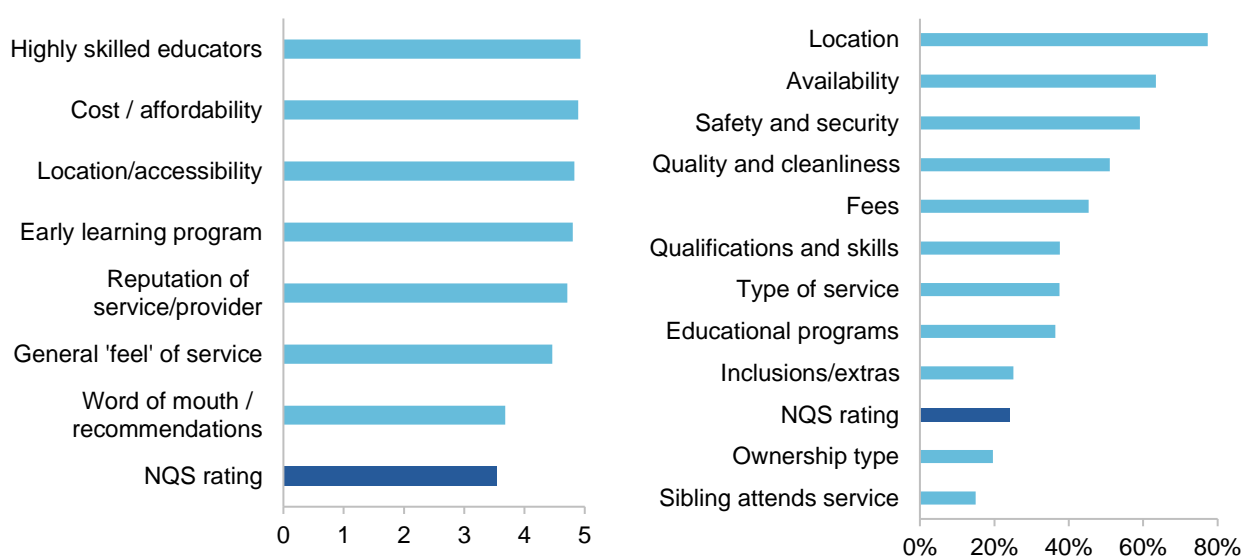
These figures are for parents who chose to respond to a survey from ACECQA, and may not be representative of most families. Of the several dozen focus group participants in a research project aiming to understand families' use of NQS ratings, not a single one indicated that they had used NQS ratings to inform their choice of service (Hall & Partners 2018, p. 49). Providers expressed to the ACCC's childcare inquiry that families 'place low or no significance on formal quality ratings' (ACCC 2023c, p. 95), also consistent with views expressed by participants in the Commission's inquiry.

Families do care about ECEC quality. They just do not seem to care much about NQS ratings as measures of quality. Instead, they tend to rely on other sources of information, such as word of mouth, the 'feel' of a service or online ratings from other families (figure 8.11). While the weight that can be placed on any quality measure will be limited by accessibility, as many families do not have a large number of services to choose between that are nearby, affordable and have an available place, this cannot explain why NQS ratings are viewed as less important than other quality measures.

While other sources of information on service quality can be of some use, the information they are able to provide is limited. Before enrolling their child at a service, families may only directly observe the operations of that service during a scheduled visit, where the centre knows they are being observed by a prospective customer. Word-of-mouth recommendations or online reviews from families currently using the service can be informed by observations during pick-up, drop-off or visits, but almost all the time children spend in ECEC settings goes unobserved by families. And children themselves may not be able to assess service quality.

**Figure 8.11 – NQS ratings are among the least important factors in families' ECEC decisions<sup>a,b</sup>**

**a. Weighted average ranking of factors when choosing a service (higher = more important), ACECQA families' survey**      **b. Proportion ranking each factor for choosing a CBDC service in their top five factors, ACCC parents and guardians survey**



**a.** Ratings from 3035 respondents in a 2023 survey from ACECQA, including some who were not currently using an ECEC service. **b.** Excludes the categories 'Accommodates complex needs', 'Accommodates CALD children' and 'Accommodates First Nations children' due to very low proportions of respondents including these in their top 5.

Source: ACCC (2023b, p. 65); ACECQA (2023c, p. 50).

The extent to which educators' interactions with children promotes their development is also difficult for parents to gauge. In a Peruvian study where parents rated the quality of their children's educators, they did not seem to be able to identify educators who offered a higher quality experience to children, and did not give higher ratings to educators who improved the developmental outcomes of the children under their care to a greater extent than their colleagues (Araujo, Dormal and Schady 2019, pp. 18–19). And one US reform that improved the quality of interactions between educators and children led to *lower* online ratings, with reviews becoming more likely to mention the price of the service (which rose due to the reform) while not being any more likely to mention the quality of the learning environment (Herbst and Brown 2023, p. 5).

NQS ratings (if they are sufficiently up to date) may give families a stronger indication of the quality of services. As noted above, ratings are based on 40 elements across seven quality areas. These were developed with consideration of international evidence on children's development (COAG 2009b). The authorised officers assessing services against these elements are trained in the assessment of quality and typically have experience as educators. NQS ratings could be expected to be more informative than other indicators of quality – but they are still seldom used.



### 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.

## A range of factors contribute to the low use of NQS ratings ...

Many factors could be playing a role in families' minimal use of NQS ratings.

- As discussed above, about half of families may not know that a quality rating system even exists. In many cases, a lack of use of NQS ratings may reflect a lack of awareness, rather than an informed rejection of their significance.
- Families often misunderstand the rating system. For example, the Commission heard of cases where it was assumed that, as there is a quality assessment system in place, all providers met a minimum standard, and so it was unnecessary to look for regulatory information on service quality.<sup>9</sup> Families also sometimes misinterpret a rating of Working Towards as meaning that a service has not yet been rated against the NQS, not that it does not meet the NQS.
- NQS ratings are not always communicated alongside explanatory information. Families may search online for a service they are considering using and see a webpage for that service on ACECQA's national registers stating: 'Quality Area 7: Working Towards NQS'. But they are unlikely to be aware that Quality Area 7 is governance and leadership, or what it means in practice that a service is working towards the governance and leadership quality area.
- NQS ratings, and how they are communicated, will not always allow for families to distinguish between all the services that they can access.
  - As services almost always receive one of three ratings, and about 90% are either rated as Meeting or Exceeding, all the services that a family is choosing between could have the same rating.
  - Services with the same rating can still be of very different quality, even if these ratings are both up to date. A service that meets 39 of the 40 elements will be rated as Working Towards, but so will be another that only meets six of 40 elements. Services with overall ratings of Meeting or Exceeding can also differ substantially in the number of individual NQS standards they exceed. But ACECQA's national registers of services and Starting Blocks website, which is intended to help families choose between services, provide no way of determining how many elements of the NQS a service is working towards or how many standards they are exceeding.
- Ratings are often many years old (section 8.4). They can also change substantially between assessments. Services can go from Exceeding the NQS in all quality areas to Meeting between two ratings, or to go from Working Towards to Meeting the NQS in all quality areas. Given that ratings are often outdated, in many cases it may be rational for families to not place much weight on them – although it seems unlikely that many families do not use ratings because of their frequency given so many families are not aware of the rating system at all.

<sup>9</sup> An absolute minimum standard does exist, as services that do not provide a safe environment for children may have their registration cancelled – but although this can also occur for services that are consistently Working Towards the NQS, the Commission has not heard of this power being exercised solely for this reason, despite some services holding a rating of Working Towards for many years (section 8.6).



- Ratings may not be perceived as accurate. Common survey responses in those aware of services' ratings but who did not find them to be helpful included a belief that NQS ratings were subjective and not a true indication of service quality (ACECQA 2022b). Families also expressed concern that ratings may be gamed, and that complying with regulatory requirements took up time that could be spent caring for and educating children (Hall & Partners 2018, p. 39).

As noted by the ACCC, 'more targeted and accessible use of National Quality Framework information may help families' decision making in respect of childcare services' (ACCC 2023c, p. 32). Over time, there is some indication that families' knowledge of, use of, and belief in the value of the rating system has been improving (ACECQA 2022b, pp. 46–49). But the pace of this has been slow, and more could be done to realise the potential of NQS ratings to drive improvement in the quality of ECEC services.

### **... but simple changes to the communication of quality ratings could help**

The Commission's draft report raised a range of options that could make NQS ratings more useful to families. The accuracy of ratings could be improved, particularly through sufficiently resourcing regulatory authorities to allow for frequent ratings (recommendation 8.3). But simple changes to when and how information on NQS ratings is provided to families could also increase their use.

Services should be required to, if they have a website, display their quality rating on it. A similar requirement exists for the display of a ratings certificate on a service's physical premises, but there is no online equivalent despite the prevalence of the use of the internet in finding services. Nationally consistent minimum conditions on what is displayed should be prescribed by regulatory authorities. Services may wish to include more information about their quality rating and their efforts at quality improvement, particularly if they have been rated as Working Towards the NQS.

Existing communication of information should be made clearer and more detailed. ACECQA's national registers should clearly state the practical meaning of each service's rating in more accessible language (for example, 'Children's health and safety: Working Towards National Quality Standard' instead of 'Quality Area Two: Working Towards NQS'). The national registers should also include more explanatory information on quality ratings.

Both the national registers and the Starting Blocks website should also state the number of NQS elements that a service does not meet, and the number of NQS standards it exceeds, to allow families to better differentiate services of different quality levels.

Parents should be given the opportunity to share information with regulatory authorities, as part of the assessment and ratings process. Services should also be required to inform families when they receive a new NQS rating. Currently, there is no mechanism to ensure families are aware of the outcomes of the assessment and ratings process, even if this uncovers serious deficiencies. This contact should at minimum include a specified statement from the regulatory authority, although the service may wish to add their own comments.

A similar requirement should extend to families considering enrolling their child at a service, for services to inform them of their current NQS rating. During service visits, the service should inform the family verbally. This could be more salient than if the same information is included on a form that may not be read by a busy family, and presents an opportunity to start conversations about quality.

Inquiry participants generally had favourable views on these options (for example, ELACCA, sub. 299, p. 52, the Front Project, sub. 277, p. 72, Creche and Kindergarten Association, sub. 306, p. 16).

Increasing the use of NQS ratings will only be desirable if these ratings provide accurate and meaningful information. It may be necessary to delay the requirement for services to inform prospective families of their current rating until issues with the timeliness of ratings are addressed, to prevent choices being made based on outdated assessments. For changes that make existing efforts at communication more effective, the date of the service's rating is already included and can be taken into account by families.

Even with more effective communication, barriers to accessibility will inevitably limit the extent to which NQS ratings can be used. But some families are still in a position to choose between services and should be able to do so based on a clear understanding of the best information on the quality of those services. Effective communication of NQS ratings could improve families' understanding of service quality, informing their decisions and providing an incentive for services to improve their quality.



#### **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.

## **8.6 How does the system deal with underperformance?**

While many ECEC services are high-quality, it is essential that the regulatory system is equipped to appropriately deal with underperforming services. This is especially important when the market does not incentivise services to deliver high-quality ECEC, such as in areas where there is a shortage of ECEC places compared to demand.

The state and territory regulatory authorities are responsible for dealing with services that are underperforming. In the context of the NQF, a service may underperform by repeatedly not meeting the standards set by the National Law, National Regulations, and/or the NQS (ESB, sub. 310, p. 10), though there is no formal definition. 'Underperformance' can range from a service rated 'Working Towards the NQS' for several consecutive assessment cycles due to one element of a standard not meeting the NQS, to a service that has had serious breaches under the National Law and Regulations.

### **Regulatory authorities are well equipped to deal with serious breaches**

Regulatory authorities have a range of enforcement powers that they can use for breaches of the National Law and the National Regulations (figure 8.1) – for example, prosecution based on the actions of a service or an educator, or financial penalties for failing to comply with certain national regulations (ACECQA 2023b,

pp. 551–552). Breaches of the National Law and Regulations range in nature, from more procedural issues (such as not displaying accurate weekly menus in the service) to issues that generate urgent child safety concerns (such as inadequate supervision of children or an unsafe physical environment in the service). While the rate of breaches in ECEC services has been increasing over time (section 8.2), the Commission did not find evidence of significant gaps in the existing regulatory powers of regulators when services or providers breached the National Law and/or Regulations.

[T]he existing regulatory powers at our disposal are robust and comprehensive. We possess a range of tools and interventions ... which enable us to address instances of underperformance swiftly and decisively. (ESB, sub. 310, p. 13)

However, the Commission heard about some specific circumstances where the way in which the National Law and Regulations were set up made it difficult for regulatory authorities to deal with related providers with separate provider approvals when they were underperforming. They also raised difficulties with regulatory authorities targeting underperforming providers that operate across multiple jurisdictions, because of the difficulties of identifying providers in those jurisdictions, and coordinating regulatory efforts.

Queensland notes the rising complexity of responding to non-compliance of the part of large entities that operate across multiple jurisdictions, particularly those operating services under multiple provider approvals. (Queensland Government, sub. 319, p. 10)

Related providers may have overlapping personnel, but, under the NQF, the relatedness of providers is not immediately apparent, particularly when operating across multiple jurisdictions, but becomes known after some level of investigation. (ACECQA, sub. 256, p. 31)

The National Law allows for enforcement action to be taken at the provider approval level but does not envisage a scenario where related providers organise themselves across multiple provider approvals. (ESB, sub. 310, p. 13)

The Regulatory Practice Committee, which consists of representatives from the regulatory authority in each jurisdiction, the Australian Government and ACECQA, is working on a Focussed Deterrence Project to ‘improve the effectiveness of regulatory responses to provider-level risk at a system level and achieve greater national consistency in use of high-volume compliance tools’ (ESB, sub. 310, p. 13). The Committee is well-placed to consider ways to remedy any limitations in the National Law and Regulations, and any limitations in how the regulatory authorities coordinate, to deal with underperformance – while minimising unnecessary additional regulatory burden on providers and services. The Australian, State and Territory Governments should consider changes to the National Law and Regulations if the Committee deems them necessary to address underperformance in related providers.

## **Services that repeatedly do not meet the NQS should face consequences**

When a service does not meet the NQS, there are some measures that regulatory authorities can use. If a service is rated as Significant Improvement Required, meaning that ‘there is a significant risk to the safety, health and wellbeing of children’, ACECQA indicates that ‘the regulatory authority will take immediate action’ (ACECQA n.d.). This action could involve suspending a service’s approval to operate (effectively shutting it down for a period of time) or accepting a written undertaking from a service provider to take or refrain from taking certain actions. These measures seem appropriate given the serious nature of the Significant Improvement Required rating.

When a service is rated as Working Towards the NQS, the consequences are more limited. This is because a Working Towards rating itself is not necessarily problematic – it could reflect that a service is relatively new or in need of support to understand what is required to meet the NQS – and most services that are Working Towards the NQS subsequently meet the NQS in their next assessment (section 8.2). ACECQA suggests that Working Towards services are still providing a ‘safe education and care program’, and that a Working Towards rating is not a ‘failure’, because ‘the assessment and rating process was not designed to be a pass–fail system. Rather, it is a system that examines a broad range of quality measures and encourages continuous improvement’ (ACECQA 2016b, n.d.c).

However, it is problematic when a service continually does not meet the NQS, and does not demonstrate progress towards meeting the standard. Regulators have some enforcement powers when a service is rated Working Towards – they can suspend a service’s approval to operate, and if the service does not rectify the issues, the regulator can opt to cancel the service’s approval and the service will close. However, in practice, this does not seem to occur – the Commission is not aware of any instances where a regulator has taken action against a service because of a repeated Working Towards the NQS rating. One regulatory authority suggested that this reflected that the NQF and rating system had not been in place long enough to have seen many services rated as Working Towards the NQS for three or more consecutive assessments. Some regulators also indicated that it is rarely favourable to suspend a service’s approval based on a Working Towards the NQS rating, due to the significant disruptions it causes to children, families and communities.

The Commission considered various ways in which services could face greater consequences for repeatedly Working Towards the NQS. This included:

- increased support for Working Towards services in the form of targeted quality improvement programs
- greater use of existing powers to suspend and cancel service approvals
- financial penalties, including fines and reductions in government funding (such as reduced CCS)
- giving regulators the power to transfer administration of underperforming services to higher performing providers
- other powers, including conditions on service approvals and compliance notices.

Best practice regulatory principles suggest that regulators should use an escalating set of tools to ensure the compliance of the services they regulate. The most appropriate response to a service that is repeatedly Working Towards the NQS will depend on several factors, such as:

- the willingness of the service to lift quality
- the extent to which the service is not meeting the NQS (such as the number of quality areas of the NQS not being met)
- whether the service has made progress over time towards meeting the NQS (such as by meeting an increasing number of quality areas)
- the duration of the underperformance
- the type of consequence that will be most proportionate and also most likely to compel the service to meet the NQS
- effects of more severe measures, such as suspending or cancelling a service approval, on the availability of ECEC in the community, and other effects on children, families and the community
- effects of the low-quality service on child safety, development and other outcomes.

The Commission sought participants’ views in the draft report on the most appropriate regulatory actions when a service is repeatedly rated as Working Towards the NQS, and whether regulators need additional

tools in these circumstances (information request 8.2). Most participants agreed that services that were repeatedly rated as Working Towards the NQS should face stronger consequences.<sup>10</sup>

While most participants did not think that regulators needed additional tools to deal with underperformance, some participants suggested that government funding could be tied to service performance – for example, underperforming services could be prevented from qualifying for Child Care Subsidy (CCS), or receive reduced government funding, and services could receive additional funding for improving their quality rating (Burman, sub. 317, pp. 7–8; CPD, sub. 282, p. 16; Goodstart, sub. 125, p. 28; Local Government NSW, sub. 287, p. 15; Victorian Government, sub. 311, p. 11).

While funding incentives are potentially a powerful lever to lift quality in some services, they also risk adverse outcomes. If a service is failing to meet the NQS due to a lack of resources, reducing the service's funding will make it more difficult for it to improve quality – and may cause quality to deteriorate further. This would also reduce the viability of the service and may force it to close. This outcome may, in practice, be similar to if the regulator used their existing powers to suspend or cancel a service's approval to operate.

Regulatory authorities should make more use of their existing powers to suspend service approvals when a service is failing to meet the NQS repeatedly, with no improvement. However, this measure is severe and will likely have significant impacts on children and families – so it should be used as a last resort when less severe measures have not succeeded. There should be escalating tools available to the regulatory authority to use before resorting to service approval suspension or cancellation. An appropriate 'middle step' may be giving regulatory authorities the power to issue a compliance notice to a service that is repeatedly rated as Working Towards the NQS, with no meaningful progress made. A compliance notice is a written notice given to a service provider to take certain steps to comply with the National Law and Regulations, which they must do within a given time period, otherwise further penalties – such as fines – can be used (ACECQA 2023b, pp. 559–560). Regulatory authorities already can use this power when a service breaches the National Law and/or Regulations. To extend this power to when services repeatedly do not meet the NQS would require a change to the National Law and Regulations. The use of a compliance notice in this situation – would send a stronger message to an underperforming service to lift quality, without reducing the service's resources (and ability to implement quality improvements). It would also allow the service to continue to operate while it resolved issues, minimising the disruption to children and families. A compliance notice could specify that a service must meet the NQS by the end of the prescribed time period, or – at the regulator's discretion – could specify that the service must have made significant progress towards meeting the NQS.

Regulatory authorities could also accept enforceable undertakings from underperforming services, which would require the service to outline what it will do in a specified time period to lift quality. Currently, this regulatory tool can be used when services do not comply with the National Law or Regulations, but could be extended to when services do not meet the NQS. Enforceable undertakings are initiated voluntarily by the service, and can be accepted or rejected by the regulator. The undertaking is enforceable in a tribunal or court if the service does not meet the requirements, and may attract penalties such as fines or suspension of the service approval (ACECQA 2023b, pp. 561–564). Compared to compliance notices, enforceable undertakings may offer some more flexibility in how a service works to meet the NQS. But services need to face the risk of further escalating sanctions to be compelled to initiate an enforceable undertaking. Regulatory authorities should have the option of accepting an enforceable undertaking, either before or instead of, a compliance notice. This would depend on the circumstances of the service's underperformance.

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<sup>10</sup> For example, Burman, sub. 317, pp. 7-8; CCC and CELA, sub. 318, p. 25; CPD, sub. 282, p. 16; ELACCA, sub. 299, p. 53; Goodstart, sub. 277, p. 24; KU Children's Services, sub. 83, p. 6; The Parenthood, sub. 276, p. 22; Victorian Government, sub. 311, p. 11.

The Commission heard from regulatory authorities that many services rated Working Towards the NQS were willing to lift quality and had ‘good intentions’. Therefore, in the first instance of a Working Towards the NQS rating, regulators should work with services and provide support, for example through education, visits and targeted support programs, and the service should develop a clear plan for how it will meet the NQS. Then, if a service is rated as Working Towards the NQS a second time and not making meaningful progress, regulatory authorities should use escalating measures, such as a compliance notice. And if a compliance notice is unsuccessful, and the resulting financial penalties do not compel the service to improve quality, the regulatory authority should suspend the service’s approval to operate.

In addition, regulatory authorities and ACECQA need to provide consistent messaging to the sector that it is unacceptable for services to not meet the NQS repeatedly (unless there are exceptional, temporary circumstances). Regulatory authorities also need to take a broadly consistent stance when services are not meeting the NQS and not making meaningful progress towards meeting the standards – with the aim of no service being rated as Working Towards the NQS for more than two years. Given that the needs of children are central to the work of the regulatory authorities, regulators still need sufficient flexibility to consider each service on a case by case basis to ensure they take appropriate actions to prioritise the health, wellbeing and development of children. For example, there may be circumstances where a service that is repeatedly Working Towards the NQS is in an area with limited or no alternative ECEC available. If that service is facing a suspension or cancellation of its approval to operate, the regulator would need to consider whether children would be better off if the service continued to operate with some conditions. This would depend on the extent and the nature of the service’s inability to meet the NQS, weighed up against community needs.

Some inquiry participants also suggested that when a service is repeatedly not meeting the NQS, that another higher performing provider should be allowed to operate the service until the original provider can demonstrate it can provide a quality service (Burman, sub. 317, p. 8; CCC and CELA, sub. 318, p. 25; Goodstart, sub. 277, p. 24; The Parenthood, sub. 276, p. 22). While this measure could help minimise the disruptions to children and families of regulatory action against the service, it would likely pose some administrative challenges. It would also be difficult to attract an alternative provider on a short-term basis to run a service, and would make it difficult for the original service to demonstrate it had improved quality while not in operation.



### 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.
- 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



### Recommendation 8.5

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

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.

## Services need more support for quality improvement

Ultimately, the responsibility for delivering high-quality ECEC rests with services and providers. However, services may fail to meet the NQS due to a lack of understanding of how to meet the standards, despite good intentions. In cases where services are not meeting the NQS but are willing to improve their practices, support from the regulatory authority may be more appropriate than enforcement measures in the first instance.

An improved rating and assessment cycle will lift quality more rapidly in conjunction with systemic support for services ‘working towards’ the NQS. (ELACCA, sub. 153, p. 12)

At present, the level and type of support that regulatory authorities provide to services varies – for example, it may include educational campaigns, newsletters, webinars, training and more intensive support programs for services. In New South Wales, the State Department of Education offers the Quality Support Program in partnership with ACECQA. The program offers up to 18 weeks of free professional development and support (which is provided by ACECQA) for all ECEC service types, and includes in-person visits, online training, workshops, follow-up online and telephone support and other resources to support quality improvement. Services can be eligible if they are rated Working Towards the NQS, with priority given to services that:

- do not meet six or more NQS elements
- are in disadvantaged areas
- have been Working Towards the NQS for longer periods of time (four or more years)
- have been rated Working Towards the NQS twice or more
- are operated by a single provider (ACECQA 2023e).

The results of the first four stages of the program (held over 2018 to 2022) indicated that 73% of the participating centre-based services subsequently achieved a rating of Meeting NQS or above – and were 2.6 times more likely to be rated Meeting NQS or above compared to similar services that did not participate in the program. The results for participating family day care services were not substantially different from similar services that did not participate – though among all service types, service leaders reported significantly increased rates of confidence in what they needed to do to meet the NQS following the program (NSW

Department of Education and ACECQA 2022, pp. 7–12). Other jurisdictions offer some similar programs – for example, Queensland has introduced a new three-year Targeting Quality Program delivered with ACECQA, which provides tailored support for small and medium providers to improve service quality (Queensland Government, sub. 319, p. 10). And in Victoria, the Kindergarten Quality Improvement Program provides targeted support to services with areas for quality improvement (Victorian Government 2024).

In the draft report, the Commission sought participants' views on the extent to which services need more support to meet the NQS (information request 8.3). There was agreement from most participants that more support to services could help lift quality and increase the proportion of services meeting the NQS.<sup>11</sup>

In some circumstances, such as where a service is rated Working Towards the NQS and is willing to make improvements, increased support may be more cost effective and deliver greater quality than compliance measures in the first instance – especially when a service is only marginally failing to meet the NQS. It may also act as a preventative measure by reducing the risk of serious incidents or breaches of the National Law and Regulations.

The State Governments in each jurisdiction should provide a more consistent suite of support options for services to help lift quality. All jurisdictions should offer a program that prioritises quality improvements in services rated as Working Towards the NQS for longer periods of time (or services with more quality areas not meeting the NQS). This could mirror the Quality Support Program in New South Wales, or be varied to suit the circumstances of services in each jurisdiction (for example, face-to-face programs are not feasible in all locations, and similarly, online programs may be difficult in areas with unreliable internet access, but may be lower cost and more appropriate in some circumstances). Jurisdictions should also have discretion over how programs target quality, based on the needs of services and the nature of the underperformance.

The Commission also heard that services that were already rated as Meeting or Exceeding the NQS but interested in further improving their practices often received little support to do so.

RSTO partners report that limited support is available for centres that are meeting the NQS and wishing to improve their practice. (Restacking the Odds, sub. 291, p. 12)

Given that one of the principles of ECEC quality regulation is to foster continuous improvement, each jurisdiction should complement a quality support program with other types of support, such as education, training and information, that supports quality improvements in all services – not just those Working Towards the NQS.

Some inquiry participants argued that support measures for services should be offered by a body that is independent to the regulatory authority, to minimise conflicts of interest (Queensland Government, sub. 319, p. 10; Victorian Government, sub. 311, pp. 10-11). For example, regulators may have an incentive to give a more generous rating to services that have participated in a quality support program, to demonstrate the success of the program. However, there are also benefits to having the regulatory authorities deliver support to services to improve their quality. Regulatory authorities already have relationships with some of the services they regulate, and have a sense of the circumstances that individual services face (including barriers they may face to meeting the NQS). In addition, regulators already provide some support to services to encourage them to improve quality – such as visits, information sessions and educational campaigns. The Commission considers that the benefits of regulators delivering support to services likely outweighs the risks, though

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<sup>11</sup> For example, ACA, sub. 255, pp. 134-138; ACECQA, sub. 256, p. 32; ELACCA, sub. 299, p. 54; Garland, sub. 263, p. 8; Goodstart, sub. 277, p. 26; Gowrie, sub. 294, pp. 9-10; NRWA and ICPA, sub. 297, p. 40; SVA, sub. 247, p. 5; Victorian Government, sub. 311, pp. 10-11). Additionally, some participants suggested that a program like the Quality Support Program in New South Wales should be implemented nationally (ACA, sub. 255, pp. 134-138; ELACCA, sub. 299, p. 54; Goodstart, sub. 277, p. 26; Gowrie, sub. 294, pp. 9-10).



regulators may still choose to outsource support programs if they deem it to be more effective. Any support programs should be developed with guidance from ACECQA, to improve consistency and effectiveness.



### **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.

## **Are complaints processes working?**

When a family or staff member at an ECEC service has an issue with the service, they can raise it with the service directly, and they can also make a complaint to their regulatory authority. The regulatory authority in each jurisdiction has a contact website and/or telephone number that can be used by anyone wanting to make a complaint about a service. Regulatory authorities will generally perform a risk assessment to determine the appropriate response to a complaint. If the regulatory authority receives a low-risk complaint about a service, they may refer the complaint to the approved provider if the provider has not been notified about the issue, or if it has not had the opportunity to try to resolve the issue. Providers must have policies and procedures in place to deal with complaints (ACECQA 2023b, pp. 579–580). These channels are important, especially given that families and staff in a service will often observe the service's performance more closely than a regulatory authority.

The Commission did not find evidence to suggest that the current complaints processes to regulatory authorities need to be improved. However, there was some evidence that families and ECEC staff sometimes were not aware of where to make a complaint about their service (Carter, sub. 177, p. 2).

Information on where to make a complaint is available on the Starting Blocks website, as well as the websites of each regulatory authority (or their corresponding State Government department). However, regulatory authorities should periodically use educational campaigns to make families, ECEC staff and communities aware of where to go to make a complaint about a service or provider.

## **New service approvals should reward high-quality providers**

Some inquiry participants argued that the incentives for services to deliver high-quality ECEC should be higher (Goodstart Early Learning, sub. 125, pp. 6, 88; KU Children's Services, sub. 83, p. 6). One of the ways in which services can be rewarded for providing quality services over time is through the service approval process.

Regulatory authorities consider various factors when considering an application from a provider to open a new service. Under the National Law and Regulations, these include the requirements of the NQF, the suitability of the proposed premises, service policies and procedures, and any other matter deemed relevant,

including the provider's compliance history. Regulators are not required to consider the quality ratings of the provider's existing services, but may do so if it is considered relevant, and may assess the applicant's knowledge of the NQF. Regulators can also refuse to grant a service approval if they are not satisfied that the applicant can operate the service in a way that meets the National Law and Regulations, and the NQS (ACECQA 2023b, pp. 41–46). To be eligible for CCS funding, services must meet additional requirements under the Family Assistance Law, such as meeting 'fit and proper person' standards and background checks (DoE 2024b).<sup>12</sup>

As the ECEC system moves towards universal access (paper 5), quality must be maintained as services expand. In the draft report, the Commission recommended that state regulatory authorities should prioritise new service approvals from higher rated providers over those with lower existing service ratings (draft recommendation 8.4). Inquiry participants supported the expansion of high-quality providers, but offered a range of suggestions for how this might work.

High-quality operators should be given preference in any industry scheme where supply is limited with regards to the opening of new centres. (Guardian, sub. 254, p. 10)

A provider should first have met the National Quality Standards across at least 95% of their existing services to take on a new service. (The Parenthood, sub. 276, p. 22)

However, some participants expressed concerns that prioritising higher quality providers for new service approvals could create unintended consequences in communities with little or no ECEC already available (OSHCA, sub. 232, pp. 30-31).

ACA believes this draft recommendation may impede a provider from opening a new ECEC service in an underserved community. The risk of denying a new service to an area in need is heightened when the service provider's current performance is based on an assessment cycle that can stretch out to six years under the existing system. (ACA, sub. 255, p. 55)

Others, such as SNAICC, were concerned that prioritising new service approvals based on quality rating may not align to the needs of the community, especially given that 'quality' as defined under the NQS can be at odds with how some First Nations communities define quality ECEC.

Prioritisation of applications should be triaged to reflect community need in the first instance rather than the performance of a service provider ... ACCO ECEC services often experience a disconnect between what community sees as quality service delivery and how quality is defined by regulatory authorities. Better alignment of the two visions of quality is needed before a performance criteria is included in prioritising new service applications. (sub. 290, p. 26)

As discussed above, there are already comprehensive checks on providers wanting to open new services. However, this process could provide additional rewards to high-quality providers. In instances where providers already deliver high-quality services and the regulatory authority is satisfied that other requirements are met, these providers could be made eligible for fast-tracked approvals to open new services. This could be done in various ways, such as prioritised processing of applications or streamlined documentation requirements (if they can demonstrate their circumstances have not substantively changed since previous applications for new services). Service providers with any services repeatedly rated as Working Towards the NQS should be scrutinised and the regulator should be satisfied that they can demonstrate that they will lift quality in their existing services, to be granted additional service approvals.

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<sup>12</sup> Family Assistance Law covers the A New Tax System (Family Assistance) Act 1999, the A New Tax System (Family Assistance Administration) Act 1999, and the Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017 (DoE 2024a).

This could be demonstrated through additional requirements, such as assessing the manager or person in control's knowledge of the NQF and NQS. However, the measures recommended in this paper to strengthen the regulatory system, encourage continuous improvement and lift quality among existing services may reduce the need for prioritisation of services at the approvals stage based on quality.



### **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.

## **8.7 OSHC and the NQF**

### **OSHC is regulated in a similar way to services for children below school age**

When the NQF was established, it was intended to create consistent quality standards for ECEC services, regardless of setting (COAG 2009b, p. 56,99,154). But consistency with services for children below school age may not be appropriate for OSHC, given children attending are predominantly of school age.

Under the NQF, OSHC is classed as a centre-based service, along with LDC and preschool. As a result, the majority of requirements for LDC and preschool services apply to OSHC, with some exceptions and modifications made for services providing ECEC for children over preschool age (ESA 2019, p. 24). Among others, the differences include less strict ratio requirements in most states and territories, exemptions or modifications to some physical environment requirements and a separate learning framework that recognises the role of leisure in school-age care. The NQF does not prescribe national qualification requirements for OSHC, though most states and territories impose their own requirements.

In addition, following the 2019 NQF review, most states and territories now only require program-level documentation on the educational program delivered to children over preschool age, rather than the individual child-level documentation required for children under school age (ACECQA 2023a).

### **Children in OSHC are older and likely to have different needs**

Children in OSHC are older, are more independent and are likely to have different needs to children under school age. Consultation with children attending OSHC services, undertaken by a research team at Griffith University on behalf of the Commission, showed that these children see OSHC as a place for play, friendship and activities. Children's greater ability to choose how they spend their time was valued, although some children at the older end of OSHC's 5-12 age range felt that activities were designed around younger children (Cartmel et al. 2024).

Many OSHC services are provided on school sites, and children can report a desire to access school facilities (Cartmel et al. 2024, pp. 23–25). Yet the Commission has heard of instances where the school environment may not meet the requirements of the NQF. For example, one inquiry participant described how children may be prohibited from using a school playground while at OSHC (Outside School Hours Council of Australia, sub. 82, pp. 2–3). And the SA Royal Commission into Early Childhood Education and Care heard of examples where adherence to the NQF meant children needed to be accompanied to the toilet at OSHC,

when they would be able to leave class and go to the toilet by themselves during school hours (SA Government 2023, p. 200).

### **There do not appear to be widespread issues meeting the NQF in the OSHC sector**

Inquiry participants noted that some OSHC services may face challenges meeting physical environment requirements under the NQF (National Outside School Hours Services Alliance, sub. 103, p. 2; Community Child Care Association, sub. 111, p. 19). For example, in a consultation report submitted by the NSW Small Business Commissioner, OSHC services reported receiving lower quality ratings due to factors outside their control such as limited or poor-quality toilet facilities (sub. 128, attachment 1, p. 17).

Similarly, consultations undertaken as part of the 2019 NQF Review highlighted that the NQF assessment and rating process was an issue for OSHC services, with feedback suggesting a tailored approach was necessary (ESA 2022, p. 189). But consultation participants also highlighted the importance of maintaining professionalism of the sector, and not all respondents felt major changes to the NQF were necessary.

There is limited evidence before the Commission to suggest there are widespread issues in the OSHC sector with complying with the NQF. As at 1 April 2024, 87% of assessed OSHC services were Meeting the NQS or above (Productivity Commission estimates using ACECQA 2024e), suggesting the NQF is not an insurmountable hurdle for services to pass. However, OSHC services tend to receive slightly lower ratings than LDC services and significantly lower ratings than preschool services. And even if OSHC services can meet the NQS, doing so may require OSHC services to comply with requirements that were largely designed for CBDC services.

### **The NQF should be made more appropriate for OSHC**

The issues detailed above could arise from the standards in the NQF itself, or the inappropriate application of those standards to an OSHC context (if not both).

For example, one requirement under the NQF relates to ensuring children are adequately supervised. While the Guide to the NQF provides guidance on how this requirement applies for different ages of children, it is ultimately a matter of interpretation. One inquiry participant noted assessment officers have greater experience and knowledge in LDC settings rather than OSHC (Outside Schools Hours Council of Australia, sub. 82, p. 3). This suggests some of the issues may not necessarily arise from the standard in the NQF itself, but rather the way it is applied and assessed.

Equally, it is reasonable to assume children in OSHC will have different needs to children below school age. For example, while the role of leisure in OSHC is reflected in the national approved learning framework for school-age care and in the Guide to the NQF, it is not reflected in the quality standard.

In response to feedback from the 2019 NQF review, governments agreed to review and consider changes to the assessment and rating methodology for OSHC services (ESA 2022, p 185).

This review should seek to ensure that the NQF does not impose inappropriate requirements on OSHC services, whether through amendments to requirements themselves or by providing clarity to assessors and services on how these requirements should be interpreted. Evidence heard by the Commission suggests there is a need for meaningful change.

## 8.8 Regulating services outside of the NQF

While the majority of ECEC services are covered by the NQF, as noted above, some services are excluded.

During its establishment, governments envisaged the NQF would eventually encompass all ECEC service types (COAG 2009b, p. 3). Given the diversity of the sector, the largest service types (in numbers of children) were incorporated first. Expanding the scope of the NQF to some out-of-scope services was considered in the 2014 and 2019 NQF reviews (ESA 2017, pp. 52–53, 2019, pp. 12–13, 2020, p. 23). However, no changes resulted from either review.

Preschools that are part of the school system in Western Australia and Tasmania sit outside the NQF. But commitments by the respective state governments to regulate using an approach consistent with the NQS are likely to be sufficient (State of Tasmania and Commonwealth of Australia 2023; State of Western Australia and Commonwealth of Australia 2023). Other excluded services do not operate in a similar way to NQF regulated services. For example, excluded services include personal arrangements (such as grandparents and nannies), and care provided on an ad hoc basis where the parent is readily available (such as a creche at a gym). Excluding services such as these from the NQF is appropriate.

However, a number of out-of-scope services are CCS-approved. Among others, these include In Home Care (IHC) services, some former Budget Based Funded (BBF) services, some former Indigenous Advancement Strategy (IAS) services, and occasional care services. A number of these services receive supplementary funding through the Community Child Care Fund Restricted grant (CCCF-R).

It is reasonable to expect these services be covered by some form of quality regulation or assurance.

### Services approved for CCS should be subject to some form of quality regulation

As a starting point, it might seem appropriate for all CCS-approved services to be covered by the NQF.

But the NQF may not be fit-for-purpose for out-of-scope services, many of which operate in different contexts to other services covered by the NQF. For example, it is not necessarily reasonable to expect IHC services to meet physical environment requirements under the NQF when IHC is delivered in a child's home.

SNAICC's submission raised concerns about the lack of a nationally consistent regulatory standard for Aboriginal and Torres Strait Islander services that fall outside of the NQF. However, it also noted:

[E]fforts must be made to examine the requirements of the NQF in partnership with the Aboriginal and Torres Strait Islander sector and consideration must also be given to service types and contexts, specifically those services funded under the CCCFR, for which the NQF may not be an appropriate regulatory framework. Consideration should be given to developing a unique framework and standards which apply to Aboriginal and Torres Strait Islander ECEC services. (sub. 133, p. 16)

Incorporating out-of-scope services into the NQF is likely to involve transition costs and may impose additional burden on services operating below NQF requirements. For example, services not meeting NQF staffing requirements may need to improve educator-to-child ratios or educator qualifications.

Given these considerations, the Commission is of the view that services approved for the CCS should be subject to some form of quality assurance or regulation, although this may not be the NQF.

### Out-of-scope services approved for CCS are already subject to some regulatory oversight

Under section 45 of the Child Care Subsidy Minister's Rules 2017 (CCS Minister's Rules), to be approved for the purposes of CCS, services not in scope of the NQF must either:

- hold a state or territory regulatory approval to operate
- be a former BBF or former IAS service
- be an IHC service (DoE, personal communication, 8 November 2023).

All of these services are subject to some form of regulatory oversight, either through state and territory regulation, or by the Commonwealth through the CCS Minister's Rules. Where a service is out of scope of the NQF and is not regulated by states and territories, or under the CCS Minister's Rules, it is ineligible to receive CCS (DoE, pers. comm., 8 November 2023).

### State and territory regulation

State and territory governments regulate some out-of-scope services. For example, New South Wales regulates occasional care, mobile services<sup>13</sup> and Multipurpose Aboriginal Children's Services (a former BBF service type) under the *Children (Education and Care Services) Supplementary Provisions Act 2011 (NSW)* and *Children (Education and Care Services) Supplementary Provisions Regulation 2019 (NSW)* (NSW Department of Education 2023).

However, the types of services regulated by states and territories are inconsistent. For example, IHC services are regulated by the Tasmanian and South Australian governments, but no other state or territory government regulates IHC (DoE, sub. 90, p. 11). And the Queensland Government does not regulate mobile services (Queensland Government 2023).

This means that where a service is not regulated by a state and territory and is not otherwise covered by the Minister's Rules (for example, a Queensland mobile services that was not formerly a BBF or IAS service), it is not eligible for CCS approval.

### CCS Minister's Rules

Former BBF and IAS services not regulated by states and territories and all IHC services must meet quality requirements under the CCS Minister's Rules to maintain CCS approval (DoE, pers. comm., 8 November). The rules include requirements relating to providing an education program, supervision, safety, first aid, managing and reporting serious incidents and insurance.

IHC services must also meet conditions set out in the IHC guidelines, including qualification requirements, and former BBF and former IAS services are required to have a Quality Improvement Plan assessing their strengths and weaknesses against the NQS (DoE 2022a, p. 15, 2022b, p. 14,28).

### Ensuring fit-for-purpose regulation for out-of-scope services: a way forward

While all CCS services out-of-scope of the NQF are currently subject to some form of regulatory oversight, the Commission's recommendations to expand access to ECEC for all children are likely to expand the number of non-NQF regulated services. In some instances, this will likely require investments in services that are not currently subject to some form of quality regulation, such as some mobile services. In the design of any future funding model or agreements for these services, the Australian Government should ensure there are appropriate mechanisms to ensure the quality of these services.

More broadly, given the range of arrangements for regulating out-of-scope services, the Commission considers there to be a case for reviewing these arrangements to ensure they meet the needs of children

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<sup>13</sup> Mobile services are excluded from the NQF. All mobile services currently approved for the CCS are former BBF services (DoE, pers. comm., 6 November 2023).

attending. A future ECEC Commission should have responsibility for this work. Inquiry participants generally supported this approach.<sup>14</sup>

As part of this work, the ECEC Commission, with Australian, state and territory governments, should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities and peaks on how Aboriginal and Torres Strait Islander services that are out-of-scope of the NQF should be regulated.

The recommended approach of joint decision-making in determining the appropriate way to regulate the quality of Aboriginal and Torres Strait Islander services is a crucial first step to self-determination and aligns with the National Agreement. (SNAICC, sub. 290, p. 27)

This should include considering whether to include these services in the NQF or another framework.



### **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.

<sup>14</sup> For example, ACA, sub. 255, p. 7; ELACCA, sub. 299, p. 19; Goodstart, sub. 277, p. 21; Local Government NSW, sub. 287, p. 14; Minderoo Foundation and Thrive By Five, sub. 288, p. 10; The Parenthood, sub. 276, p. 22; WA NFP Consortium, sub. 250, p. 14.

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## 9. ECEC funding models

### Key points

- \* The Commission's recommended reforms to alleviate affordability barriers, enable a significant expansion of early childhood education and care (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.
- \* ECEC funding instruments should be designed around a set of principles. Reflecting the draft National Vision for ECEC and other desirable attributes of funding instrument design, these principles are: equity (or inclusivity), affordability, quality, accessibility (or availability), simplicity, efficiency and integrity.**
- \* Improving components of the current funding model would support universal access and achieve the desired National Vision for ECEC.**

  - The current ECEC funding model provides a sound baseline mechanism to support families to access ECEC. Proposed reforms to improve the efficiency and effectiveness of the Child Care Subsidy, expand supply-side funding to uplift availability and deliver a comprehensive approach to inclusion, would bolster the model.
  - By blending the strengths of different funding approaches, this mixed model performs strongly against the key design principles of equity, affordability, quality, accessibility and efficiency. Reforms to simplify the system and improve accountability and transparency would strengthen it further.
- \* Preschool funding issues should be resolved through the new national agreement (recommendation 10.1). Over the next two agreements, the Australian, state and territory governments should consider:**

  - ensuring state and territory government fee relief is applied after the CCS, 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.
- \* 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.**

Human services, including early childhood education and care (ECEC), are typically funded through a combination of family and government contributions. Governments invest in human services in different ways, designed to achieve efficiency, effectiveness and social objectives. The ambition in funding these services is to promote net community benefits; this presents challenges for program design and in targeting those with the greatest need while at the same time balancing the administration of rules and processes to ensure funding integrity and policy outcomes.

The Commission has recommended a suite of reforms to deliver a high-quality, accessible and inclusive universal ECEC system and the report provides a practical pathway to achieve it. This paper outlines a series of principles to guide the design of funding instruments that will contribute to achievement of this universal system. The principles are adapted from four principles for the ECEC sector set out in the draft National Vision for ECEC (equity, affordability, quality and accessibility (DoE 2023a)) and other widely accepted desirable attributes for funding instruments – simplicity, efficiency and integrity.

Using these principles, this paper considers the relative merits of three broad funding models. Each has advantages and disadvantages. The paper:

- sets out a framework for considering the ECEC funding model and describes current levels of government and families' expenditure on ECEC (9.1)
- discusses the range of funding models observed across human services sectors, both domestically and internationally (9.2)
- considers and assesses the relative merits of three broad ECEC funding models (9.3)
- considers the implications for funding of preschool services in dedicated and centre-based day care (CBDC) settings (9.4)
- discusses some additional funding considerations regarding unique markets and communities (9.5).

## **9.1 A framework for considering ECEC funding models**

### **Why do governments support human services?**

There are sound efficiency reasons for government involvement in human services, including the presence of positive externalities. For example, primary and secondary school education generate benefits beyond those that accrue to the individual who attends, and without government intervention, markets for education would be unlikely to take these broader benefits into account. The result would be levels of education below those that would create the highest net benefits for the community.

From an equity perspective, without government intervention, markets for human services may not appropriately distribute services across the community, leading to societal consequences that do not meet community expectations. Examples include people with limited incomes, or in particular locations, being excluded from certain services, such as hospital or dental care.

The reasons for government support of ECEC follow a similar theme. There are efficiency and equity reasons for investing in ECEC to ensure services deliver benefits to children and society more generally, and that participation and access to services are adequately distributed.

In considering the nature of government intervention in ECEC, like almost all human services, it is not a binary debate about whether the sector should be supported solely by government funding or private funding (via family contributions). Rather there are justifications for varying the allocation between those funding sources, including for different cohorts, depending on the net benefits to children and families from

participation. These benefits need not necessarily be solely economic – they could stem from equity or social considerations, or relate to the relative costs of administering different funding models.

ECEC has elements of both private and public benefits. Children typically develop a range of social, cognitive and emotional skills during the period of their lives when they attend ECEC. These skills provide a foundation for future learning, employment and life outside work. Many of the benefits that children experience later in life can also have broader benefits to society. Improved labour market, health and criminal justice outcomes, for example, can translate into higher tax revenues and reduced government expenditure on social support systems (paper 1).

Families benefit from having children attend ECEC, as this frees up parents and carers to pursue work, study or volunteering activities. This can confer benefits to parents and carers in the form of higher income, greater career progression and the satisfaction that can come from working. From a societal perspective, greater labour force participation for some families can contribute to breaking the cycle of intergenerational disadvantage.

However, precisely quantifying the private and public benefits associated with a human service is often difficult, and ECEC is no exception. This is in part because many of the benefits cannot be measured until children who attend ECEC reach adulthood, and because some benefits related to wellbeing can be difficult to measure. Without longitudinal research, the effects of ECEC (such as higher income, reduced welfare dependency and lower involvement in crime) cannot be fully assessed. Instead, these and other life outcomes are a product of many other factors. Isolating the contribution of ECEC is therefore challenging (paper 1).

Whether a service delivers private or public benefits is therefore important in considering the balance between funding sources and modes of provision. Where private benefits are larger, the balance tends towards greater private funding and more market provision. Where public benefits are larger, the balance shifts towards greater public funding and potentially more public provision.

The extent to which governments choose to be involved in the provision of human services can also be considered through a care diamond (Razavi 2007, pp. 20–21). The care diamond speaks to four different ‘institutions’ involved in the delivery of care services – families (households), markets (for-profit sector), governments, and the not-for-profit sector.

The objectives of individual governments, and the nature or complexity of the problem they are trying to solve, will lead to variations on the role each of these institutions play in the delivery of human services. Razavi (2007, p. 22) notes that some countries move back and forth in their positioning over time, rather than following a linear path that starts with family and household provision of care service, and moving to greater public provision by governments or via greater subsidies to the market.

Conceptually, this is similar to the evolution of Australia’s ECEC sector (section 9.2), whereby ‘childcare’ was predominantly provided at the family and household level before the organised entry of not-for-profit and philanthropic organisations to help those experiencing disadvantage. Over time, this shifted towards more public provision of ECEC services and increased subsidies to families. However, in the past two decades there have been shifts back and forth in the quantum and nature of government funding, with periods of both expanding or rationalising subsidies to households (via income and activity testing), the not-for-profit sector (via supply-side funding), and for-profit providers (via opening up market eligibility).

Ultimately, decisions regarding the balance between market and public provision of ECEC, and between private and public funding, is generally at the discretion of governments, and guided by the outcomes they wish to achieve.

## Governments use a range of instruments in funding human services

Funding instruments used to support human services delivery are generally distinguished by:

- whether the quantum of funding depends on the level of demand from families, that is, it is child- or family-based (referred to as demand-side funding)
- whether the funding is linked to the characteristics of those delivering the service, that is, it is provider-based (referred to as supply-side funding)
- the level of co-payment required from families (referred to as out-of-pocket expenses).

Funding instruments reflect different ways of conceptualising the role of human services in society. Demand-side funding instruments generally position service users (or their agents) as consumers in a market while supply-side funding is often associated with public or community services. In demand-side systems, families' choices are expected to influence the nature of the services and exert a measure of discipline over the fees charged and quality offered; whereas supply-side funding approaches are more likely to require provider accountability to the funding agency for these aspects of service provision.

### Demand-side funding instruments can be child- or family-based

Demand-side funding instruments typically come in the form of a subsidy that covers some or all of the costs incurred by service users.

Subsidies can be calibrated to reflect service users' characteristics such as family income or the particular needs of the child in the case of ECEC. They can also be simply targeted to certain cohorts and not others, but they generally cannot be differentiated by service provider. However, there could be a broader requirement that consumers only receive a subsidy if they use a registered/approved provider who meets quality and other accountability standards.

On the assumption that service users have sufficient information on quality and alternative options to meet their needs, demand-side subsidies can help facilitate choice. In the case of ECEC, this can promote efficiency by encouraging providers to respond to the preferences of families, including about where centres are established and the type of care provided (PC 2014, p. 565). Demand-side subsidies can also promote competition between service providers.

Some commentators have questioned whether assumptions around supply and demand, choice and the ability of consumers to discipline providers apply in ECEC (Considine 2022; Plantenga 2012; Stebbing 2022) and some have suggested that demand-side approaches may increase the risk of rent-seeking (Stebbing 2022).

### Supply-side funding instruments can be designed in many ways

Supply-side funding instruments are designed to cover all or part of service delivery costs and can be varied to reflect particular cost components such as wages or capital. In the case of ECEC, supply-side funding can include child-centred elements that respond to the characteristics of children in a local community or enrolled in a service.

Different methods can be used to calculate and deliver supply-side funding (The Front Project 2022).

- **Activity-based:** Funding is calculated as an amount directly proportional to the estimated units of service, determined by methodically classifying, counting and defining the cost of certain activities. It is used in healthcare systems that pay providers for the number and mix of individuals they treat.
- **Outcomes-based:** Funding is attached to required levels of provider performance across set performance metrics. This approach is typically used to achieve a 'higher-than baseline' performance and to incentivise

service providers to improve their quality and outcomes. This method of funding is also adopted in healthcare systems.

- **Needs-based:** Recurrent funding is provided directly to service providers to support individuals with additional needs. The amount of funding is typically estimated by the level of resourcing required to meet these needs, with a 'base' and additional 'loading' formula. It is used to fund public schools in Australia and in Victoria's School Readiness Funding for ECEC services delivering preschool programs.
- **Programmatic:** Bespoke funding is made available for targeted investment for specific purposes and needs. Programmatic funding is typically an additional funding stream alongside mainstream funding instruments, for a set period of time, and is based on estimated delivery costs. An example of this type of funding is seen in Queensland to support alternative kindergarten delivery models (eKindy) to children who cannot easily access a centre-based kindergarten program due to distance, a medical condition or itinerant family lifestyle.
- **Block-based:** Funding is delivered as recurrent lump-sum payments to service providers, calculated to cover service delivery costs (including operational expenses), for example, rural hospitals in Australia are funded in this way.

Funding can also be automatically tied to other instruments, such as award wages. For example, prior to 1985, before moving to an operational funding model, the Australian Government funded 75% of the cost of approved staff salaries in ECEC services (Parliament of the Commonwealth of Australia 1985, p. 3).

Supply-side funding approaches allow governments to attach conditions to grants and target specific areas of need through tailored funding instruments. Some approaches also have benefits in terms of greater certainty and simplicity for families. However, supply-side instruments may require governments to:

- develop an accurate understanding of the cost of service delivery
- develop a mechanism to adjust this over time to mitigate the risk of a mismatch in funding
- play a much stronger role in planning and coordination of service provision to address availability gaps
- move away from individualised means testing.

### Co-payments from service users

Human services funding systems often incorporate a co-payment, usually absorbed by service users as an out-of-pocket expense. There are many reasons to incorporate a co-payment into a funding instrument – the pros and cons of various ways of setting this co-payment in the ECEC sector are discussed in section 9.3. However, more generally, co-payments:

- can reflect the private benefit that accrues to service users
- provide an incentive for service users to consider their usage decisions and reduce the risk that services are provided beyond levels that deliver net social benefits
- can empower service users to demand more from providers as making a payment can help them feel like they are buying a service, rather than just receiving it from government. In addition, it allows for above-minimum quality services if service users see value in paying more and who have the resources to do this
- reduce the call on scarce government funds, allowing them to be targeted where they deliver maximum social benefits.

In demand-side funding instruments, subsidies can be expressed as a dollar amount (as is the case, for the National Disability Insurance Scheme) or as a capped share of fees paid (like the CCS), which applies the subsidy to fees up to the hourly rate cap). Both approaches expose service users to changes in prices – out-of-pocket expenses rise as prices rise unless the subsidy is adjusted, although in real terms may not if cost increases are in line with inflation. When at least some service users face out-of-pocket expenses,

providers have an incentive to compete on price to attract (and retain) families and, therefore, to minimise the cost of delivering the services they provide for a given level of quality.

In supply-side funding instruments, while the quantum of funding is typically set to cover the cost of service delivery, this does not preclude governments or service providers also charging a fee. For example, in the case of dedicated preschools, which are funded through supply-side instruments, families can face additional fees (Victorian Government Department of Education, sub. 146, p. 6).

Different co-payment options can be adopted. However, fixed fees do not give service users a good indication of the cost of delivering services, nor of changes in the cost. A fixed co-payment means that service users may be less concerned about fee increases. Fixed co-payments do have the advantage however, that service users know how much they will be required to pay.

Although co-payments can contribute to a more efficient market for ECEC services, there can be situations where even a low co-payment may discourage the participation of some children. Providing further financial assistance to families may be needed to reduce affordability barriers and encourage participation (paper 6).

## **Governments and families make significant contributions to ECEC**

In 2022-23, government and family contributions to the ECEC sector were in the order of \$21 billion. Total Australian, state and territory government recurrent and capital expenditure was \$14.8 billion, an increase in real terms of 62% since 2013-14 (figure 9.1). Expenditure comprised \$11.6 billion (79%) from the Australian Government, \$2.7 billion (18%) from state and territory governments, and \$455 million (3%) of preschool funding provided by the Australian Government to states and territories through the Preschool Reform Agreement (PRA) (SCRGSP 2024, tables 3A.1 and 3A.4).

Families paid about \$6 billion in out-of-pocket expenses at CCS-approved services in 2022-23, representing about 40% of the total fees charged (Productivity Commission estimates based on DoE administrative data (unpublished)). Families may also pay out-of-pocket expenses at dedicated preschools (appendix E).

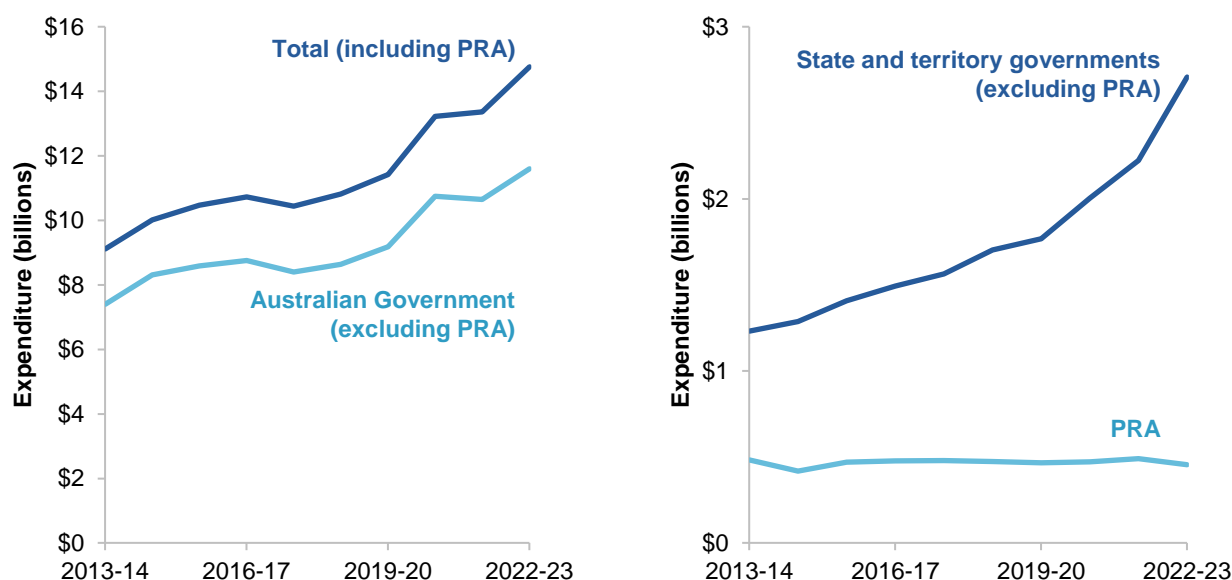
The Australian Government's principal ECEC funding instrument is the CCS, which is both means and activity tested (paper 6). Targeted funding is also provided via the Australian Government's Child Care Safety Net (DoE, sub. 90, pp. 21–24).

- The Inclusion Support Program (ISP) provides funding to ECEC services to support children with additional needs in mainstream services. Funding can be used for a range of supports, such as additional educators in a room or providing specialist training to increase staff capability (paper 2).
- The Community Child Care Fund (CCCF) provides grants to address barriers to ECEC participation in regional and remote and Aboriginal and Torres Strait Islander communities (paper 5).
- The Additional Child Care Subsidy (ACCS) offers higher subsidy rates and longer hours of subsidised care for eligible families experiencing hardship (paper 6).

In the four years from 2024-25, the Australian Government anticipates spending \$62.6 billion on the CCS program and \$615 million on the CCCF program (DoE 2024b). Additionally, the annual appropriation for the ISP is \$133 million (DoE 2024d) – the Australian Government has, however, topped up this figure in a number of years, for example, by \$98 million in 2024-25 (paper 2).

The Australian Government's contribution to ECEC funding as a proportion of its total budgetary expenses rose from 1.5% in 2013-14 to 1.8% in 2022-23 (Australian Government 2014, table 5, 2023, table A.1; SCRGSP 2023, table 2A.26, 2024, table 3A.1).



**Figure 9.1 – Public spending on ECEC has grown in the last decade<sup>a</sup>****Government expenditure on ECEC (2022-23 dollars)**

a. From 2013-14 to 2021-22, data labelled PRA relates to the Universal Access to Early Education National Partnership (UANP), which began from July 2013. The PRA 2022–25 replaced the UANP.

Source: Productivity Commission estimates based on SCRGSP (2024, tables 3A.1 and 3A.4).

Recurrent preschool funding across all states and territories totalled \$2.47 billion in the 2022-23 financial year (SCRGSP 2024). This included Australian Government funding provided to state and territory governments under the PRA. The Australian Government contributed \$455.3 million (2022-23 dollars) in total funding to all states and territories under the PRA in the 2022-23 financial year. This funding contributes towards the cost of 15 hours of preschool in the year before full-time school by providing a flat per child contribution to states and territories. The PRA total budget was estimated to increase to \$467 million in the 2025 program year (Australian Government 2021, table 1A).

State and territory governments are also involved in the provision of integrated services (for example, assisting in the development of Doveton College in Victoria (2013, p. 15) and early learning centres (paper 5)). Some local governments operate services, and some provide support to community-run services, such as discounted use of council buildings. Philanthropic organisations also contribute funds to ECEC in certain circumstances. For example, philanthropic contributions helped to establish Children's Ground (2022, p. 7) and Doveton College (2013, p. 14).

## Proposed reforms would increase the quantum and proportion of government funding of ECEC

Both the Commission's proposed reforms and other pending government policy decisions would increase both the quantum and proportion of government contributions in the ECEC funding mix.

If adopted, the recommendations in this report would lead to an increase in:

- CCS funding in response to proposed reforms to increase the maximum subsidy to 100% of the hourly rate cap for families with incomes up to \$80,000, changes to the Higher Child Care Subsidy (HCCS) and implications for tapering arrangements for both types of support (paper 6)

- funding in response to proposed reforms to support a significant expansion of supply-side funding to address availability gaps (paper 5)
- inclusion funding, in response to both the short-term recommendations to improve the ISP and the long-term movement towards a comprehensive needs-based funding instrument (paper 2).

Depending on how they are implemented, the outcomes of the multi-employer wage bargaining process and the Fair Work Commission's consideration of occupations and industries in which there is potential gender undervaluation would also impact total Australian Government funding provided to the sector. If either process results in a wage increase and subsequent fee rise, it could either be automatically co-funded by government through its CCS contribution, or directly as a result of readjustments to the hourly rate cap. Alternatively, the Australian Government may choose to fund the wage increase directly, through a supply-side payment to providers (paper 3). Without identifying a mechanism to fund wage increases, the 2024-25 Budget identified commitments to:

provide funding towards a wage increase for early childhood education and care workers to recognise the value of the workforce and support the Government's ambition of universal access to affordable, quality early childhood education and care. Details will be finalised following the Fair Work Commission processes currently underway. (Australian Government 2024, p. 39)

Finally, state investment in preschool (co-funded through the PRA) is likely to continue to grow in response to natural population growth and the various reforms announced by state and territory governments (appendix E).



#### **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.

## **Inquiry participants generally supported a mix of demand- and supply-side funding instruments**

In its draft report, the Commission found that a one-size-fits-all approach to ECEC funding would not be an efficient or effective model to support the multiple objectives of ECEC and underpin a universal system. The Commission also found that a universal ECEC system is best supported by a mixed approach comprising mainstream funding to support affordability and accessibility for all families, and additional funding streams targeted at enabling participation and inclusion for families experiencing access barriers, including in areas of supply shortfall, and children with additional needs.

A mixed approach simply means that the funding model is not solely demand or supply-side in nature – it can comprise any combination of the two. In its inquiry into the ECEC sector, the ACCC found that a mix of interventions is needed and that different market characteristics will be influential in how governments might consider funding mechanisms to achieve the desired outcomes (ACCC 2023, p. 203).

Specifically, the ACCC suggested that:

- in adequately served markets, demand-side funding and indirect price controls (such as the hourly rate cap and price monitoring) are most appropriate
- in under-served markets<sup>1</sup>, demand-side funding should be supplemented with supply-side support and in some circumstances direct price controls
- in unserved markets, the funding mix should be primarily government provision or full supply-side funding, with direct price controls.

More specifically, the ACCC identified reasons for distinguishing markets in this way.

In markets that are adequately served and where there are a number of providers competing on quality or other factors then maintaining the capacity of parents and guardians to exercise choice and engage directly in the market is likely to support efficiency. The stronger price and outcomes monitoring role for government, supported by a credible threat of intervention, will operate in conjunction with the characteristics of childcare markets to place downward pressure on fees and provide an additional discipline to drive provider efficiency and help limit taxpayer burden.

For underserved markets, such as areas with limited availability of places or households with children with disabilities or complex needs, it is likely that a mix of models will be required, from increased demand-side subsidies to supply-side funding, whether through government or non-government providers, to support provision of services in these areas or to particular children and households within areas. (2023, p. 205)

Supporting paper 9 (*Funding, governance and stewardship*) published with the draft report sought views from inquiry participants on the implications of broader funding reform for children, families, service providers and governments. The information request also asked inquiry participants to provide views on the benefits and costs of expanding the use of supply-side funding mechanisms.

A range of views was received in response to the draft finding and information request.

### **Many inquiry participants supported targeted supply-side funding for inclusion and availability**

In response to the draft report, many inquiry participants agreed that a mixed approach to funding is needed to achieve the multiple objectives for ECEC (box 9.1). In particular, some emphasised a strong desire to use supply-side funding alongside the mainstream CCS as a mechanism to better support inclusion.

<sup>1</sup> Under-served geographic areas or cohorts include: households with unique care needs (such as shift workers); First Nations communities and culturally and linguistically diverse households who need culturally appropriate services to enable them to feel safe, comfortable and included; children with disability; children aged 0–2 years; regional and remote communities with workforce shortages; areas of relative socio-economic disadvantage.

Unserved markets typically have: one or no providers willing to supply them, even with existing government supply-side funding programs, and very high costs to supply these markets. Usually, these are remote, very remote and relatively disadvantaged areas.

### **Box 9.1 – Many inquiry participants supported a mixed approach to funding**

#### **Goodstart Early Learning supported:**

retaining and reforming the current mixed funding model based on demand-side subsidies (the Child Care Subsidy and linked subsidies – but with new names) as the primary payment mechanism, complemented by targeted, nationally consistent supply-side funding instruments to ensure access for all children and support:

- pay and conditions
- equity and inclusion support
- preschool programs in the two years before school
- ensuring supply in unserved and under-served markets and funding for community-controlled early childhood services for Aboriginal and Torres Strait Islander children.

Reforms to these supply-side funding arrangements are necessary to ensure equity of access and national consistency (in the case of preschool funding), which Goodstart considers to be the most effective instruments to deliver on these objectives. (sub. 277, p. 28)

#### **G8 Education Ltd recognised:**

the need for supply-side funding to provide services in remote or disadvantaged areas [and] to offset the cost of the imperative to pay higher wages for teachers and educators to support their attraction and retention as a critical initiative to resolve the workforce shortage, while not impacting on family affordability. (sub. 301, p. 4)

#### **However, it was strongly opposed to:**

any form of direct price control, including the prevalent Canadian \$10 per day model. This is on the basis that such models promote severe risks focussed on complexity of design and implementation, inequities between family income earners, high cost, lowering quality and providers exiting the sector. (p. 4)

#### **Community Child Care Association and Community Early Learning Australia (CCC and CELA) supported the:**

findings of the ACCC that one funding system will not work for everyone, everywhere, and that a combination is likely to be required. Therefore, we accept, in the medium term, improved demand-driven subsidies could be maintained as the primary financing instrument, complemented with the right balance of supply-side funding to address access and supply shortages in unserved and under-served markets. (sub. 318, p. 7)

#### **KU Children's Services:**

We suggest an appropriate mix of demand driven and supply-side funding is needed for universal access that covers the costs of supporting equity outcomes in communities facing unmet demand and vulnerability (sub. 303, p. 4)

### **Box 9.1 – Many inquiry participants supported a mixed approach to funding**

The Parkville Institute:

strongly supports a mixed approach to funding that includes providing specific cohorts with additional expenditure targeted to enabling participation among those with higher needs. (sub. 231, p. 13)

The Early Learning and Care Council of Australia (ELACCA) noted that:

there is a clear case for both demand-side and supply-side funding in early learning and care, in order to deliver the multiple policy goals for early learning and care ... Demand-side funding is appropriate for meeting the diverse needs and preferences of families and delivering the workforce participation goals of the system [and] supply-side funding is more appropriate for delivering on the specific policy goals around equity, inclusion and quality. (sub. 299, pp. 34–35)

The Benevolent Society suggested that:

[i]n keeping with the mix of supply and demand side subsidies suggested by the ACCC and draft report, the final report should also recommend investing in supply side funding programs to deliver on specific policy priorities vital to reform success. (sub. 280, p. 11)

Australian Childcare Alliance said:

[It is] important to note that the predominant funding system in Australia for ECEC should be demand-driven with judicious use of supply-side funding, to allow for the flexibility to solve complex problems that cannot otherwise be solved. (sub. 255, p. 139)

Guardian Childcare Australia was:

supportive of broader funding reform only as it relates to improving access, affordability or quality in unserved or chronically under-served markets, excluding where this simply applies to a lack of 0-2 provision. (sub. 254, p. 12)

Y Australia suggested that:

Providing needs-based funding should be considered as a future direction to resource delivery of universal, inclusive services, including the increased costs associated with supporting children with disability and/or complex needs. This funding would complement the existing individualised approaches and help to provide certainty and support capability and capacity building. (sub. 253, p. 19)

### **Others proposed more transformational funding reform**

Some inquiry participants suggested the recommendations in the draft report were not ambitious enough and proposed that the Commission consider more fundamental funding reform.

- Minderoo/Thrive by Five submitted that it ‘does not believe that the Commission has provided recommendations that are sufficiently comprehensive to deliver on the ambition of the Australian Government’ (sub. 288, p. 6).
- The Parenthood noted that the ‘draft report recommendations fail to match the Government’s ambition for bold and broad reform in setting out a clear vision of steps to achieve truly universal affordable, accessible, high quality ECEC for all children and families’ (sub. 276, p. 3).

- The Centre for Policy Development said ‘the draft report shies away from the transformative systems change that is needed to develop a high-quality, truly universal system that supports all of Australia’s children and families to thrive, and delivers on the primary purpose of child development’ (sub. 282, p. 3).

Some thought that greater emphasis should be placed on supply-side funding to achieve the National Vision for ECEC.

We believe a long-term supply-side funding model (such as the example above) must be created to assist the Australian Government in implementing its vision of universal ECEC for all Australians. (Minderoo, sub. 288, p. 17)

Delivering on Australia’s policy objectives for ECEC in the long-term is likely to require further reform of funding models, or a different mix of funding models ... BSL recommends that a key role for the ECEC Commission is to continue investigating the most appropriate funding models for the longer-term (against agreed outcomes) including exploring the further expansion of supply-side options. (Brotherhood of St Laurence, sub. 289, p. 12)

The Victorian Government (sub. 311, p. 2) noted that ‘the current system is not working well enough to achieve governments’ objectives and ambition for the system [and] incremental changes to current settings and programs will not sustainably fix the underlying challenges with the current system’.

[T]he Commission should take a holistic and ambitious view consistent with the National Vision, including considering the systemic causes of – and solutions to – the challenges facing the ECEC system in Australia today; and how the system can be best set up to transform into a single, truly universal system, which promotes equity, affordability, quality and accessibility. (sub. 311, p. 2)

In expanding on these types of ideas, some inquiry participants advocated for an overhaul of the funding model to one that is fully supply-side funded;<sup>2</sup> whereas others supported a greater emphasis on supply-side funding as part of the overall funding mix.<sup>3</sup>

A number of submissions also provided a detailed rejection of, or specific arguments against, moving to a flat fee, supply-side funded approach (Goodstart Early Learning, sub. 277; G8 Education Ltd, sub. 301; ELACCA, sub. 299). These arguments are discussed further in the assessment of alternative funding models (section 9.3).

### **Some suggested the system should be guided by a set of design principles**

Some inquiry participants sought to describe the specific goals or characteristics of an ideal funding system.

The Centre for Policy Development (sub. 282, p. 16) suggested that there could be a broader role for the funding system to ‘encourage high quality delivery and quality improvement (for example, additional

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<sup>2</sup> Examples of submissions generally supporting a longer-term shift towards fully supply-side funded ECEC include: The Front Project (sub. 227), Centre for Policy Development (sub. 282), Minderoo/Thrive by Five (sub. 288), Uniting (sub. 275), Family Day Care Australia (sub. 240), Bryant (sub. 204), Cleveland (sub. 278), Griffin (sub. 181), Burman (sub. 317), Victorian Government (sub. 311).

<sup>3</sup> Examples of submissions supporting greater use of supply-side funding within the funding mix include: NSW Government (sub. 312), South Australian Government (sub. 313), Early Learning Association Australia (sub. 237), Creche and Kindergarten Association (C&K, sub. 306), Queensland Brain Institute (sub. 252), Regional Australia Institute (sub. 229), Blaxland and Skattebol (sub. 233), Goodstart Early Learning (sub. 277), G8 Education Ltd (sub. 301), The Smith Family (sub. 197), CCC and CELA (sub. 318), KU Children’s Services (sub. 203), Parkville Institute (sub. 231), ELACCA (sub. 299), The Benevolent Society (sub. 280), Australian Childcare Alliance (sub. 255), Guardian Childcare Australia (sub. 254), Y Australia (sub. 253), Independent Schools Australia (sub. 251).

payments for improving quality ratings), and discourage low-quality provision through conditions placed on receiving government funding (for example, the requirement to meet minimum standards)'.

**Early Childhood Australia recommended:**

That mixed funding models reflect proportionate universalism where one size does not fit all; instead mixed funding models support viability and growth of complementary ECEC service types for families and children where they live. (sub. 302, p. 4)

**Early Learning Association of Australia called for:**

a funding system matched to need; managing the market to drive growth in quality provision; and investing in the community sector to enable access in thin markets we can grow participation of vulnerable children and enable children to thrive. (sub. 237, p 2)

**C & K supported a funding model that:**

provides genuine choice for families as to the service type that suits their family needs and expectations; incentivises the employment of qualified staff; controls the majority of centre running costs, greatly reducing parent fees; [is ] a platform for needs-based subsidy for children with disability, additional or complex needs, at risk of vulnerability and First Nations children, whereby the supply-side funding can be increased to address these needs in a responsive way; is nuanced for multiple ECEC settings and provide greater simplicity for families navigating the system; incentivises the workforce to upskill and support the growth of a qualified workforce across all age groups. (sub. 306, p. 6)

Going further, some inquiry participants also suggested that funding model decisions should be guided by a core set of design principles. More specifically, the Front Project proposed that:

A set of principles that are aligned with the national ECEC vision and co-designed with the sector should be developed and used to assess the funding options available. They would need to be sequenced so that they can clearly support the achievement of the stated objectives of the ECEC system. Principles for a future funding model could include:

- Accessibility – focuses on delivering universality.
- Affordability – funding to deliver reasonable cost of quality provision.
- Quality – high-quality provision ensures children receive full benefits of ECEC.
- Adequacy - funding must be adequate to meet cost of sustainable, high quality ECEC.
- Equity and inclusion – the differing needs of children is reflected in ECEC design, delivery and funding. (The Front Project, sub. 227, p. 66)

ELACCA (sub. 299, pp. 36–37) proposed that funding should be: sufficient to provide high-quality early learning; needs-based; affordable; and sustainable. And that it should promote diversity and ensure complexity sits with those with the greatest capacity to manage it.

Discussion turns next to principles that should guide funding principles to achieve a universal system.

## Funding models should be designed around clear principles

### Key design principles to inform funding models

In the context of human services, Davidson (2022, p. 338) outlines some widely agreed objectives that governments seek to achieve and notes that these are ‘logically the criteria with which to assess a service and service system in each specific case’. These include:

universality, effectiveness (which primarily derives from the quality, responsiveness and diversity of services), equity, efficiency, choice, stability, innovation, accountability and linkages with other sectors. From the perspective of individuals who need the services, there are three key requirements: availability, affordability and quality.

The ECEC funding model should be designed to achieve governments’ vision for the system and the desired outcomes that ECEC is expected to provide children and their families. The draft National Vision (DoE 2023a, p. 2)<sup>4</sup> outlines four key principles for the ECEC system overall – equity, affordability, quality and accessibility and describes a number of outcomes, including that governments should:

use funding, regulatory and policy levers within the market environment in combination with service delivery to shape a system that is sustainable, flexible, aligned to need, and driven by outcomes for beneficiaries.

The Commission has drawn on elements of the vision in developing a set of principles to guide the design of an ECEC funding model. Four are based on the key principles included in the vision, translated into a funding context. Three additional principles round out the set – simplicity (for families), integrity (including accountability and transparency) and efficiency. Based on other elements of the vision, the inquiry’s terms of reference and feedback from inquiry participants, these three principles are specific to consideration of funding models. In crafting the principles, this paper has referenced analysis presented in other supporting papers developed for this inquiry.

### Equity (or inclusivity)

The draft National Vision for ECEC defines the principle of equity as follows:

All children are supported to succeed, regardless of their circumstances and abilities. Carefully designed strategies and targeted investment provide additional support to children and families when and where they need it.

Equity considerations arise in all aspects of funding – affordability, quality and accessibility – discussed below. Here equity is considered through the lens of inclusion.

Paper 2 notes that inclusion in ECEC can mean every child having the opportunity to participate meaningfully in, and experience positive outcomes from, ECEC. Paper 7 notes that some families and children may experience challenges accessing services that meet their needs, facing financial barriers such as the cost of transport, clothing and non-financial barriers associated with the complexity of the system. Addressing these issues requires services to be inclusive of all children and governments should tailor support towards those facing greater barriers or experiencing disadvantage so they are not excluded. Children and families with additional needs should be able to experience the same benefits of ECEC as families who do not face these barriers.

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<sup>4</sup> The draft National Vision is quoted numerous times throughout the following discussion. Quotes are taken from page 2 of the document, without being referenced each time.



From a funding perspective, instruments designed to address inclusion should be carefully designed to be effective, needs-based and targeted. They should ensure services are inclusive of children and families with additional needs, contributing to the vision's outcome that '[a]ll children are supported to reach their potential'. And, more specifically, that '[s]ervices respond to community, cultural and family contexts and can provide continuity of learning and care to children'.

Different funding types could be used in this context including activity-based, needs-based or programmatic funding. Depending on their design, funding instruments could be targeted to specific cohorts or provided as grants to services to improve their capacity and capability to support children with additional needs. Alternatively, mainstream funding instruments could be designed with a base plus loadings methodology, similar to the schools funding model (described later in box 9.6).

### Affordability

The draft National Vision for ECEC defines the principle of affordability to mean that:

ECEC is within the means of all families. Sustainable, flexible funding systems are in place to support providers in reducing cost barriers for all children and families.

The Commission considers affordability primarily from a family income perspective (paper 6). Out-of-pocket expenses are a key determinant of whether families can afford ECEC. Lower-income families have relatively constrained financial resources making them more sensitive to ECEC expenses. For example, out-of-pocket expenses equal to 5% of income can represent a larger financial burden for a family earning \$80,000 per year, than one with an income of \$200,000 per year. Consequently, across the income distribution, the proportion of disposable income spent on out-of-pocket ECEC expenses (for a given level of ECEC) should not fall. At a minimum, the share of income for lower-income families should not be higher than for those families who earn more, and ideally, for the lowest income families, the share should be lower than for the highest income families.

From a funding perspective, this implies that funding instruments are progressive in nature (or at the least, not regressive) and prioritise support to those facing higher affordability barriers. Along with the principle of equity, this would contribute to achieving the National Vision outcomes that:

- children and families experiencing vulnerability and disadvantage receive the support they need
- ECEC supports parents and carers, especially women, to work when they want to
- cost is not a barrier to accessing an appropriate quality service.

A focus on capacity to pay would also help to ensure limited public funding is targeted to those who need it most, and help to achieve the National Vision principle of a sustainable funding system.

Different funding approaches could be designed to achieve affordability. These could include means-tested child or family-based subsidies, free or lower-cost ECEC for lower-income families in a regime that otherwise sets a constant subsidy rate, or loadings within a funding stream to services based on a profile of the socio-economic status of families in the surrounding community or attending a service.

### Quality

The draft National Vision considers the principle of quality to mean that:

ECEC services are culturally appropriate for their community and meet high standards in providing learning and development outcomes. Children build relationships with a stable, qualified workforce that is recognised for its critical role in the community, and families have confidence in ECEC services.

As discussed in paper 8, quality is defined and assessed through a regulatory system that includes the Australian Children's Education & Care Quality Authority (ACECQA), state and territory regulatory authorities, the National Quality Framework (NQF) and the National Quality Standard (NQS).

From a funding perspective, the architecture should incentivise appropriate quality provision that meets the quality standards, which in turn enables and supports children's development. In practice, this means that overall funding should be adequate to cover the costs of providing required quality and that providers face incentives to deliver it. Further, funding should be indexed to ensure it keeps pace with cost increases.

These characteristics could (and should) be embedded within any funding instrument. Differences between instruments would lie in the extent to which governments required co-contributions from families and permitted services to charge fees.

This principle particularly aligns with the draft National Vision outcomes relating to the workforce including that:

- ECEC workers are valued and respected.
- A sustainable and experienced workforce builds relationships with children.
- Workers feel supported and are retained in the sector.

### Accessibility (or availability)

The draft National Vision defines the principle of accessibility to mean that:

Geographic or cultural barriers to attending a high-quality ECEC [service] are removed. Services are supported to provide flexible models that meet the needs of their community and link with support services where families need them.

The Commission has used the lenses of inclusion and availability in considering cultural and geographic barriers, respectively. Paper 2 discusses the fact that cultural support may be needed to ensure that some children are able to participate fully in ECEC services. These children are among those with additional needs referred to in the discussion of inclusivity above. In thinking about the funding implications of the principle of accessibility, the Commission has, therefore, focused on availability.

Paper 5 explores the availability of ECEC services across the country. The paper finds that all children aged 0–5 whose families 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 per year. Some families will need to access more. A significant expansion in ECEC will be needed to achieve universal provision in line with this level of provision.

From a funding perspective, baseline funding should efficiently incentivise non-government providers to invest in services that meet communities' needs. But costs of provision can vary and funding must accommodate this variability to ensure universal provision (paper 5). As noted above, demand-side funding cannot readily be differentiated by individual service. Providing higher consumer subsidies to reflect the higher costs of providing services in some areas would require higher across the board subsidies. Targeted supply-side funding could augment demand side subsidies in unserved areas. Full supply-side funding could also be calibrated to reflect different costs of service provision.

The potential for an ECEC service to be part of an integrated service should also be considered, in line with the draft National Vision outcome that '[w]here practicable, services offer integrated education and care to support a more holistic approach to development'. More broadly, this principle aligns with the outcome that '[f]amilies get the services they need where they need them'.

### Simplicity

Many inquiry participants commented that families find the system complex and confusing and that, for some, this discourages participation in ECEC (paper 6). A quick look at components of the funding regime

illustrates why this can be the case. Families accessing the CCS need to understand the interaction of service fees, the hourly rate cap, the activity test, subsidy rates, withholding and the tax and transfer system in order to determine their likely out-of-pocket expenses from choice of a provider and level of ECEC usage. Families accessing state and territory-funded preschool programs face a different funding approach – complicated by references to ‘free’ preschool which can involve out-of-pocket expenses for families enrolled in CBDC (paper 6).

As a principle, simplicity means that funding arrangements are not a barrier to access for families. To this end, they should be designed to shield families from unnecessary complexity and administrative processes or requirements. This principle aligns with the draft National Vision outcome that:

The ECEC system is joined up and easy to navigate, providing connections between ECEC and broader early childhood development systems and programs.

There are a number of ways that this principle could be given effect. One funding source for all types of ECEC would help. If families faced a more complex pricing approach (for example, means-tested subsidy rates as per the current system), governments could adopt a range of measures to simplify families’ interactions with the system. Alternatively, families could face a relatively simple pricing structure (for example, a flat fee or uniform subsidy rate) and governments could manage the complexity of funding provision in a way that minimised the administrative burden imposed on families.

## Efficiency

The inquiry’s terms of reference ask the Commission to consider the efficiency and effectiveness of government investment.

From an economic perspective, efficiency is not just about doing things faster or cheaper – which is one way the term is used in general conversation. Economic efficiency has three dimensions (PC 2013, p. 3, 2022, pp. 56–57) and overall economic efficiency is achieved when:

- output is produced at the lowest possible cost for the desired quantity and quality (productive efficiency)
- output is at a level and of a quality that reflects the best use of the community’s scarce resources (allocative efficiency)
- innovation and investment deliver efficient outcomes over time (dynamic efficiency).

In designing a funding system, achieving the principle of efficiency would mean identifying the most efficient option – the one that results in the highest net benefit to the community as a whole. In the context of ECEC this means that funding instruments:

- encourage providers to deliver governments’ desired outcomes for the system at the lowest possible cost
- promote the quantity and quality of ECEC services that maximise community benefits
- encourage efficient investment and innovation.

While not explicitly referred to in the draft National Vision, efficiency, as a principle, should underpin any funding instrument.

## Integrity

Like efficiency, there are various ways to interpret integrity and these can be tailored to different systems (for example, integrity of the tax and transfer system). The Australian Government’s Procurement Rules seek to promote the use and management of public resources, with proper use meaning there is an ‘efficient, effective, economical and ethical use of public funds’ (Australian Government Department of Finance 2024). The OECD defines public integrity as ‘the consistent alignment of, and adherence to, shared ethical values, principles and norms for upholding and prioritising the public interest over private interests in the public sector’ (OECD 2024).

In the context of funding, integrity is taken to mean that public funds allocated to the ECEC sector should only be directed towards efficiently and effectively achieving governments' objectives. While this speaks to government decisions around how funding is allocated rather than the particular model adopted, it is important that the design of a funding instrument does not create adverse incentives, increasing the risk of fraud or misuse of public funds (paper 6). To this end, any funding instrument should be designed to enable accountability and transparency mechanisms to be cost-effectively incorporated into its design. This means that systems:

- are designed in ways that make it easy for families and services to comply with any requirements attached to the receipt of support
- include mechanisms to oversight funding allocations by government
- support a clear understanding of how funding allocations are being spent.

Like efficiency, while integrity is not explicitly referred to in the draft National Vision, the principle should underpin any funding instrument.

### In summary

Funding is a powerful lever that governments can use to shape the ECEC system and achieve the National Vision for the sector. Both the Australian Government (through the CCS system and funding programs targeting inclusion and supply shortfalls), and state and territory governments, through their role in the design of preschool funding mechanisms, contribute to this lever.

Given the multiple principles set out in the draft National Vision, and the need for ECEC to support both child development and labour force participation, funding decisions should be guided by a clear framework. The set of principles defined above is summarised in table 9.1. The principles are applied an assessment of three funding model options (section 9.3).

**Table 9.1 – Key funding model design principles**

	Application to funding instrument design
<b>Equity</b> (or inclusivity)	Funding instruments should be needs-based, targeted and carefully designed to ensure that services are inclusive of children and families with additional needs.
<b>Affordability</b>	Funding instruments should be designed such that they take account of capacity to pay, are not regressive in nature and prioritise support to families facing higher affordability barriers. The funding approach adopted should be sustainable.
<b>Quality</b>	The funding architecture should incentivise appropriate quality provision that meets the quality standards. In practice, this means that overall funding should be adequate to cover the costs of providing required quality and that providers face incentives to deliver it. Funding should be indexed to ensure it keeps pace with cost increases.
<b>Accessibility</b> (or availability)	Funding should incentivise investment to provide services that meet communities' needs.
<b>Simplicity</b>	The funding system should not create barriers to access for families. Instruments should be designed in a way that shields families from unnecessary complexity and administrative processes or requirements.
<b>Efficiency</b>	The most efficient funding system results in the highest net benefit to the community. Funding instruments should be designed to achieve:

### Application to funding instrument design

- productive efficiency, by encouraging providers to deliver ECEC services at the desired quality at the least possible cost
- allocative efficiency, promoting an ECEC sector that maximises net benefits for the community
- dynamic efficiency, by encouraging innovation and efficient investment.

### Integrity

Funds allocated to the ECEC sector should only be directed towards efficiently and effectively achieving governments' objectives. Any funding instrument should be designed to enable accountability and transparency mechanisms to be cost-effectively incorporated into its design.



### 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.

## 9.2 Human services utilise various funding mechanisms

### Australia's ECEC funding model has evolved over time

The funding instruments used by the Australian, state and territory governments to support ECEC services have varied significantly over the past fifty years.

Prior to the 1970s, long day care services were provided by a mix of philanthropic and private organisations without any government funding. The long day care sector was seen to have 'evolved separately to preschools which were not considered to meet the needs of working mothers because of their shorter days'. Their establishment ultimately led to the 'care' and 'education' distinction that is observed today (CPD 2023, p. 2). From 1972, the Australian Government commenced funding ECEC services to shore up the supply of quality care for children in special need, especially those from low-income families with working mothers (box 9.2).

Over various political cycles and changing priorities of governments, the way in which ECEC was funded has changed. With respect to how the Australian Government has sought to improve the affordability of services, the Centre for Policy Development (CPD 2023, p. 6) notes two distinct trends:

First, there are trends that have endured over the period: the move to and reliance on a demand-driven system, with limited other interventions; and the Commonwealth's policy emphasis on affordability to support workforce participation leading to frequent changes to the subsidies' design and level to improve affordability and address rising costs. And second, there are trends where policy settings have moved 'back and forth' over time, such as the use of workforce participation as a condition of subsidy or determinant of level of entitlement, and the balance between means tested and non-means tested support.

### **Box 9.2 – The evolution of Australian Government ECEC funding**

The history of the Australian Government's involvement in ECEC funding is varied. Major funding model design changes over the past 50 years include:

- **1972 to 1974:** Commonwealth funding for centre-based day care (CBDC) services was introduced. The Australian Government provided grants to non-profit providers to fund the building of facilities, and provided recurrent grants to meet staffing costs (based on 75% of the cost of award wages to meet pre-determined staff ratios). Additional fee relief was provided to support affordability for low- and middle-income families. In 1974, funding was expanded to other forms of ECEC such as family day care and outside school hours care (OSHC).
- **1980:** Policies that further targeted funding to specific groups were introduced. These reduced overall funding, and limited support for preschools to block grants for the states, while introducing grants to non-profit services for fee relief to cover low-income families (implemented by centre managers). There was also a submission-based approach to allocate funding to community groups.
- **Early 1980s:** In partnership with the states and territories, the Australian Government allocated further funding using direct grants for non-profit providers to establish more than 6,000 places. This replaced the submission-based approach with a needs-based system that targeted capital and recurrent grants at local government areas with a high proportion of working parents, fewer existing services and lower household incomes. This was followed by a commitment to establish 20,000 places.
- **From 1986:** Further targeted measures were introduced through a new funding formula that extended support to all non-profit providers and targeted fee relief to low-income households. Supply-side funding based on award wages was removed, reducing the quantum of funding.
- **From 1990:** With commitments to create up to 100,000 places (including 20,000 in OSHC) via the then National Child Care Strategy, subsidies were extended to for-profit service providers for the first time, through the newly named Child Care Assistance program. Many commentators agree this was the catalyst for substantial growth in for-profit provision of ECEC services over coming decades.
- **1993:** The Child Care Rebate was introduced, and was the first benefit paid directly to families, rather than services. The rebate was not means-tested, and provided a flat 30 per cent rebate for family's work-related ECEC expenses. Government messaging at the time suggested this change was about reframing 'childcare' as a work-related issue, rather than a social welfare measure.
- **1996:** Further targeting and reduction in subsidies occurred. Child Care Assistance was changed to limit the subsidy to 50 hours of work-related care or 20 hours for non-work purposes. Income thresholds for the means test were lowered for families with two or more children. The Child Care Rebate was partially means tested, reducing the rebate to 20% for higher-income earners.
- **1999:** As a result of GST-related reforms, 12 family support policies were repackaged into three benefits. Both Child Care Assistance and the Child Care Rebate were replaced with a new payment named the Child Care Benefit (CCB), which retained many design features of Child Care Assistance. The CCB was a means-tested benefit paid to eligible families with children placed in approved services that subsidised up to 50 hours of work-related care if parents met the activity test of 15 hours per week or 20 hours for other purposes. This change increased the amount of financial assistance available to lower-income families relative to earlier subsidy arrangements.
- **2004 to 2008:** An additional Child Care Tax Rebate was introduced to address affordability concerns. It was originally a tax offset on out-of-pocket expenses (to a capped level) and was not means tested. In 2007 it was changed to a cash rebate so families with low or no tax liability could benefit from it, and subsequently increased and renamed the Child Care Rebate (CCR). Access to the CCR was made

### **Box 9.2 – The evolution of Australian Government ECEC funding**

subject to a work, study or training test. The CCB was also increased in 2007 with the combination of changes effectively created a two-part system – the CCB was available to all families (with means testing) and the CCR provided additional support for families that met the work, study or training test.

- **2013 to 2018:** The Australian Government directed the Productivity Commission to inquire into the ECEC sector. Its final report informed a redesign of the subsidy system, which was implemented from 2018. Still in place, this features the current Child Care Subsidy which is both means- and activity-tested. To limit fee increases, the new system included an hourly rate cap (indexed to CPI) above which no subsidy would be payable.

Source: Centre for Policy Development (2023), Stebbing (2022), Brennan (1998, 2007), Senate Standing Committee on Community Affairs (1998), Australian Institute of Health and Welfare (2001), Productivity Commission (PC 2014).

Continuing the evolution of changes to Commonwealth subsidies, paper 6 recommends further reforms to the CCS, including the removal of the activity test and that families with annual income at or below \$80,000 should be eligible for a subsidy of 100% of the hourly rate cap. If adopted, these changes will represent further evolution of the funding mechanism as a reflection of changing government priorities and refreshed objectives for ECEC.

### **A mix of ECEC funding instruments is used in many countries**

Countries with a similar mixed market approach to ECEC provision to Australia – that is, where ECEC is delivered through a combination of private organisations and government-run entities – also adopt a mix of funding instruments (appendix B). Different countries approach funding decisions in different ways.

Appendix B provides an overview of international approaches to ECEC, with a focus on British Columbia in Canada, Ireland, Netherlands, New Zealand and Sweden. The work illustrates some of the variety of approaches taken elsewhere, noting that the ways in which governments design and manage their ECEC systems are a product of social context and wider policy considerations.

### **All countries studied use base funding supplemented with targeted assistance**

While each jurisdiction has a unique ECEC funding model, it is well-recognised that base funding instruments are not sufficient in themselves to cover the needs of all children, and many countries also provide targeted funding for some cohorts.

The design of funding instruments for children needing additional support varies – funds are sometimes attached to individual children, and in other instances paid directly to services or municipalities based on the anticipated needs of all enrolled children. Families requiring assistance with out-of-pocket expenses are often eligible for additional demand-side funding, either through limited eligibility programs or extensions to existing funding instruments (for example, where families receive financial support above standard means testing rates).

### **Governments can tailor their oversight of the sector to suit different policy goals ...**

In British Columbia, services participating in the Child Care Fee Reduction Initiative must agree to not increase fees beyond an amount specified by the provincial government and new participating services cannot set fees beyond the 70<sup>th</sup> percentile for their region and service type (Beach et al. 2023, p. 206). Under Core Funding, Irish ECEC providers must meet conditions regarding fees (including a fee freeze until August

2024), service quality and operational transparency (Government of Ireland 2023). In New Zealand, the amount of subsidy services receive differs based on staff qualification levels (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2023). In contrast, CCS funding for approved services in Australia mainly differs by fees and family characteristics rather than individual service characteristics, with only the hourly rate cap differing by service type (appendix D).

### **... but each approach to funding has pros and cons**

The relationship between funding instruments, affordability and access is complex. For example, greater reliance on supply-side funding does not guarantee improved ECEC affordability. OECD data suggests that for some families in jurisdictions with well-established supply-side funding instruments (such as New Zealand), out-of-pocket ECEC expenses as a proportion of household income are higher than in Australia (appendix B).

Supply-side instruments have assisted British Columbia in meeting the Canada-Wide Agreement interim target of halving average ECEC out-of-pocket expenses by the end of 2022 (Gould and Whiteside 2022). But there have been reports of services introducing opt-in payments for items that were previously included in fees (such as meals) following the increase in Child Care Fee Reduction Initiative funding rates, which has limited improvements in affordability (MacMahon et al. 2022). Given these changes are recent, it is too early to properly assess their effect on affordability.

To deliver sustained improvements in affordability, funding instruments – whether they are focused on families or on service providers – must be sufficiently responsive to service costs. Irish providers have expressed concerns that Core Funding rates are not increasing in line with service cost (Wayman 2022). In October 2023, the Irish Government announced a 14% increase in Core Funding expenditure for 2024 to ‘support improved affordability and accessibility for families, improved pay and conditions for the workforce and improved sustainability for providers’ (O’Gorman 2023).

### **The ‘Quebec model’ provides a case study on flat fee, supply-side funding**

One conception of universal ECEC is flat fee provision, where families pay fixed out-of-pocket expenses regardless of their income and activity level – the remaining cost of providing ECEC is met by government through supply-side funding.

An example of this funding approach is found in the Canadian province of Quebec, which began capping daily out-of-pocket expenses for eligible subsidised ECEC services in 1997 (box 9.3). (It should be noted that not all services in Quebec attract the flat fee subsidy. This is discussed in box 9.3 and further below).

While this paper notionally refers to the ‘Quebec model’ as the one first envisaged by the provincial government, there are many variations in existence. Further, as will be discussed, the Quebec model has evolved over time and is now markedly different from the original concept.



### **Box 9.3 – Eligible subsidised services in Quebec provide flat fee ECEC**

In 1997, as part of a broader reform of family policies, Quebec's provincial government began capping daily out-of-pocket expenses for certain subsidised ECEC services at C\$5.<sup>a,b</sup> The flat fee system was introduced in stages: for four-year-old children in 1997, three-year-old and school age children in 1998 and children aged two and under by the end of 2000 (Tougas 2002, p. 8).

For eligible subsidised services, out-of-pocket expenses remained capped at C\$5 per day until 2004, then increased to C\$7 per day until 2015. Between 2015 and 2019, some families paid daily out-of-pocket expenses based on income on top of the flat fee. In 2019, these ranged from C\$8.25 (for low-income families) to C\$21.45 (Fortin 2019, p. 5).

Under the current system, not all ECEC services are eligible to deliver flat fee ECEC, and therefore do not have capped out-of-pocket expenses. Families attending these services can apply for a tax credit from the provincial government to partially offset their out-of-pocket expenses (Beach et al. 2023, pp. 150–151).

In 2019, Quebec's provincial government committed to abolishing the additional expenses for higher-income families, and in 2020, all families returned to paying a flat fee regardless of income (C\$8.35) (Friendly et al. 2021, pp. 57–58). As of 2024, out-of-pocket expenses are capped at C\$9.10 – considerably lower than average out-of-pocket expenses across Canada (Quebec Ministry of Finance 2024; appendix B).

The provincial government contributes to Quebec's flat fee ECEC via supply-side funding. Centre-based services receive a base and supplementary funding allocations. The base allocation has five elements, covering:

- direct services – a daily per child rate based on the ages of enrolled children, staff qualifications and staff wages
- auxiliary services – a daily per child rate to cover costs such as food preparation and cleaning, with a supplement for small centres
- administrative services – paid per licensed space to cover administrative costs, with rates reduced after the first 60 spaces
- occupancy costs – paid per licensed space to cover occupancy costs such as rental payments, insurance and utility costs, with rates adjusted by region
- service optimisation – services must have an enrolment and attendance rates of at least 90% and 70%, respectively, or the funding allocation is reduced.

There are also a number of supplementary allocations. Some of these provide needs-based funding, such as for: children with disabilities; children from families who, due to low income or other factors, do not have to pay out-of-pocket expenses; and children referred to services from integrated service centres. Other supplementary allocations are available to small services and services that operate during non-standard hours. Funding rates are adjusted each financial year (Cleveland 2023; Quebec Ministry of Families 2023b, 2023a).

Funding is delivered in two stages during each financial year. In the first stage, a provisional funding amount is provided based on forecast occupancy throughout the year. Forecast occupancy may be based on data from the previous financial year, or on a forecast made by the service. In the second stage, a final funding amount is confirmed based on actual occupancy during the financial year. This

### **Box 9.3 – Eligible subsidised services in Quebec provide flat fee ECEC**

information must be provided to the Ministry of Families in an annual report following the conclusion of a financial year. When a service opens or adjusts its number of available spaces during a year, the Ministry of Families calculates an appropriate level of new or adjusted funding. If a service receives more funding than they are entitled to, they must reimburse the provincial government. The excess subsidy may be repaid via monthly instalments or by any other means deemed appropriate (Quebec Ministry of Families 2023b, 2023a). Funding for family day care services that provide flat fee ECEC is negotiated by collective agreement (Beach et al. 2023, p. 156).

Since the inception of flat fee services in Quebec, there has been significant excess demand for ECEC. In 2021, more than 50,000 children across Quebec were waiting for a space in an ECEC service (Jonas 2021). In response to this excess demand, Quebec's provincial government passed Bill 1 in April 2022, which includes a C\$3 billion investment to create additional subsidised ECEC spaces and a new centralised waiting list portal for subsidised ECEC services (Jonas 2021; Richer 2022). These reforms are partly funded by the Canadian Government through Quebec's Asymmetrical Agreement as part of the Canada-Wide Early Learning and Childcare Plan (Canadian Government 2024b).

**a.** Other reforms included changes to Quebec's parental insurance plan and a child benefit for low-income families (Tougas 2002, p. 1). **b.** Subsidised services include *centre de la petite enfance* (CPEs) (not-for-profit centres), *garderies* (mostly for-profit centres), FDC services, and OSHC services (Friendly et al. 2021, p. 63).

Through submissions and public hearings, some inquiry participants encouraged the Commission to consider the merits of the Quebec model and its relevance to Australia, pointing to benefits for families across various measures.

### **Quebec's reforms promoted participation in the labour force and ECEC and delivered affordability for families attending flat fee services ...**

Flat fee ECEC provides simplicity and certainty regarding out-of-pocket ECEC expenses and is popular with families in Quebec. When surveyed about their satisfaction with Quebec's ECEC system on a scale of one ('very dissatisfied') to ten ('very satisfied') in 2021, about 90% of families responded with a level of satisfaction of eight or above (Quebec Statistical Institute 2022). This positive sentiment has been associated with increased rates of both maternal labour force participation and ECEC participation.

When a flat fee was introduced, Quebec's labour force participation rate for women with children aged between three and five was 67%, the second lowest among Canadian provinces. By 2018, the participation rate had risen to 82%, the second highest in Canada (Mohamed 2022).<sup>5</sup>

Quebec has also had a higher ECEC participation rate relative to other Canadian provinces and territories since the introduction of the flat fee model. Between 1997 and 2008, participation in centre-based ECEC increased from almost 20% to almost 60% in Quebec, while the rest of Canada only saw an increase from about 10% to almost 20% (Haeck et al. 2015, p. 144). Quebec's ECEC participation rate is also high relative to other areas in Canada when all ECEC service types are considered – 75% of children in Quebec aged

<sup>5</sup> Prior to the childcare reforms, mothers' labour force participation rate was growing at a faster rate in Quebec than other provinces in Canada. Previous empirical research that compared Quebec to the rest of Canada, therefore, tended to overestimate the participation gains attributed to the reform itself. A more recent study used methods to overcome this limitation and still found positive but smaller effects (paper 4).

0–5 use ECEC, compared to the Canadian average of 56% – although studies have shown that this cannot be solely attributed to Quebec’s use of flat fee ECEC (Statistics Canada 2023b).

From an affordability perspective, as daily out-of-pocket expenses are capped at C\$9.10 in subsidised ECEC services, ECEC is more affordable in Quebec relative to elsewhere in Canada (appendix B). The Canadian Government’s Canada-Wide Early Learning and Child Care Plan (CWELCC plan, discussed below) identifies daily out-of-pocket expenses of C\$10 as a benchmark for affordability (Canadian Government Department of Finance 2021).

### **... although some families in other ECEC services face affordability challenges**

Quebec also has unsubsidised ECEC services that do not cap out-of-pocket expenses. Instead, families attending these services can apply for a tax credit from the provincial government to offset between 67% and 78% of their out-of-pocket expenses, depending on family income (Revenu Quebec 2023). In 2021, about 28% of preschool age children in Quebec attended a non-subsidised centre-based or family day care service (Quebec Statistical Institute 2022).

When a collection of families who attended either subsidised or unsubsidised ECEC services were surveyed in 2021, 28% were concerned about the affordability of ECEC. Affordability concerns were more pronounced among families who were searching for places in subsidised ECEC services, suggesting that unsubsidised services were perceived as being less affordable (Quebec Statistical Institute 2022). The multi-tiered system of ECEC services may also reduce simplicity for families, as the service types have separate subsidy systems and enrolment processes.

Over time, Quebec’s provincial government has committed to making more spaces available in subsidised services. Most recently, its 2022 legislative bill included a C\$3 billion investment to create 37,000 additional subsidised ECEC spaces by March 2025, equivalent to ensuring that every child in Quebec can be accommodated in a subsidised ECEC service (Jonas 2021).

### **As Quebec’s reforms were intended to improve affordability, enabling universal access to high-quality ECEC remains an ongoing focus of the provincial government**

Available evidence suggests that high-quality ECEC delivers relatively larger benefits to children (paper 1). Quebec’s flat fee reform relaxed some components of quality regulation and was implemented very rapidly, with little time for providers and the workforce to prepare. In the years following the reform, many services, particularly for-profit services, failed to comply with even the lower quality standards. In 2001, 42% of for-profit centres did not respect the ratio of two of every three educators being qualified (Lefebvre et al. 2008, p. 24). In 2014, the quality of ECEC provision across Quebec’s ECEC sector was mixed: about 36% of unsubsidised for-profit services were assessed as delivering ‘inadequate’ quality care, compared to only about 5% of subsidised not-for-profit services (Fortin 2019, p. 8). Evidence regarding the impact of these quality issues on children’s outcomes is mixed (paper 1).

Improving the quality of ECEC services is an ongoing priority for Quebec’s provincial government. Since 2017, subsidised and non-subsidised centre-based services have had a legal obligation under Quebec’s *Educational Childcare Act* to assess and improve their quality. Service quality is measured using a structured observation tool, along with interviews with educators and managers and a parent survey (Employment and Social Development Canada 2019). The creation of additional high-quality ECEC spaces is also a focus of Quebec’s Asymmetrical Agreement as part of the CWELCC plan.

The Canadian Government has recognised that Quebec’s experience highlights the quality risks associated with significant, rapid expansions in ECEC supply. One of the central aims of the CWELCC plan is to create new ECEC spaces without compromising quality (box 9.4).

### **Box 9.4 – The Canadian Government is working with provincial and territorial governments on a Canada-wide program of low-cost ECEC**

In 2021, the Canadian Government announced the Canada-Wide Early Learning and Child Care Plan (CWELCC plan). The CWELCC plan aims to reduce average daily out-of-pocket expenses for subsidised ECEC services to C\$10 in all provinces and territories by 2026, with an interim target of halving daily out-of-pocket expenses by the end of 2022.

The CWELCC plan involves Canadian Government expenditure of up to C\$27.2 billion (allocated across provinces and territories) over the five years from 2021-22. The Canadian Government intends for this expenditure to deliver reductions in out-of-pocket expenses, ongoing growth in the availability of affordable, high-quality ECEC spaces and improvements to out-of-school-hours care services.

The Canadian Government has identified three key areas of focus that underpin the CWELCC plan:

- primarily supporting not-for-profit providers to deliver the expansion of high-quality, affordable ECEC, while still ensuring that families in all types of regulated ECEC services benefit from the reforms
- having a growing, qualified ECEC workforce – valuing the ECEC workforce and providing the necessary training and development opportunities to support the growth of a quality ECEC system
- accountability to Canadians – in partnership with provinces and territories, developing common, publicly available data that can be used to report on the performance of an ECEC system.

Each province and territory has signed a bilateral agreement with the Canadian Government. The agreements provide information on the province or territory's existing ECEC system (for example, relating to service types and funding instruments). The agreements also include an action plan for meeting CWELCC plan targets.

Although the CWELCC plan spans five years, the Canadian Government has acknowledged that the plan represents the start of an increased permanent financial commitment to ECEC. When the plan concludes in 2026, future objectives and funding will be determined based on progress made under the initial plan.

Source: Canadian Government (2024a); Canadian Government Department of Finance (2021).

Despite the large expansion in provision, Quebec's flat fee reform has not led to all children having the same opportunity to access high-quality ECEC – participation in high-quality ECEC differs across the income distribution. Children from low-income families have been under-represented in high-quality services: about 80% of high-income families used a high-quality ECEC service in 2019, compared to about 40% of low-income families (Fortin 2019, p. 10).

Several factors might be causing the underrepresentation of children from lower-income families in *centre de la petite enfance* (CPEs), Quebec's high-quality centre-based services. CPEs are often located within universities and office buildings, and the higher-income parents and guardians who work at these locations may receive preferential access to spaces in these services. Additionally, CPEs are managed by boards. If lower-income parents or guardians tend to face larger barriers to sitting on a board, this may be linked to higher barriers to CPE enrolment for their children (Mohamed 2022).

To address this inequity in access to high-quality services, Quebec's provincial government is reforming how enrolments for subsidised ECEC services are managed. A new centralised waiting list portal for subsidised ECEC services will be launched in September 2024, and new enrolment processes will give children from

disadvantaged areas priority access to ECEC services. The new portal also aims to make waiting list processes more transparent by providing families with information regarding where they sit on a service's waiting list (Richer 2022).

### Quebec's reform provides valuable lessons for other jurisdictions

Quebec's flat fee ECEC reform was considered to be transformational for the province, but not without limitations. The Canadian Government acknowledged this when announcing the CWELCC plan, stating that:

the Quebec experience has also illustrated that building a system is complex, and that phased and sustained investments are required to ensure that everyone has access to the same quality of care at affordable prices. These are valuable lessons for a pan-Canadian system. (Canadian Government Department of Finance 2021)

The CWELCC plan aims to account for this complexity: the plan is underpinned by a universal goal – C\$10 average daily out-of-pocket expenses by 2026 – but allows for flexible implementation across jurisdictions. The action plans in provinces and territories' bilateral agreements with the Canadian Government build on each jurisdiction's existing ECEC funding instruments and service types (Canadian Government 2024a).

An awareness of the challenges associated with significant ECEC reform, however, does not guarantee faultless policy execution. The implementation of Canada's CWELCC plan has brought similar challenges to those experienced in Quebec nearly three decades ago.

While the Canadian Government's CWELCC plan promoted the expansion of not-for-profit provision (intended as a quality safeguard) as a central theme, funding was not initially provided to support such expansion. It is likely that for this reason, and due to their preferences for how their ECEC markets are structured, some provinces have expressed a desire to move away from this principle. Both Alberta and Ontario's provincial governments have indicated their desire to increase the involvement of for-profit services amid significant excess demand for ECEC (Johnson 2023; Jones 2022).

Prior to funding arrangements being finalised, there were also concerns raised that without an increase in the supply of educators, the prioritisation of not-for-profit services may have simply led to a transfer of resources from services not included in the CWELCC plan to those included in it, with no overall increase in ECEC availability (MEI 2022).

Results from Statistics Canada's 2023 survey on families' ECEC arrangements suggest that the excess demand for ECEC associated with the CWELCC plan has also created difficulties for families in the short term. In 2023, 49% of families using ECEC reported difficulty finding a place, compared to 36% in 2019. The proportion of families who reported difficulty finding affordable care, however, did decline from 48% in 2019 to 41% in 2023 (Statistics Canada 2023a). In part to address the current shortfall of places, the Canadian Government announced it would provide C\$1 billion in low-cost loans and C\$60 million in non-repayable grants for public and not-for-profit providers to build new spaces and renovate existing centres (Canadian Government 2024c).

Replicating a funding model from one jurisdiction in another is unlikely to deliver replicated outcomes – a jurisdiction's existing ECEC system will affect how such a reform should be designed and delivered. And that system will also influence the magnitude of additional benefits and costs of a shift to flat fee ECEC. There are also many variations on these funding models, rather than being represented as a discrete choice for governments.

Considering what outcomes could be realised from such a shift, it should be noted that Australia's current maternal labour force participation rate is significantly higher than Quebec's maternal labour force participation rate was in 1997. After accounting for differences in participation rate methodology, Quebec's maternal labour force participation rate is similar to Australia's. However, part-time work remains more

common among Australian mothers (paper 4). ECEC participation is also much more prevalent in Australia than in Quebec in 1997. Therefore, the potential benefits of shifting to flat fee ECEC in Australia would likely be lower than those observed in Quebec. Modelling undertaken for the ECEC inquiry estimates that a shift to flat fee ECEC with free provision for children from lower-income families (\$80,000 and below) would increase labour supply hours by 1.1%, a smaller response than recent estimates of changes in maternal employment following Quebec's ECEC reform (Montpetit et al. 2024, p. 14; paper 6). However, given the significant pre-existing ECEC-related government expenditure in Australia, the additional expenditure associated with a shift to flat fee ECEC would likely be smaller than what was experienced in Quebec too. The Commission estimates that a shift to flat fee ECEC with free provision for children from lower-income families (\$80,000 and below) would increase net government expenditure by \$8.8 billion in 2023-24 after accounting for changes in CCS expenditure, income tax collections and transfer payments (paper 6).

### **Inadequate supply-side funding alongside price controls may unintentionally reduce availability and affordability of ECEC**

Supply-side funding can take many forms. It can be the dominant mode of funding (as in public schools, for example), or can complement demand-side funding mechanisms and strengthen provider accountability in particular areas such as inclusion or labour practices.

However, if funding is not sufficiently responsive to changes in costs of provision, combining supply-side funding instruments with price controls can create financial viability issues for services and compromise affordability for some families. One example of these availability and affordability issues is found in England, where free hours of ECEC entitlements are being extended significantly (box 9.5).

#### **Box 9.5 – England's experience with free hours of ECEC**

England's nursery voucher scheme, introduced between 1996 and 1997, was described in Parliament as the country's 'first attempt at a universal early years system' (UK House of Commons, 1997). Families of four-year-old children could apply for a £1,100 voucher that could be exchanged for a place at an ECEC service. The voucher covered five two-and-a-half hour sessions (12.5 hours) of ECEC per week across 33 weeks per year. The voucher could be topped up if an ECEC service charged fees beyond the voucher amount or if families required additional hours of ECEC. Vouchers were topped up by the relevant local authority for children attending a nursery school, nursery class or reception class in a primary school, or by a child's family for children attending services operated by private, voluntary or independent providers (West and Noden 2018, pp. 7–8).

In 1997, England's national voucher scheme was replaced with an entitlement: all four-year-olds became eligible to attend 12.5 hours of free ECEC for 33 weeks per year in the year before school. Over time, England's free entitlements have become more generous in terms of hours per week (12.5 to 15), weeks per year (33 to 38), and age eligibility. Currently, all three- and four-year-old children, as well as two-year-olds experiencing disadvantage, are eligible to attend 15 hours of free ECEC each week. A 15-hour free entitlement for children of eligible working parents (individually earning more than £9,518 (about AUD\$18,000) but less than £100,000 (about AUD\$200,000) per year) was extended to two-year-olds from April 2024, and will be extended to those aged over nine months from September 2024. From September 2025, all children of eligible working parents aged over nine months will be

### **Box 9.5 – England’s experience with free hours of ECEC**

eligible for a 30-hour free entitlement (UK Government 2024; UK Government Department for Education 2024).

Local authorities receive funding for the entitlement based on a formula that includes a base rate, an area cost adjustment (to account for differences in the cost of ECEC provision across England) and additional funding for children with additional needs, such as children with disabilities, children who speak language other than English at home and children experiencing socio-economic disadvantage (UK Government Education & Skills Funding Agency 2024).

During England’s recent expansion of free hours ECEC, providers expressed concerns about their ability to maintain affordability and availability. One issue is that providers claim the hourly funding rate for free hours provision does not adequately cover costs. Where that is the case, services raise revenue by introducing additional charges or cross-subsidising (increasing fees for hours of ECEC attended beyond the free hours entitlements), thus reducing affordability (Aguilar Garcia and Topping 2023; Weale 2023, 2024).

For services where a large proportion of families are experiencing financial disadvantage, there is limited scope to increase revenue via these alternate means, which can lead to services closing and a reduction in availability (Weale 2023). In England’s most disadvantaged areas, nearly one-third of not-for-profit nurseries ceased operations or were taken over by private companies between 2018 and 2022 (Aguilar Garcia and Topping 2023).

## **Different funding approaches are used in human services sectors**

Other human services sectors in Australia use a variety of funding types (box 9.6). These often involve some form of base payment with additional support targeted to areas or individuals with higher needs. In addition, all funding models described below include a combination of government and private funding sources.

### **Box 9.6 – Funding models used in other human services sectors**

#### **Schools**

Primary and secondary schools are jointly funded by the Australian Government, state and territory governments, and parental or other private contributions (such as fees).

The Australian Government provides funding to schools based on each school’s Schooling Resource Standard (SRS). As of 2023, the Australian Government provides at least 20% of each government school’s SRS and 80% of each non-government school’s SRS. State and territory governments are majority funders of public education and provide funding for government and non-government schools as per the bilateral agreements to the National School Reform Agreement (NSRA). The *Australian Education Act 2013* (section 22A) states that, as a condition of financial assistance from the Australian Government, states and territories are required to meet minimum school funding contributions. These are set out as a share of the SRS in individual bilateral agreements between the Australian Government and each state and territory government.

### **Box 9.6 – Funding models used in other human services sectors**

A school's SRS includes a base amount plus four student-based and two school-based loadings. Student-based loadings cover students: with disability; who are Aboriginal and Torres Strait Islander people; who are experiencing socio-economic disadvantage; and / or who have low English proficiency. Schools may be eligible for loadings based on size and location.

Within the student with disability loading, there are also three tiers of funding support – supplementary, substantial or extensive. Funding for students with disability makes up about 12.4% of total Australian Government recurrent funding in 2024.

Schools also receive funding from private sources, most notably families and funding raised through parents and citizens associations. Some also raise revenue through leasing out school facilities, for example, to outside-school-hours care providers, sporting clubs and weekend language schools. And some receive philanthropic contributions.

While the Australian Government does not play a direct role in setting parental fees, for most state and territory government schools, payment of fees is generally voluntary and fees are set such that they are not cost-prohibitive. Fee levels at non-government schools are set by schools.

#### **Medicare**

Medicare is Australia's universal health insurance scheme. Medicare is funded by the Australian Government through taxation revenue, including instruments such as the Medicare levy and Medicare levy surcharge.<sup>a</sup> Medicare includes a range of safety nets for individuals who incur high out-of-pocket medical expenses, including the Greatest Permissible Gap, Original Medicare Safety Net and Extended Medicare Safety Net.

Additionally, medical practitioners are incentivised to bulk bill so that consumers face no out-of-pocket expenses. The national bulk billing rate during the 2023-24 July to March year to date was about 75%. This aggregate figure, however, obscures differences in bulk billing rates between medical service types – more than three quarters of practice nurse, pathology and optometry services were bulk billed, compared to less than a quarter of anaesthetics services.

The Australian Government subsidises the expenses of consumers receiving medical treatment up to the bulk billing rate. Where fees exceed this rate, consumers make a co-payment. That is, they face out-of-pocket expenses where fees exceed the bulk billing subsidy rate. This funding model is similar in nature to the uniform subsidy rate approach described in paper 6 and section 9.3 below.

In the case of hospitals, out-of-pocket expenses depend on the treatment received and the type of hospital in which that treatment is received. Being treated as a 'public patient' at a public hospital is free. Expenses for many other private treatments are also fully covered by Medicare and private health insurers. However, some consumers will pay out-of-pocket expenses if being treated as a 'private patient' in a private or public hospital, including fees for doctors and other health care providers, or hospital charges like accommodation and theatre fees.

In addition to monetary out-of-pocket expenses, some consumers face non-monetary queuing costs in accessing medical services, such as those associated with triage processes in emergency departments and wait times for elective surgeries at public hospitals.

#### **Pharmaceutical Benefits Scheme (PBS)**



### **Box 9.6 – Funding models used in other human services sectors**

Under the PBS, the Australian Government subsidises the cost of medicine for most medical conditions, with listed medicines dispensed by pharmacists and used by patients at home.

Medicines are listed on the scheme if they are considered necessary to maintain the health of the community in a way that is cost-effective. The scheme achieves this by assessing the costs and therapeutic benefits of medicines, including comparisons with other treatments where appropriate. If a medicine is found to be acceptably cost-effective, the Australian Government negotiates its price with the supplier. Generally, a medicine is considered cost-effective if, for significant medical conditions, the improvements in health outcomes justify the additional costs to the scheme (and any harms) compared with its main alternate therapy.

Recipients of PBS medicines make a co-payment of up to \$31.60 for most medicines, or \$7.70 with a concession card. The Australian Government contributes the remaining cost. In most cases, PBS medicines cost significantly more than the co-payment amount. Co-payment amounts are adjusted on 1 January each year in line with movements in the CPI.

The PBS funding model is similar in nature to a flat fee ECEC funding model in that recipients pay a flat fee – generally set to achieve affordability and simplicity – and the Australian Government contributes the remaining cost, which varies significantly by medicine.

**a.** The Medicare levy is generally 2% of taxable income. In 2022-23, individuals generally paid a reduced Medicare levy when earning below \$30,345, and did not pay the levy when earning below \$24,276. The Medicare levy surcharge is 1%, 1.25% or 1.5% of taxable income, reportable fringe benefits and any amount on which family distribution tax has been paid, for individuals above an income threshold who do not have an appropriate level of private patient hospital cover. In 2022-23, the Medicare Levy Surcharge base income threshold was \$90,000 for singles and \$180,000 (plus \$1,500 for each dependent child after the first one) for families.

Source: AIHW (2022); ATO (2023a, 2023b, 2023c); DoE (2023b, 2024e); DHAC (2022, 2023a, 2023b, 2024a, 2024b; 2024).

## **9.3 Options for broader funding reform**

In the discussion that follows, the focus is on funding models that might be adopted by the Australian Government in isolation of agreements with the states and territories about preschool funding. In effect, the discussion focuses on the current CCS-approved segment of the ECEC sector. Section 9.4 considers funding covered by the PRA. From a simplicity perspective, one common funding approach across the whole sector would reduce complexity for families and providers. It would also resolve the inequity inherent in the current approach.

While convergence of funding approaches should be a longer-term goal of governments (section 9.4), in the short- to medium-term, as the Australian Government works to address the issues raised within the CCS-approved part of the system, there is an argument to retain two different funding approaches. Adding an additional funding reform to what will already be a very active policy reform space risks overloading policymakers and the sector. But convergence should be kept in sight as policymakers develop a new national agreement for ECEC (paper 10).

## Options for funding models covering CCS-approved services

In designing the inquiry's recommendations, the Commission has focused on policy reforms that would achieve a universal system, that is, a system that enables all children access to ECEC services that support their development and that focuses on meeting children's needs while also considering the preferences and needs of their families (paper 5).

Adoption of the inquiry's recommendations (put forward across the supporting papers) would mean significant changes to the existing funding model. There would be a large expansion in supply-side, needs-based funding via a reformed inclusion funding instrument (paper 2) and a considerably larger program of supply-side funding to uplift the availability of ECEC in thin markets (paper 5). Affordability and accessibility would be enhanced for almost all families through improvements to the CCS, HCCS and ACCS (paper 6).

While these changes would achieve a universal system within the architecture of the current system, other funding arrangements could be adopted. This section considers the pros and cons of three broad funding model options, assessing each against the design principles developed in section 9.1. These are equity (or inclusivity), affordability, quality, accessibility (or availability), simplicity, efficiency and integrity.

For the remainder of this paper, the funding mix implied by the recommendations in papers 2, 5 and 6 is referred to as **Option A**. The model includes a mainstream element in the form of a means-tested demand-side subsidy (up to an hourly rate cap), with targeted supply-side funding for inclusion and availability uplift. Services are free to set fees, and families' out-of-pocket expenses will vary accordingly.

An alternative model would see a uniform 90% subsidy rate for all families (**Option B**). This option is consistent with the direction provided in the terms of reference to the Commission. The fundamental architecture of the CCS subsidy system would remain, that is, demand-side funding model with subsidy amounts limited by a price cap, and scope for variable fees and out of pocket payments.

Option B is assumed to have similar features to Option A, combining a mainstream instrument plus additional programs, but provider-determined fees. The key difference is that the subsidy rate does not vary with family income, applying as a flat 90% and *all* families are eligible to receive the subsidy.

The third model involves full supply-side funding with a flat fee, again for *all* families (**Option C**). A flat fee approach necessitates supply-side funding because services cannot charge fees above the set amount to recover costs. This option draws significant parallels with what is widely considered the Quebec model (box 9.3). Option C would involve needs-based, block-based allocations for all providers, including a base amount plus both broad and targeted loadings, similar to the schools model (box 9.6). These loadings would be based on the characteristics of children and families enrolled in services, and would be applied to address inclusion and accessibility barriers.

## Assessment of funding models against the key design principles

### Equity (or inclusivity)

As noted earlier, equity considerations pervade all aspects of funding models. Here the focus is on the need for funding instruments to ensure that services are inclusive of children and families with additional needs. The relevant principle means that these funding instruments should be needs-based, targeted and carefully designed to ensure this is achieved (table 9.1).

In response to the draft report, many inquiry participants supported a more flexible, needs-based approach to inclusion funding (paper 2). The Front Project suggested the funding model include:

Equity funding and/or loadings that account for the needs of children attending the service including First Nations children, children with disability or additional needs, children from non-English speaking backgrounds, together with loadings that reflect additional costs to deliver services in certain geographic areas and the varying costs of different age groups, for example 0–3-year-olds. (sub. 227, p. 67)

The Parkville Institute (sub. 231, pp. 3–4) suggested a ‘funding model of “targeted within universal” in which targeted programs exist within the ECEC system’ and ‘increased, sustained block funding for Aboriginal Community Controlled Organisations’. Other participants strongly supported funding to be linked to need and prioritised towards those facing additional barriers (C&K, sub. 306, Early Learning Association Australia, sub. 237).

Goodstart Early Learning recommended a:

multi-layered financing and policy approach to achieve equity and inclusion objectives that includes: enhanced child-level investment to support individual children, particularly those with additional needs and disability [and] new service-level investment to build service equity and inclusion capability, delivered through a supply-side, needs-based funding model, in line with that proposed in the ISP Review, with a phased introduction over the next 3-5 years. (sub. 277, p. 61)

Blaxland and Skattebol (UNSW) suggested a:

needs based, supply-side funding model would better meet the needs of services operating in low socio-economic areas and services for Aboriginal and Torres Strait Islander communities. In addition, we recommend that such funding be available for capital works, so that ECEC services, particularly those in high poverty contexts, can create adequate space to cater for the needs of neurodiverse children and others with high learning support needs. (sub. 233, p. 1)

Option A (and, by assumption, B) seeks to support equity through a new supply-side funding instrument. Paper 2 proposes a comprehensive approach to overcome non-cost barriers to ECEC access. A service would receive funding based on the characteristics of children enrolled and their families (including disability, cultural barriers to access, low socio-economic status and other factors), in addition to appropriate individual support for those with significant needs. This supply-side, needs-based funding is expected to provide more timely and flexible funding to services, while targeting those families most in need of additional support. Services would also draw on baseline CCS funding and contributions from families, as they do now, to support inclusion for all families. The new instrument would therefore be consistent with the equity principle.

Option C adopts a similar approach, by applying a base plus loadings formula, but within a single funding instrument.

In practice, the effectiveness of each approach would depend on allocated funding being sufficient to meet the needs of children and their families. Under Options A and B services would have some capacity to charge higher fees, particularly in higher-income areas, to recoup additional inclusion costs in the event that needs-based funding was insufficient.

Not fully funding services can have consequences for inclusion. For example, the Expert Panel appointed to inform the next intergovernmental schools agreement highlighted that while in principle all students should have access to a high-quality education, many face barriers to participation and achievement, particularly those from priority equity cohorts (DoE 2023c, p. 10).

The Panel noted that in the 13 years since the Gonski funding review '[w]hile most non-government schools are at or above the minimum funding standard, many government schools are still not being funded to this benchmark' (p. 28) and that this was having consequences for equity.

A precondition of ensuring equity in the Australian school system is full funding for all schools. ... Funding schools in accordance with the proportional amounts estimated under the original SRS would inject more funds into government schools, particularly the government schools which have higher proportions of students from priority equity cohorts, and address inequities across jurisdictions. (p. 73)

## Affordability

The affordability principle means that funding instruments should be designed such that they take account of capacity to pay, are not regressive in nature and prioritise support to families facing higher affordability barriers. The funding approach adopted should be sustainable (table 9.1).

Inquiry participants had various interpretations of affordability – spanning free, low-cost or linked to families' capacity to pay.

- The Parenthood (sub. 276, p. 16) noted its long-term vision that ECEC should be 'free, or nearly free, for all families' which requires a 'shift from a predominately market-based demand-side funded system to a system which includes some government-directed supply-side funding'.
- The Front Project (sub. 227, p. 67) suggested that there should be 'a reasonable parent contribution that supports government in funding the system, but is based on an equity approach and parents' capacity to pay'.
- ELACCA (sub. 299, p. 37) proposed that ECEC 'should be affordable for all families and cost aligned with capacity to pay'.

Option A and B utilise the same funding instrument to support affordability, albeit with different settings.

Option A involves a subsidy rate linked to family income, starting at 100% of the hourly rate cap for families earning up to \$80,000 per annum and tapering by 1 percentage point for every additional \$5,000 of household income and cutting out at an income of \$580,000 (paper 6). A higher rate (via the HCCS) would apply for second and subsequent children attending CCS-approved services for families with more than one child aged five (also cutting out at an income of \$580,000). Extra assistance would be available to families who face additional barriers to accessing ECEC, through higher subsidy rates (generally 100% of fees if below or equal to the rate cap or up to 120% of the hourly rate cap if fees are above the rate cap) (via the ACCS). Activity requirements are removed, meaning that most families would be eligible for a higher number of subsidised hours (paper 6).

Combined, these measures would improve affordability for all families who met eligibility criteria for subsidies (that is, all but the very well off), compared to the current model. Families with incomes of up to \$130,000 would receive a subsidy of at least 90% of the hourly rate cap. The Commission estimates that this equates to about half of all families. In contrast, about 30% of families are eligible to receive a 90% subsidy rate under the current CCS settings (appendix F).

While not considered an affordability mechanism per se, the proposed expansion of supply-side funding to address accessibility in thin markets would likely lead to the establishment of some free or low-cost services (paper 5). The recommended comprehensive approach to inclusion funding would also likely improve affordability for some families (paper 2).

As noted above, option B involves a uniform subsidy rate set at 90% of the hourly rate cap for all families, and is assumed to include the same ACCS settings as option A.<sup>6</sup> The HCCS would disappear, because the 90% subsidy rate would apply for all children. In contrast to option A, as noted above, all families would be eligible for this support.

Providers retain responsibility for setting fees under options A and B. It is not expected that fee setting would change – to remain viable, services would need to set their fees to cover operating and capital costs and attract sufficient families to the service. In the December 2023 quarter, about 20% of services charged fees above the hourly rate cap, although these services were located mainly in socio-economically advantaged areas (DoE 2024c, table 3.4; paper 6). This means that, notwithstanding 100% or 90% subsidy rates, some families may still face out-of-pocket expense. This may be particularly relevant for low-income families living in areas of relative socio-economic advantage (Brotherhood of St. Laurence, transcript, 4 March 2024, pp. 24–25). The ACCS could be expected to alleviate this risk for those experiencing vulnerability and disadvantage (under both options).

Notwithstanding its higher overall fiscal cost, under option B some low-income families would be worse off than currently because they already receive a subsidy rate greater than 90%. This outcome could be avoided by making ECEC free for lower-income families as under option A. But option B would likely reduce out-of-pocket expenses for many middle to higher income families relative to the current model and option A. Modelling by the Commission estimates that 90% of the increase in CCS outlays would flow to families in the upper half of the income distribution and about three quarters of families would receive an increase in subsidy support relative to the current model under a universal 90% subsidy rate (paper 6).

Turning to option C, the Australian Government could set the flat fee at any level. In modelling this option (paper 6), the Commission has assumed a \$10 flat fee out-of-pocket expense per day per child, consistent with the figure suggested by the Parenthood (sub. 276) and Minderoo/Thrive by Five (sub. 288). This would also leave some families worse off than under the current system – that is, those receiving subsidy rates that translate into out-of-pocket expenses of less than \$10 per day per child. But, as for option B, this outcome could be avoided. For example, the fee could be waived for specific cohorts where it is considered a barrier to access. As with option B, option C would significantly reduce out-of-pocket expenses for many families relative to current subsidy settings.

But both options B and C by themselves are regressive, deprioritising lower-income households. A higher level of support for lower-income families would go some way towards addressing this. But without this, neither option would align with the affordability principle of prioritised support to those facing higher affordability barriers. Indeed, without additional assistance for low-income families, Options B and C could worsen the regressive distributional impact of ECEC subsidies, with out-of-pocket expenses as a share of income falling across the income distribution. This was also noted by ELACCA (sub. 299, p. 36):

Australia's system is also strongly progressive and linked to capacity to pay, while a flat fee supply-side funding model would, in effect, be highly regressive. A flat \$10 a day fee is a much higher proportion of weekly income for a lower-income family.

In addition, options B and C increase the level of subsidisation for many families for whom the cost of ECEC is already within their means and that they already are or may, without increased government subsidisation, have been willing to pay for to attain the private benefits of ECEC. For such families, increasing the level of

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<sup>6</sup> The Commission's modelling (paper 6) assumes that HCCS and ACCS settings are as per the current CCS system. But government could easily change these design features if an option like B were implemented. Here, that is assumed.

subsidisation represents a pure income transfer without any measurable improvement on the core definition of affordability – that ECEC is within the means of all families.

The structure of subsidisation inherent in options B and C would also induce substantially higher demand for ECEC across higher-income groups (paper 6). In the case of option B, this may ultimately lead to higher fees, offsetting some of the potential affordability gains. For both options, unless the introduction of the policy change were very carefully phased, services would likely face excess demand. As per Quebec's experience, the families more likely to miss out would be those experiencing the greatest vulnerability and disadvantage.

From a sustainability perspective, by utilising means testing and tapering of the subsidy rate as family income increases, option A is significantly less costly, allowing taxpayer funds to be used to deliver other objectives within ECEC (as recommended by the Commission) or in other areas.

## Quality

Quality standards are regulated under the NQF and this would continue under all funding model options presented in this paper. But adequate funding is also critical to delivery of those standards. The quality principle means that the funding architecture incentivises appropriate quality provision. In practice, this means that overall funding should be adequate to cover the costs of providing required quality and that providers face incentives to deliver it (table 9.1).

Demand- and supply- side funding can be designed to provide quality but the mechanisms are quite different. And some inquiry participants noted how quality can be achieved through various funding designs:

A predominately supply-side funding model could involve directly funding services. Such a model could also involve the quantum of funding being based on the reasonable cost of quality delivery (including the cost of a sufficient, skilled and appropriately paid workforce), the nature of the service being provided, the number and characteristics of children attending, and governments' policy objectives. (Victorian Government, sub. 311, pp. 11–12)

In addition to funding at a level sufficient to provide a high quality service, the funding system could encourage high quality delivery and quality improvement (for example, additional payments for improving quality ratings), and discourage low quality provision through conditions placed on receiving government funding (for example, the requirement to meet minimum standards). (Centre for Policy Development, sub. 282, p. 16)

Both options A and B rely on the CCS architecture. The CCS supports quality provision through the quantum of subsidies (with maximum amounts effectively set by the hourly rate cap) and allows services to respond to consumer preferences. In principle, the hourly rate cap can be adjusted to ensure that services can continue to provide quality ECEC without resorting to fees above the cap. Room closures and waivers of ratio requirements that reflect the challenges the sector is facing in attracting and retaining workers (paper 3), indicate that there are limits to increasing prices. That said, the scope to set fees above the cap in areas where families have capacity to pay provides a form of 'safety valve' that enables continued high-quality provision if costs rise. More generally, the scope for setting fees embedded in options A and B enables providers to design higher-quality services, where that accords with families' preferences.

Under the CCS model there is some risk that providers might cut quality where families do not value it, have the capacity to pay for it or cannot discern it. However, the evidence indicates that overall levels of quality have improved and the ACCC found that services compete on quality, suggesting that families do value it (ACCC 2023, p. 15). But some pockets of persistent poor quality remain, which require targeted action as outlined in paper 8.

Quality ECEC is also inherently related to the workforce that provides the service. Under options A and B, award wage costs would be covered by the hourly rate cap, as it would be indexed to reflect changing costs of service delivery. Where services chose to pay educators and early childhood teachers above award wages, staff above ratios and/or employ staff with higher levels of experience (and wage costs), they would be able to draw on family contributions to fund this.

Turning to option C, a flat fee would remove the ability for providers to set their own fees and compete on price. The Australian Government would need to create a mechanism to estimate costs and determine how much baseline funding plus loadings different providers received. Systems like those underlying the Schooling Resource Standard (box 9.6), or base and supplementary allocations paid to providers in Quebec (box 9.3), would need to be developed.

Funding would need to meet the costs of providing services in line with the quality standard for every provider, avoiding as far as practicable overfunding some and underfunding others. While underfunding also poses risks to quality under the CSS, services can increase their fees where families have some capacity to pay. However, with a fixed fee, if funding is insufficient and provider viability comes under pressure, risks to quality increase. Responses could include reducing ratios and seeking waivers, cutting expenditure on professional development and other supports for staff, cutting maintenance and spending less on toys and activities for children. As ELACCA observed, a funding model like option C would:

[r]isk driving down quality by making investments in workforce and drivers of quality and inclusion more difficult to make and sustain (for example, additional spending on workforce wellbeing, enhanced educational resources for children, initiatives that support outreach/community engagement). (sub. 299, p. 36)

One inquiry participant noted that some services have opted out of Victoria's free preschool scheme because they feel that the associated funding is insufficient to deliver a high-quality program.

There have been challenges in Victoria with the offering of free preschool, where the amounts that the school receives, they feel don't cover what they see as a quality program, but they're not allowed to charge fees because of the free preschool. So they can opt-in or opt out. And I think most are trying to opt in because they want to offer it for free. But I know there are some who feel that that would actually diminish the quality of what they're offering and so they haven't opted in. (Independent Schools Australia, transcript, 20 March 2024, p. 101)

Incentives for providers to provide high-quality services would depend not only on the level of funding but also the scope for families to 'shop around'. But as providers are almost fully funded by governments they may be less responsive to consumer needs. Instead, the Australian Government as 'purchaser' would have to incentivise services to provide higher quality through funding loadings.

In terms of workforce, under option C, the quantum of funding would likely be designed to cover award wages, regulated ratios and some average level of experience (and therefore labour costs) in a service's staffing profile. Loadings could be designed to enable services to engage more or differently experienced staff in some communities, for example, in lower socio-economic areas, in recognition that meeting the quality standards might cost more. But, compared to the status quo, some providers would be worse off and would need to lower the quality of their service offering. In these communities, providers would lose the ability to adopt staffing settings aligned to a higher-quality service offering. There is a risk that average quality could fall across the sector.

## Accessibility (or availability)

According to the relevant principle, funding should incentivise investment to provide services that meet communities' needs (table 9.1). Demand-side funding leverages market incentives to promote investment, whereas supply-side funding involves more central planning. Both approaches have strengths and limitations. In practice, support for availability could be delivered through a mix of demand-side subsidies and targeted supply-side programs or a supply-side approach designed to cover all of a service's delivery costs.

Most inquiry participants viewed supply-side funding instruments as an effective way to achieve this availability, by focusing funding toward thin markets.

Early Childhood Australia (sub. 302, p. 4) suggested supply-side funding 'to address the needs of unserved or under-served communities with in-built flexibility to enable responsiveness to community need'. The Parenthood (sub. 276, p. 20) noted that the CCCF has proven to be 'too small and too piecemeal in its approach to truly ensure that ECEC services are able to connect with and meet the needs of their local community' and that a 'much larger program is needed that is more systematic'.

Inquiry participants also pointed to the need for funding approaches to be supported by stronger consideration of community need and coordination between governments.

Goodstart Early Learning supported:

Enhanced community-level investment to meet the unique needs of unserved and under-served communities and communities facing disadvantage, delivered through a supply-side payment that covers operational costs for high quality providers, with funding distribution informed by evidence about community need [combined with] improved coordination of funding across Government and across systems. (sub. 277, p. 61)

And the By Five Wimmera Southern Mallee Early Years Initiative and North Central LLEN submitted that:

It is imperative that ECEC services are planned and delivered as an integrated manner, specifically in small rural towns ... to build resilience in the system and to deliver efficiency and effectiveness of all levels of government investment. (sub. 228, p 2)

The quantum of funding is critical for investment in all options. Under options A and B the removal of the activity test and a higher CCS subsidy rate would likely see demand for ECEC increase in some areas to the point where services would be viable without further government support and supply would expand through market dynamics. Providers would be incentivised to invest, and in ways that met communities' needs.

Nonetheless, providers would remain reluctant to invest in certain areas, due to higher costs, variable demand and/or the challenges of recruiting and retaining educators and teachers. Expansion of targeted supply-side funding, would uplift the availability of ECEC in these areas, complementing the higher CCS subsidies compared to the existing funding model. Paper 5 contains recommendations about the characteristics this funding program should embody and sets out guiding principles, including that it:

- is prioritised towards areas where an analysis of likely demand indicates that services would not otherwise be viable
- where possible, supports community representatives to establish ECEC services that fit local needs
- uses competitive tendering where community representatives do not apply for grants
- involves consultation with communities and coordination with funding and initiatives from other sources to effectively address unique challenges in communities
- considers the potential for an ECEC service to be part of an integrated service



- preferences providers that have at least been meeting the National Quality Standard and strongly preferences not-for-profit providers where a service is completely or substantially funded by government support.

Options A and B, provided additional funding for places in unserved areas were adequate, would therefore align with the accessibility principle.

In principle, option C could support accessibility. To achieve this, assuming non-government providers continued to be a core part of the sector, the base funding plus loadings calculated by the Australian Government would need to be sufficient to:

- ensure existing services continued to be viable
- incentivise providers to expand, both to bridge current availability gaps and to meet the increases in demand likely to follow the introduction of a low flat fee. This would require giving providers confidence that future funding levels would cover their investment costs.

Achieving market expansion would require government to establish mechanisms to identify where services were needed and the cost of providing them. This mechanism is unlikely to be as responsive to family preferences as market dynamics, and risks greater under-provision.

As ELACCA observed (sub. 299, pp. 35–36):

In failing to keep pace with changes in cost of delivery, they [solely supply-side models] can:

- End up disincentivising growth in supply of places (partly from insufficient incentives to expand, partly from insufficient revenue to finance growth and innovation).
- Result in providers leaving the market altogether, risking significant reductions in the supply of places and a reduction in diversity and competition.

And Goodstart Early Learning (sub. 277, p. 28) submitted that it:

does not support broader reform to move to supply-side funding as the primary payment mechanism. In the absence of a compelling rationale for wholesale reform, Goodstart is concerned about the risk of underfunding and undersupply that has characterised many supply-side funding models internationally, and the adverse impacts this would have on the sector and on families. (sub. 277, p. 28)

By mandating a single fee, option C would also limit services' ability to design offerings that met the needs of their communities, to the extent that those needs could not be met within the baseline funding and loadings available.

Option C would therefore face greater challenges in meeting the funding principle designed to support accessibility.

## **Simplicity**

Recapping, the simplicity principle means that the funding system should not create barriers to access for families. Instruments should be designed in a way that shields families from unnecessary complexity and administrative processes or requirements (table 9.1).

Many inquiry participants pointed to the inherent complexity of the current funding system (paper 6). And some advocated for a flat fee funding model on the grounds that it would make it markedly easier for families to understand what their out-of-pocket ECEC expenses would be (Minderoo/Thrive by Five, sub. 288, Centre for Policy Development, sub. 282).

ELACCA (sub. 299, p. 36) proposed that:

the system should be simple for families to understand and navigate; efficient for providers to administer; and ensure as much of the complexity (of administration, eligibility assessment, compliance, alignment of different funding sources/models) sits with government as is possible.

A number of the Commissions' recommendations would reduce the access barriers created by complexity in the current CCS system.

Paper 6 proposes a raft of measures (recommendations 6.7 through 6.10) including: steps to simplify the CCS application and income reconciliation processes; better support for families with changing or challenging circumstances; much improved information provision via a 'one-stop-shop' ECEC website; and using information from the Single Touch Payroll system to prompt families to update their details with Services Australia when their income changes.

Paper 2 proposes support for services that would enable staff to assist families to access the sector (recommendation 2.3). And paper 7 proposes trials of a 'system navigator' role to support families who find the ECEC system particularly challenging to navigate or engage with (recommendation 7.2).

Following adoption of these recommendations, both options A and B would be better aligned with the simplicity principle than the status quo. And a single subsidy rate under option B means it would be more strongly aligned than option A. But families' out-of-pocket expenses would still be a function of a number of factors, including the hourly rate cap, fees charged by providers and income (in the case of option A). While the one-stop-shop website would contain the information that families need to understand how their CCS eligibility is determined, and a calculator that enables them to estimate their out-of-pocket expenses under a range of scenarios, it would likely not deliver simplicity for those families least likely to use ECEC. For example, it would not help families with a lack of computer literacy or access. For those families, support in accessing the system would have to come from other sources, for example a system navigator or service staff.

The simple pricing structure under option C would shield families from unnecessary complexity and administrative processes or requirements. There would be, for example, little need for information to help families understand their subsidy eligibility (beyond the role of income if ECEC was made free for lower-income families) and no need for an online calculator. Option C therefore has greatest alignment with the simplicity principle.

Ultimately, however, achieving the simplicity principle involves a trade-off for decision-makers. In designing a funding model that is easy for families to understand, decision makers may have to adopt an approach that imposes greater administrative burden and complexity on government. If so, this would misalign with the efficiency principle, discussed next. For this reason, some inquiry participants have expressed 'caution in the pursuit of large scale shifts towards systemic simplicity' (Smith Family, sub. 197, p. 7).

## Efficiency

Recapping the relevant principle, the most efficient funding system is one that results in the highest net benefit to the community. Funding instruments should be designed to:

- encourage providers to deliver ECEC services at the desired quality at the least possible cost (productive efficiency)
- promote an ECEC sector that maximises net benefits for the community (allocative efficiency)
- encourage innovation and efficient investment (dynamic efficiency).

Options A and B embody incentives for efficient delivery of ECEC through consumer choice and price competition. Moreover, in permitting services to set fees, these options would support the design of service offerings in line with community preferences.

Option A, which complements changes to the CCS with targeted supply-side funding has the potential to deliver a level and quality of service delivering net community benefits. Option B alone, despite being significantly more costly than option A, would not address affordability gaps for lower-income families and hence would require supplementary measures for them as well as targeted supply-side funding.

Providers would have incentives to invest under options A and B and to innovate and offer flexible solutions to families – in line with dynamic efficiency.

As services cannot compete on price there are somewhat weaker incentives for productive efficiency under option C. Services would have incentives to seek more funding from government rather than be as efficient as they could be. That said, for-profit services in particular would have an incentive to find cost savings for given funding levels. The adequacy of funding and efficiency of investment decision-making processes will be critical for delivering the optimal level of services. This would require substantially more government expenditure than option A as private contributions are substantially reduced. Without scope to set fees, services' ability to design offerings that meet the needs of their communities would be curtailed, as would their incentives to invest in innovations.

As ELACCA submitted (sub. 299, pp. 35–36):

While supply-side models have the appearance of greater simplicity and equity, they are very susceptible to being set at inappropriate levels, losing value over time, driving unintended consequences around reduced quality and restricted supply of places.

They also observed that:

Supply-side models are effective and appropriate in contexts where the service being supplied/demanded is relatively consistent and well-defined. In early learning and care:

- Demand is shaped by individual family circumstance (with significant differences in preferences which/how many days, between families and over time); and
- There's considerable diversity in the early learning offering being supplied (with differences in size and scale shaping how service are delivered, differences in philosophy and approach that shape the educational approach and model, and differences in provision for children with additional needs).
- This complexity in both demand and supply creates considerable complexity for a supply-side model to account for efficiently and without significant over-subsidisation across the system. The current demand-driven system creates capacity to be adaptive in the context of a highly dynamic system. (p. 36)

## Integrity

Recapping, funds allocated to the ECEC sector should only be directed towards efficiently and effectively achieving governments' objectives. Any funding instrument should be designed to enable accountability and transparency mechanisms to be cost-effectively incorporated into its design (table 9.1).

In practical terms, this principle means that the funding model should include effective and efficient oversight mechanisms (recognising that the costs of oversight need to be balanced against the benefits). Reporting requirements need to be designed so governments are clear on how allocations are being spent. And

systems need to be designed to mitigate the risks of unintentional non-compliance by recipients of public funds, and to minimise incentives for fraud and misuse of those funds.

The substantial increase in public funding embodied in all three funding options only enhances the importance of effective integrity measures. As paper 6 notes, requiring a co-payment by families assists to reduce fraud because it means families have a stronger incentive to be aware of, and sensitive to, claims on their behalf for care that does not occur. The larger the co-payment, the stronger this effect. Broadly, any policy that increases the subsidy a family receives also increases the incentive for fraudulent activity.

Services Australia and the Department of Education already seek to design systems in ways that minimise non-compliance, monitor spending programs and detect fraud (paper 6). The 2024-25 Budget increased funding allocations to these areas of activity, with a view to delivering savings over the next four years (DoE 2024a).

In addition, the large amount of public money provided in ECEC subsidies means it is reasonable to expect that services are accountable for how these funds are used.

In the context of system integrity, paper 6 recommends the Australian Government should:

- provide proportionately appropriate funding to maintain integrity of the CCS program if it makes changes that increases the subsidies families are eligible to receive (recommendation 6.11)
- establish a function that monitors changes in fees and out-of-pocket expenses to identify services where movements are out of step with sector norms and establish a three-yearly review to more deeply examine services' fees and costs (recommendation 6.12).

Paper 2 proposes that providers receive funds in two tranches within the year, reflecting the tendency for enrolments to increase across the year in many services. There should also be an annual review by services of progress against their inclusion plan to help them understand what is working well and what might be improved, and an acquittal process to verify how funds were used. Paper 5 describes the reporting requirements for recipients of availability funding and notes that as funding expands, so too should activity to ensure it is being used as intended.

As noted above, options A and B are aligned with an efficient approach to achieving government objectives. However, option A also has the added benefit of a capacity to pay mechanism that sees higher-income families contribute more to the total cost of delivering ECEC, further aligning with the integrity principle that funds allocated to the ECEC sector should only be directed towards efficiently and effectively achieving governments' desired outcomes.

With implementation of the Commission's integrity-related recommendations, these options would also align with the principle. However, the fact that option B involves much smaller co-payments from families means it embodies larger integrity risks. Costs of mitigating these risks would, therefore, be larger.

Similar to option B, option C would involve very small co-payments from families, meaning efforts to ensure accountability and transparency in how public funds are used would need to be larger. As for the supply-side funding programs designed to support inclusion and availability under options A and B, funding recipients would need to acquit their use of funds as part of efforts to achieve integrity. With appropriate government systems in place, option C would also align with the principle of integrity.

All options will require additional reporting activity by providers. Under options A and B, all providers would need to report on costs, fees and use of inclusion funding. Some would also need to acquit their use of availability funding. Under option C, providers would not need to report on costs and fees, but would need to account for how all of their publicly provided resources were expended. It is difficult to predict which option would see the greatest increase in reporting (and associated costs).

## Implementation considerations and transitional impacts of options

The seven principles outlined above provide a framework for governments to use in considering how to design a funding model that supports achievement of their objectives for the ECEC system. Recognising that choosing a new funding model means transitioning away from the current model, this section briefly outlines some implementation considerations.

Options A and B represent variations on the existing funding architecture, but with markedly improved instruments that would better support equity, affordability, quality and accessibility than the status quo. A move from the current funding model and policy settings to options A or B would represent a relatively straightforward transition.

In comparison, option C would involve significant transitional costs. As implied by the discussions above, the Australian Government would need to design new systems to determine, and disburse, funding allocations. As Goodstart Early Learning (sub. 277, p. 28) observed, new government systems and infrastructure would be needed to implement direct payments to providers.

Such a move would be a seismic shift and the complexity of implementation cannot be underestimated – a change on this scale would take many years and it would direct effort away from more pressing reform priorities around access, equity and workforce.

## Improvements to the existing funding architecture provide a pathway to achieving the National Vision

In summary, assuming the Commission's recommendations are adopted, option A presents the strongest alignment with all design principles, with the exception of simplicity. However, as noted above, there are recommendations contained in supporting papers that would work to address this.

Option B – being similar in nature to option A, but with the removal of means testing – aligns well with most principles but performs worse than option A against the affordability (because it is not progressive in nature) and efficiency principles. Given it removes one element of the subsidy entitlement calculation for families, it performs better than option A in regard to simplicity.

With a flat fee structure, Option C performs strongly against the simplicity principle. However, due to the need for the Australian Government to set funding levels with precision or risk under and/or over-funding service providers, this model performs worse against a number of principles: namely, this risk may have unintended impacts on equity, quality and availability. Further, being regressive in nature, it performs weakly against the affordability principle that the funding model should take account of capacity to pay and prioritise support to those families with lower incomes.

Overall, as a funding model it aligns relatively poorly with the design principles and would not effectively or efficiently support governments' vision for the system. In addition, a shift to an approach like C would involve the transitional cost associated with wholesale redesign of the funding architecture.

Given this assessment, the Commission recommends that the Australian Government focuses on delivering improvements to the existing funding architecture recommended in other supporting papers rather than pursue an alternative funding model. Collectively, it is expected that the recommended reforms would enhance the affordability, availability, equity and quality of ECEC provided to families, delivering a universal system.



### 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.

## But if a flat fee model were adopted, what might implementation involve?

In advocating for a Quebec-style model, Minderoo/Thrive by Five (sub. 288) recommended a 10-year pathway to reform that commences with a parallel supply-side funding model with a price cap (of, for example, \$10 per day) to establish 270 services in under-served and unserved markets. This model would be phased in over time, so as not to prevent recommendations to the CCS being implemented. Cleveland also reflected on the idea of running parallel funding systems:

[C]hanging funding systems is not easy and there is often a lot of push-back from those in the system. Why not think outside the box? Why not establish an alternative supply-side funding system that would exist in parallel with the existing demand-side funding system with incentives for centres to switch? (sub. 278, p. 6)

Section 9.1 notes that supply-side instruments generally require governments to:

- develop an accurate understanding of the cost of service delivery
- develop a mechanism to adjust this over time to mitigate the risk of a mismatch in funding
- play a much stronger role in planning and coordination of service provision to address availability gaps

These three issues were evident in the assessment of Option C, which suggested that quality, equity (inclusivity) and availability could be at greater risk under a fully supply-side funded model. This is predominantly due to the risk of underfunding and the lack of a safety valve to allow services to draw in more

revenue from family contributions if they have viability concerns or cannot deliver ECEC at the expected quality level.

If a flat fee model were to be adopted in Australia, a number of strategies would need to be in place to mitigate against the underfunding risk and avoid unintended impacts on the quality, equity (inclusivity) and availability of services (box 9.7). Adopting a flat fee model would also require governments to move away from individualised means testing, making ECEC disproportionately more affordable for higher-income families. Commission modelling finds that this would induce additional demand for formal ECEC by these families (without a commensurate increase in labour force participation) but much less so from lower-income families (appendix F).

### **Box 9.7 – Implementing a flat fee model would require multiple strategies and new systems to mitigate against the risk of underfunding and manage excess demand**

If a flat fee funding model were adopted, governments would need to implement strategies to manage the risk of underfunding. Crucially, the cost of service delivery would have to be precisely estimated, there would need to be a mechanism to track costs changes over time and government budgets would need to provide funding to meet those costs rises. Governments would also need to play a stronger role in planning and coordination of services.

#### **Calculating the cost of service delivery and adjusting this over time**

The Australian Government would need a methodology to estimate the cost of service delivery and a base funding amount. It would then need to develop a methodology for calculating additional loadings for inclusion (such as those discussed in paper 2) and remoteness to recognise the potentially higher cost of delivery in some locations (paper 5). Systems like those underlying the Schooling Resource Standard (box 9.6), or base and supplementary allocations paid to providers in Quebec (box 9.3), would need to be developed.

Base funding would also need to be indexed to account for cost inflation. One option would be the approach recommended for the hourly rate cap in paper 6, which is in line with the approach used for the Schooling Resource Standard. That is, the indexation rate could be set at either:

- the higher of either:
  - % (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
- or a rate prescribed by the Minister.

Paper 6 also recommends three-yearly reviews of fees and costs – with one goal being to identify if the hourly rate cap has kept pace with changes in the costs of ECEC delivery and if the indexation weighting requires updating. A similar approach could be adopted for a flat fee model.

If this approach were adopted, and indexation was inadequate, the lack of safety valve could result in consequential impacts on service quality in the period between reviews. To address this, the Australian Government might need to consider mechanisms that provided additional funding relief or would likely face lobbying from providers for additional support (as experienced in other jurisdictions (section 9.2)).

### **Box 9.7 – Implementing a flat fee model would require multiple strategies and new systems to mitigate against the risk of underfunding and manage excess demand**

#### **Planning and coordination**

As noted in the assessment, funding levels need to be set at a level that would incentivise providers to expand, both to bridge current availability gaps and to meet the increases in demand likely to follow the introduction of a low flat fee. There is also a clear risk that uncertainty about future funding levels would discourage investment from non-government providers.

To mitigate against these risks, the Australian Government may need to:

- pay a risk premium to encourage investment in unserved and under-served areas
- become more involved in direct provision to deliver universal availability
- take on the role of provider of last resort.

The structure of subsidisation inherent in a flat fee model would also induce substantially higher demand for ECEC across higher-income groups (paper 6). Services would face excess demand and as per Quebec's experience, families experiencing the greatest vulnerability and disadvantage would be most likely to miss out. To address this, the Australian Government may need to:

- develop a centralised enrolment system with prioritisation rules (similar to that being introduced in Quebec now), for example, when faced with excess demand, services could be required to implement eligibility criteria that prioritise vulnerable and disadvantaged cohorts
- be proactive in planning new early learning centres, for example, by establishing competitive tender processes in areas where population growth is expected or forecast, or in some circumstances building and operating centres ahead of planned handover to non-government providers
- be more active in attracting and retaining ECEC workforce participants, for example, by enacting policies to reduce the cost of training and retraining, or by paying a premium wage subsidy to attract educators and early childhood teachers.

## **9.4 Implications for preschool funding**

The Australian, state and territory governments also fund preschool services, with this expenditure representing about 21% of total government spending on ECEC (section 9.1).

The previous section focused on a funding model for the CCS-approved segment of the ECEC sector, using instruments available to the Australian Government to support the national vision for the sector. The preschool funding model has evolved separately to that used for CCS-approved services. As noted above, while traditionally the domain of state and territory governments, preschool programs are now co-funded by the Australian Government through the PRA. The majority of preschool funding comes from state and territory governments (section 9.1).

While there is a consistent Early Years Learning Framework to guide the delivery of preschool programs (which itself is defined by the PRA), jurisdictional autonomy is also important – state and territory governments therefore utilise different funding mechanisms to support their own vision for the preschool sector, the way preschool is delivered and how it is priced.



Recognising that preschool services vary in nature by jurisdiction and are funded differently depending on whether they are delivered in CBDC or dedicated preschool settings, the Commission has not sought to assess individual preschool funding models against the design principles.

This section considers the variation in offerings by state and territory governments, in terms of their mode of service delivery, pricing policies and level of investment. It considers both short and longer-term funding considerations and presents a pathway for governments to move towards a streamlined funding model for all ECEC services in the future, consistent with key design principles outlined in this paper.

## **Some inquiry participants called for a new national preschool entitlement and sector neutral funding model**

Many inquiry participants raised issues relating to preschool.

Some called for a national entitlement of two years of preschool before full-time school commences.<sup>7</sup> Some detailed what a two-year commitment could look like, with the Victorian Government calling for 15 hours for three-year-olds, 30 hours for four-year-olds and additional hours for vulnerable children.<sup>8</sup>

Goodstart Early Learning advocated for three days a week for the two years prior to full-time school. To the extent that such an expansion increased the number of children accessing ECEC and/or hours attended by children who currently participate, and expectations of co-payments from families were reduced, the quantum of government funding directed to preschool programs would rise. Further, if preschool programs (as defined by the PRA) were expanded to additional hours – and the Australian Government contribution remained in proportion to its current level – the quantum of that contribution would increase.

Many inquiry participants were concerned about the impact of the current preschool funding model on individual states and territories. In particular, some noted that state and territory investment in preschools varies considerably when analysed from a per child perspective. In response to this ongoing issue, the South Australian (sub. 313) and Victorian (sub. 311) governments advocated for a sector-neutral ECEC funding model.

## **There are multiple preschool funding streams ...**

Sources of funding for preschool programs, including state and territory governments, the Australian Government – via commitments through the PRA, the Child Care Subsidy – and parent fees are summarised in figure 9.2.

As part of the PRA conditions, Australian Government funding is to ‘follow the child’ (appendix E). This means that it should be passed on to benefit children in the setting they attend preschool. This could be achieved through reduced out-of-pocket expenses for families and/or improvements to quality, such as through the employment of additional early childhood teachers beyond the requirements of the NQF.

However, unlike CCS funding, Australian Government PRA funding is only required to follow the child to the type of setting they attend, not the individual service. Funding is not attached to each individual child or family but is calculated at an aggregate level. State and territory governments must identify the total number

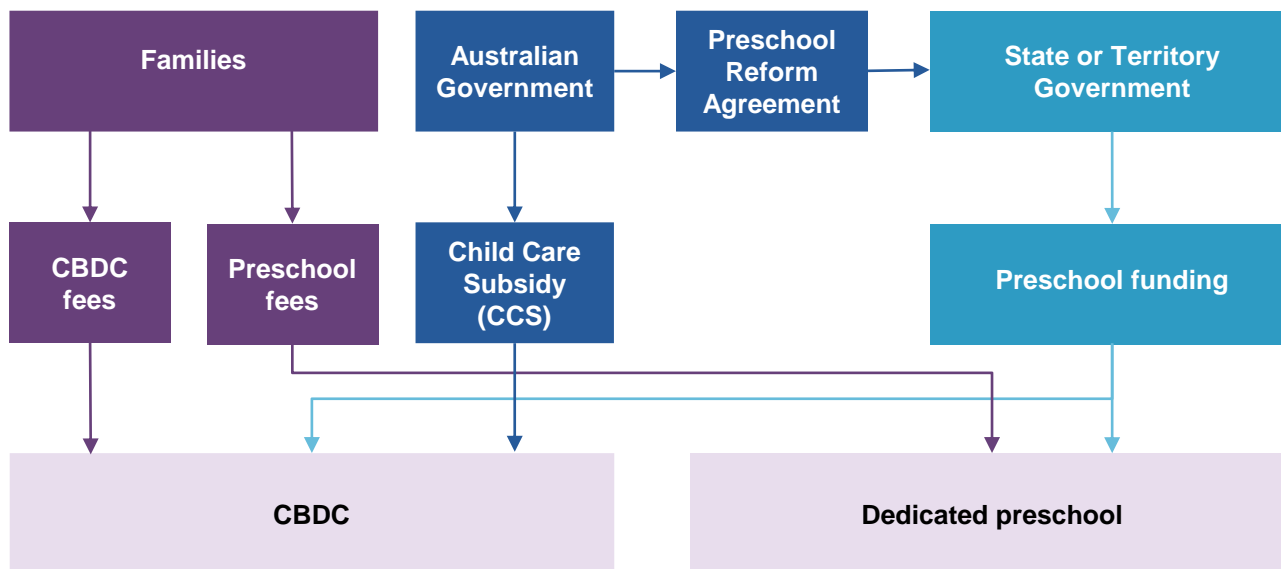
<sup>7</sup> Goodstart Early Learning, sub. 277, National Foundation for Australian Women, sub. 194, Centre for Policy Development, sub. 282, The Benevolent Society, sub. 280, South Australian Government, sub. 313, New South Wales Government, sub. 312, Victorian Government, sub. 311, Minderoo/Thrive by Five, sub. 288.

<sup>8</sup> As part of its 2024-25 budget, the Victorian Government announced it would be implementing its preschool initiative over a longer timeframe than originally planned, primarily due to workforce constraints (Victorian Government 2024).

of children attending preschool in each setting in the year before full-time school (YBFS) and then allocate funding to each setting type by multiplying these totals by the Australian Government per child contribution.

**Figure 9.2 – A range of sources fund preschool for four-year-old children<sup>a</sup>**

**Funding sources for preschool in the year before full-time school**



a. Four-year-old children used to describe those in the year before full-time school commences (YBFS).

Source: Adapted from Victorian Government (sub. 146, p. 6).

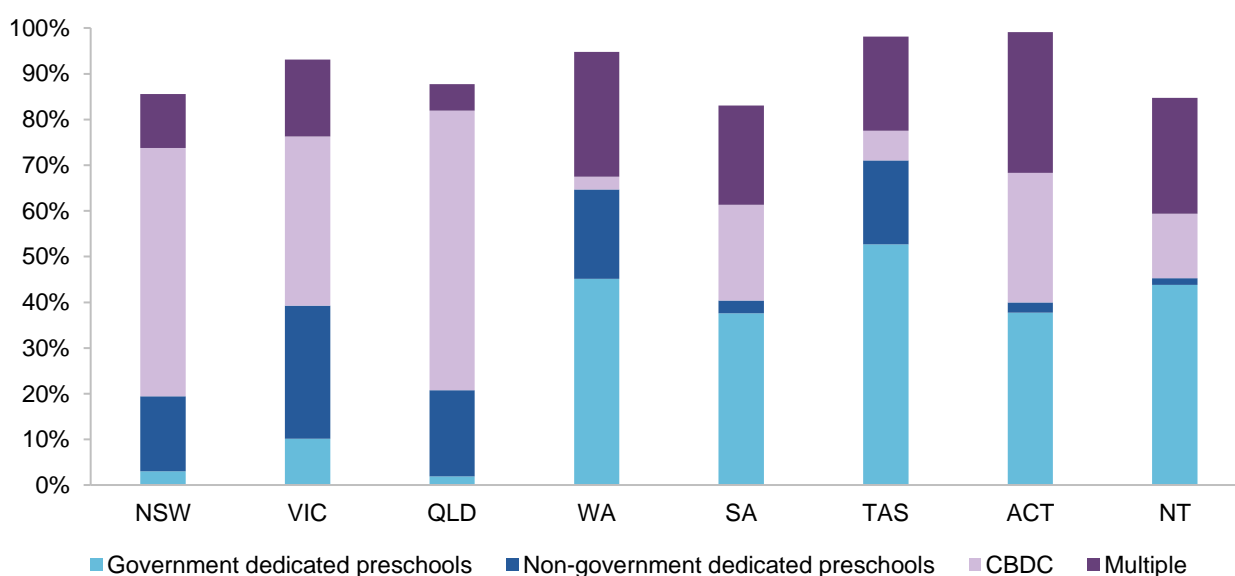
States and territories, through bilateral agreements with the Australian Government, have agreed to implement this reform in various ways, with some passing funding on directly to children or services, for example, as fee relief. But due to data or other barriers, others have passed on Australian Government contributions to CBDC through sector level programs – for example, by providing funding for quality improvement strategies (ACT Government nd; Australian Capital Territory and Commonwealth of Australia 2024, p. 9). States and territories also have the ability to agree a state-specific definition of preschool with the Australian Government – for example, Tasmania has agreed an alternative definition of preschool, which requires all services, including CBDC services, to register as a school in order to be recognised as ‘preschool’ (and therefore access funding) (State of Tasmania and Commonwealth of Australia 2023, p. 7).

**... and variation in service delivery offered to families**

**Children attend preschool programs in different settings around the country**

Preschool children in Victoria, New South Wales and Queensland are mainly enrolled in CBDC services and non-government dedicated preschools, with a smaller proportion enrolled in government-run dedicated preschools. In contrast, preschool children in the other states and territories are enrolled in government-run dedicated preschools in much higher proportions (figure 9.3).

**Figure 9.3 – Children are enrolled in different preschool settings around the country<sup>a,b,c,d</sup>**  
**Proportion of children enrolled in a preschool program in the YBFS, by setting, by jurisdiction, 2023**



**a.** Data relates to children enrolled in a preschool program in the state-specific YBFS. This means certain cohorts of children, such as those attending three-year-old preschool, are not captured. **b.** Dedicated preschools include standalone preschools and preschools attached to schools. **c.** The multiple category shows children enrolled in multiple dedicated preschools or children enrolled in a dedicated preschool and a CBDC service. **d.** Children who are in the YBFS and attend CBDC services are assumed to be enrolled in a preschool program.

Source: Productivity Commission estimates based on ABS (2024) *Preschool Education 2023*, accessed 5 April 2024.

The higher prevalence of enrolment in dedicated preschools in some jurisdictions is generally attributed to historical starting points, state and territory government investment priorities and societal norms.

### Current policies may prevent dedicated preschools offering more flexibility

A characteristic of programs offered in many dedicated preschools is that they run only for part of the day, a few days a week and for 40 weeks of the year. Families using programs in CCS-approved services, in contrast, can typically access ECEC for full days, 5-days a week and for at least 48 weeks of the year – characteristics that are much more supportive of labour force participation.

Under current arrangements, dedicated preschools can modify their business models to operate as a CCS-approved CBDC service providing preschool sessions. However, provisions in Family Assistance Law make this challenging.

- ECEC services are ineligible to receive the CCS if they primarily provide an early education program to children in the year before full-time school, meaning preschool sessions would need to comprise the minority of ECEC provided.
- CCS-approved CBDC services are required to operate for at least 48 weeks per year, which does not align with the 40-week operating model often used in dedicated preschools.

A second option for a dedicated preschool provider that was interested in enabling families to access CCS for additional hours of ECEC could involve establishing a second service to provide the additional hours (either on or off site), similar to how OSHC operates in schools.

Paper 7 notes that these arrangements are currently permitted, but to date, provisions in Family Assistance Law have made adopting them impractical.

### States and territories have various preschool pricing policies

For various policy reasons, many state and territory governments attempt to provide preschool services – and in particular those in the year before full-time school commences – for free or at low-cost to families. While this is relatively easy to implement in dedicated preschools (generally achieved through a supply-side funding model), providing free or low-cost preschool within a CBDC environment can be more challenging.

Any fee relief provided by states and territories for families who attend preschool through a CBDC is classified as a third-party payment (TPP) for CCS purposes. CCS TPP rules generally mean that any TPP towards ECEC fees must be applied before the CCS, resulting in families paying a gap fee.

States and territories have received a temporary exemption to this rule under the Child Care Subsidy Minister's Rules 2017 (Cth). It allows jurisdictions to apply fee relief payments after the CCS, meaning they are able to fully fund the total gap fee and leave no out-of-pocket expense for families (as in scenario 3, box 9.8). The exemption is currently being used by Queensland, ACT (for its three-year-old preschool initiative), Victoria and New South Wales (DoE 2023d). However, it is time limited and applies only until the end of 2025.

#### Box 9.8 – Third-party payment rules impact state and territory preschool policies

The effects of Child Care Subsidy (CCS) third-party payment (TPP) rules are illustrated below.

Consider a CBDC service that charges \$100 for a daily session of care and a family that is eligible for CCS at a subsidy rate of 60%. Under normal circumstances, the family would receive \$60 in CCS and pay an out-of-pocket expense of \$40 per session (scenario 1).

To deliver its free preschool policy, assume a state government commits to contributing \$40 to this family's fees, intending to reduce the gap fee from \$40 to \$0. Prior to the temporary exemption to the CCS TPP rules, the state government contribution would have applied prior to the CCS. This means the service must deduct \$40 from the original session fee before applying the CCS rate of 60%. The new session fee becomes \$60, the family's CCS covers \$36 (representing 60% of the new fee), leaving an out-of-pocket expense – or gap fee – of \$24 per session (scenario 2).

Under the exemption to the TPP rule the service continues to charge a session fee of \$100, the family's CCS covers \$60 (representing 60% of the fee) and the state government covers the gap fee. The net effect is that the family does not pay anything – as was intended under the state government's preschool policy (scenario 3).

	Scenario 1	Scenario 2	Scenario 3
<b>Session fee</b>	\$100	\$60 (revised)	\$100
<b>CCS contribution</b>	\$60	\$36	\$60
<b>State contribution</b>	N/A	\$40	\$40
<b>Out-of-pocket expense</b>	<b>\$40</b>	<b>\$24</b>	<b>\$0</b>

Source: Example adapted from DoE (2023d).

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The Victorian Government suggested that the exemption should be made permanent:

If the current system is broadly retained, the overall operation of the legislation should be reviewed to remove this rule for payments from other governments, as this currently operates as a barrier to achieving legitimate policy objectives (sub. 311, p. 10)

Prior to exemption, any preschool fee relief provided by states and territories to CBDC services was, in effect, partially taken away by a reduction in the family's CCS payment.<sup>9</sup> If the exemption was permanent, this would mean that the default policy setting is that state or territory government contributions are automatically considered prescribed TPPs and scenario 3 (in box 9.8) applies permanently.

As part of negotiations around a new national agreement and extension of preschool funding, all governments should consider how to ensure 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.

## **... and variation in the level of investment by states and territories**

### **Some jurisdictions invest relatively more in their preschool services**

In states and territories where dedicated preschools form a larger share of the delivery mix, such as Western Australia, South Australia, Tasmania, the Northern Territory and the ACT, the state or territory government is the primary funder of preschool. In contrast, state and territory government expenditure represents a smaller proportion of preschool funding in New South Wales and Queensland, where preschool programs are generally delivered within CBDC services (figure 9.4).

Some inquiry participants raised this as a concern. For example, the South Australian Government noted that:

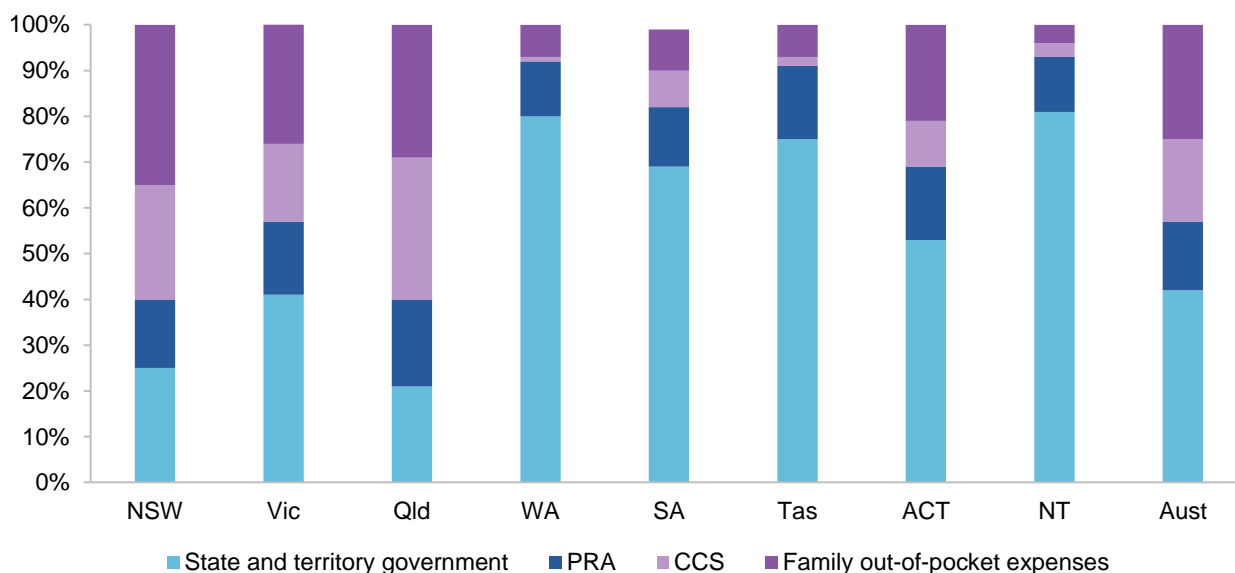
[s]tates and territories which deliver a significant proportion of their preschool through sessional programs are systematically disadvantaged by not being eligible for Australian Government funding contribution via CCS, as sessional programs currently don't meet the CCS eligibility criteria. (sub. 313, p. 4)

The 2020 review of the National Partnership on Universal Access to Early Childhood Education (UANP) examined differences in preschool funding sources between jurisdictions. It found that while there was significant variation in investment between states and territories, and that this warranted further attention, there was insufficient evidence to conclude that services receiving CCS and PRA funding get a double subsidy, as the two funding streams had different policy intents (COAG Education Council 2020, p. 11).

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<sup>9</sup> Third party-payments made by the Victorian Government to support preschool participation were previously prescribed in 2021 (Australian Government 2022).

**Figure 9.4 – State and territory government contributions to preschool funding vary<sup>a,b,c</sup>**  
**Funding of preschool programs for 600 hours for children in YBFS, by funding type and jurisdiction, 2018-19**



a. Funding labelled as PRA relates to the Universal Access to Early Education National Partnership (UANP). The PRA 2022–25 replaced the UANP. YBFS = Year before full-time school b. Comparisons between jurisdictions should be made with caution as state and territory governments do not calculate expenditure with uniform methodologies. c. See COAG Education Council (2020, pp. 30–31) for notes on methodology.

Source: COAG Education Council (2020, pp. 30–31).

Separately, it is also unclear whether the notable variation in investment is due to different costs of delivery, particularly in jurisdictions with a greater proportion of remote delivery, or other factors, such as dedicated preschools paying higher wages for early childhood teachers.

The UANP review also identified state and territory autonomy as a strength of preschool funding arrangements – jurisdictions have been able to work towards delivering universal preschool in a way that is complementary to existing services and family preferences (COAG Education Council 2020, p. 1).

Investigating why there is a variation in state and territory investment would require access to providers’ financial records to evaluate the cost of preschool delivery, as well as whether this cost differs between preschool delivery settings.<sup>10</sup> In determining the hourly rate cap for the CCS, the Commission has recommended that provider costs and profitability be reviewed every three years (paper 6). Given the gaps in understanding what the cost of preschool provision looks like, an examination of the preschool sector should be within scope of those reviews.

The Commission has not sought to model how increasing the CCS to 100% for low-income families might impact state and territory governments’ willingness to invest in preschool services. However, it should be noted that if that recommendation is adopted, the amount of CCS funding flowing towards preschool delivery in CBDC settings is likely to increase. For example, where a jurisdiction previously provided fee relief to families to reduce the gap fee to zero for a given enrolment, under a scenario where that family earned less

<sup>10</sup> Preschools were outside the scope of the recent Australian Competition and Consumer Commission inquiry into the costs of providing ECEC.

than \$80,000 per annum, the gap would then be covered by the CCS. This would mitigate the need for state or territory fee-relief for low-income families.

In the short term, this may compound the perceived problem of 'double subsidy', where a child enrolled at a CBDC service is eligible to receive both CCS and PRA funding, as opposed to a child enrolled at a dedicated preschool who only generates PRA funding.

Conversely, some inquiry participants noted that additional state and territory investment in preschool may lead to a scenario where four and five-year old children exit CBDCs for dedicated preschools (ELACCA, sub. 322, p. 3). This would reduce the total revenue of CBDCs and impact the degree to which younger cohorts are cross-subsidised by older cohorts. This could disrupt the CBDC business model such that fees need to rise to accommodate these changes. The ECEC Commission should monitor this risk (paper 5).

## **Changes to funding arrangements could improve equity between jurisdictions and encourage expansion of preschool services**

Inquiry participants offered a range of views about how preschool funding arrangements could be reformed, including through moving to a sector-neutral funding model and recognising that the cost of preschool delivery varies by location.

The Victorian Government (sub. 311, p. 12) suggested the Commission 'consider an approach where the Commonwealth Government provides jurisdictions with CCS equivalent funding for preschool regardless of the setting it is delivered in'.

A sector-neutral funding model would remove the financial imbalance and level the playing field for long day care and sessional settings. States would then be able to design a delivery model that worked best for families and supported parent choice. (sub. 311, p. 12)

The Northern Territory Government submitted that:

In the NT, the cost of quality preschool delivery is significantly higher than the national average, largely reflecting the cost of delivering government preschools, disproportionate funding models based on population estimates, high levels of disadvantage, resource limitations and supply challenges in remote and very remote areas. (sub. 314, attachment 1, p. 16)

Burman observed that:

jurisdictions that have opted to expand their preschool offer have relied heavily on long day care services to provide preschool programs, and will not be expanding their existing four-year-old preschool delivery approaches proportionately with their expanded entitlement. This means that the 'two systems' – with different funding models, separate entitlements, and in many cases different workforce pay and conditions – will become increasingly interconnected and interdependent. This will need to be dealt with through changing policy, funding and other settings; if not now, then in the coming years. (sub. 317, p. 10)

## **Immediate improvements to preschool funding should be delivered through CCS reforms and the next phase of post-PRA negotiations**

Given the various concerns and challenges associated with preschool funding, and the current evolution of state-driven investments, there is a need to distinguish between short- and longer-term priorities.

Paper 7 recommends the Australian Government address barriers in Family Assistance Law to providing subsidised 'wrap-around care' in dedicated preschools where there is sustainable demand. This would

support families using dedicated preschools to access additional hours of ECEC beyond regular 'preschool' hours. It notes the form this should take and the mechanism through which it is achieved should be a matter for the Australian Government, after considering the needs of families and children and any legislative or other implications.

It is hard to predict how services would respond to any changes, as it would depend on characteristics of the local markets in which services operate. However, if its recommendation is adopted, the Commission expects that over time, families using dedicated preschools would be able to access a level of flexibility that more closely resembles that offered in CBDC (though the form may look different).

The Commission also notes that PRA contributions represent a negotiated outcome between the Australian, state and territory governments and that these negotiations operate in the context of other Commonwealth–State funding discussions. With the PRA lapsing at the end of 2025, there is an opportunity to address equity concerns in part, and ensure that funding arrangements take into account the range of service delivery models across the country. This should include considering bilateral funding agreements to address perceived inequities on a case-by-case basis.

### **There may be an opportunity to streamline funding for all ECEC in the future**

The longstanding divide between ECEC services that are focused on 'care' versus those focused on 'education' commenced in the 1970s and is still observed to this day (section 9.2).

In the current market, this materialises as CCS-funded CBDCs perceived to be offering more care-based services and dedicated preschools offering more educational-based services. However, with significant changes to funding arrangements over the past 15 years, and the development of a nationally consistent quality and early learning framework, there has been a convergence of delivery models and natural bridging of this divide. CBDC services run preschool programs within a CBDC environment, guided by a degree-qualified early childhood teacher. Dedicated preschools (many of which traditionally ran shorter sessions) are moving towards longer sessions that more closely resemble and reflect the attendance patterns observed in CBDCs.

However, the reform trajectories of states and territories differ markedly.

While some jurisdictions have committed to ten-year reform pathways or undertaken significant reviews of their ECEC sectors, others are yet to make or indicate a reform direction. Given this, it is too early to predict what preschool services will look like across the country in the next five years. However, current indications suggest there will be a greater convergence over time between ECEC service types and less of a divide between what was traditionally seen as care and education.

As convergence continues, the Australian, state and territory governments will be better placed to reconsider the approach to funding ECEC across all age groups, in a setting agnostic and sector neutral way. In practical terms, this could mean all preschool funding and the CCS is delivered through one ECEC funding stream and applied in a similar way (for example, designed to reflect the funding principles outlined above).

Adopting a consistent funding model would also remove complex relationships between CCS and state and territory preschool funding mechanisms. For example, it would mean these governments would not need to seek exemptions to the TPP rules and service providers would be less concerned about the perceived exodus of older, preschool aged children leaving CBDCs for dedicated preschools (ELACCA, sub. 322, p. 3).

This does not mean that all ECEC should be funded by one tier of government. Rather, the sole stream of funding could be made up of state, territory and Australian Government contributions. The Commission has not



sought to canvass what this could look like, but one option would be to consider a single stream of Australian Government funding, which states are able to top up to deliver 'free' preschool policies if they chose.

Given the need to focus the next stage of ECEC reform on improving outcomes for families experiencing disadvantage, exclusion or non-participation in ECEC, and that the various reform pathways of state and territory governments are unclear at this stage, it would not be appropriate to consider wholesale changes to the preschool funding model at this time. Rather, the Australian, state and territory governments should continue to pursue the existing reform pathway and consider more fundamental changes to the preschool funding model, including the possible streamlining of all ECEC funding in the future.



### 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).

## 9.5 Three additional funding considerations

### Some markets require unique funding arrangements

Many inquiry participants have suggested the CCS, acting as the mainstream funding instrument, is not the most effective way to support some service types, including integrated services and those delivered by Aboriginal community-controlled organisations (ACCOs).

### Integrated services lack funding security and consistency

Integrated services combine ECEC and other services. They can take various forms, such as early learning family centres (combining ECEC and maternal child health services), co-location (for example, placement of ECEC services on the grounds of primary schools), and fully integrated child and family centres (for example, providing ECEC, family, employment and health services) (paper 7).

These services can encourage providers to develop and implement practices that better serve children with additional needs, their families and communities. However, funding approaches are inconsistent, and often draw on sources outside of ECEC budgets.

Paper 7 found that while the current system caters for many families, others may require or prefer different approaches to meet their needs or address barriers to access, and some may require support beyond

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

Paper 7 recommends that when the Australian Government is engaging with communities to develop 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 and territory government to consider if an integrated service should be established and if so, how. Supply-side funding should be available under the ECEC Development Fund for the ECEC component of the service (recommendation 7.8).

### **Block-based funding will better support Aboriginal and Torres Strait Islander communities**

Like other integrated services, there is inconsistent and often insecure funding for integrated services run by ACCOs. These services take many forms, such as Aboriginal and Torres Strait Islander Child and Family Centres, Multifunctional Aboriginal Children’s Services and Aboriginal and Torres Strait Islander-operated CBDC services. In some jurisdictions, preschool services are delivered by ACCOs. Across all service types, funding is often provided through a mixture of sources across multiple levels of government and from philanthropic organisations.

Inquiry participants have highlighted that a new ACCO funding model is required which reflects the integrated services ACCOs provide, the limited economies of scale associated with operating in rural and remote areas, the needs of Aboriginal and Torres Strait Islander families, and support for the Aboriginal and Torres Strait Islander workforce.

The Secretariat of National Aboriginal and Islander Child Care (SNAICC) submitted that:

ACCOs provide a broad range of education, family and early intervention services ranging from community-based playgroups to fully integrated early education and family support hubs which provide holistic wraparound services to families. These services have a significant impact on supporting children and families, preventing child protection intervention, support self-determination and work to ensure children are connected to their families, communities, cultures and Country. (sub. 133, p. 6)

In its submission following the draft report, SNAICC outlined that:

There must be a national, systemic approach to funding led by the Australian Government, partnering with states, territories and Aboriginal and Torres Strait Islander people to ensure that Aboriginal and Torres Strait Islander children and families have equitable access to the supports and services they need to thrive both in childhood and throughout their lives. This will require a complete transformation of existing funding arrangements in line with the Priority Reform Areas of the National Agreement with a focus on shared decision-making (Priority Reform 1) and building the Aboriginal and Torres Strait Islander community-controlled sector (Priority Reform 2). (sub. 290, p. 38)

The Northern Territory Government (sub. 314, attachment 1, p. 3) noted that it does ‘not consider the CCS a successful model for rural and remote communities that have limited choice and access to services’ and ‘[in] consideration of the NT’s context, it is critical that any changes to funding models are focussed on improving equity and enable flexible responses to place-based needs’.

Prior to 2018, ACCO-delivered integrated services were funded through a type of block funding model, often referred to as budget based funding. Following the introduction of the 2018 Child Care Package, these arrangements ceased. The intention was that these services would transition to mainstream funding models under the CCS, with additional support through the ACCS and CCCF. The third funding stream ultimately became the CCCF Restricted Grant category.

SNAICC noted that this has had lasting impacts on services operating in rural and regional communities, with services now having to draw on multiple funding sources from different levels of government. Reliance on the mainstream funding instrument has exacerbated challenges for ACCO-led services, as they typically operate in thin rural and regional markets and in metropolitan areas where socio-economic disadvantage is more prevalent. In addition, Aboriginal and Torres Strait Islander families are likely to experience thin markets for culturally safe services (sub. 133, pp. 11–12).

### **There are calls for a dedicated funding instrument for Aboriginal community-controlled organisations**

Paper 7 notes that, in line with the principles of the National Agreement on Closing the Gap, decisions on an ACCO funding model should be made through a process of shared decision-making with Aboriginal and Torres Strait Islander people.

Under Priority Reform 1 of the agreement, governments committed to ‘building and strengthening structures that empower Aboriginal and Torres Strait Islander people to share decision-making authority with governments to accelerate policy and place-based progress against Closing the Gap’ (clause 28). And under Priority Reform 3, governments also committed to ensure that when ‘undertaking significant changes to policy and programs that primarily impacts on Aboriginal and Torres Strait Islander people, they engage fully and transparently’ (clause 59d).

The Early Childhood Care and Development Policy Partnership (ECPD) was established as part of commitments under Closing the Gap to shared decision-making and formal partnership. The partnership brings together the Australian, state and territory governments and Aboriginal and Torres Strait Islander representatives to develop recommendations to improve early childhood outcomes for Aboriginal and Torres Strait Islander children and families.

SNAICC (2024) recently undertook research for ECPD on funding model options for ACCO-delivered ECEC which further elaborates on the case for its proposed model and how it would operate.

Specifically, the report (also provided as sub. 329) calls for an ACCO funding model that incorporates multiple specific features.

- **Base funding:** An entitlement that would support the delivery of core services, including ECEC, family support services, cultural and community programs, allied health and disability support and child and maternal health. This would be provided as block-based recurrent funding, determined using a needs-based funding formula. Base funding would also include funding for the ‘glue’ to support integrated service delivery, including administrative, staffing, training and capital costs.
- **Flexible funding:** ACCOs would receive a supplementary funding entitlement that they could use flexibly to deliver services tailored to community need. This would also be needs-based.
- **Backbone support:** A backbone support organisation would provide guidance and support to ACCOs in delivering their services and meeting obligations, such as by providing support on administration, governance or regulatory compliance. It would also support sharing of information and learning between ACCOs and work to grow the ACCO sector.

- **A framework to guide future investment:** This would be developed in services and plan and provide for capital support.

The SNAICC report also notes that complementary reforms would be needed in accountability and reporting, data and regulatory processes, sector governance, service planning, workforce planning and capacity building, and adjustments to mainstream ECEC funding.

Consistent with Priority Reform 1 of the National Agreement on Closing the Gap, the partnership is the most appropriate forum for this report to be considered through a process of shared decision-making. It is therefore recommended that governments consider funding arrangements for ACCOs delivering ECEC and other integrated early years services through a process of shared decision making (paper 7).

## **The funding model should be evaluated as part of a broader sector review**

### **To ensure ongoing consistency with the design principles, the recommended model should be evaluated as part of a broader sector review by 2030**

The ECEC system is undergoing significant change – and the recommendations from this inquiry, if adopted by the Australian Government, would transform many aspects of its operations.

Staged implementation is 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. Further reforms coming in response to the National Disability Insurance Scheme review (paper 2) and the continued evolution of state and territory preschool reforms will have significant impacts on the ECEC sector as well, as will the increases in educator and early childhood teacher wages and conditions likely to flow from the Fair Work Commission processes currently underway (paper 3).

From 2030 onwards, the combined effects of these reforms will see the ECEC system start to deliver on its ability to improve outcomes for children and families, through greater access to quality services that have a stable, well remunerated workforce. 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 families; and other more flexible service types that offer fit-for-purpose ECEC, particularly in regional and remote areas.

Given the number of moving parts, and the recommendation in this paper to work within the existing funding architecture to deliver a universal ECEC system, there is scope to holistically re-examine the policy, funding and regulatory settings again. This examination should take into account ongoing evaluations of the reforms, any learnings from their staged implementation and the outcomes of any trials.

### **There is scope to trial different funding instruments in some markets**

While the Commission has concluded that improvements to the current funding architecture would be the most efficient and effective approach to delivering a universal ECEC system, the expansions in supply-side funding programs represent an opportunity to run trials.

Trialling would offer an avenue for testing some features of alternative funding approaches as one input into the 2030 review. Paper 5 sets out guiding principles for the design of any trial.

Trials should be properly evaluated to ensure intended objectives and outcomes are being achieved (and cost-effectively), with lessons incorporated into future policy making (PC 2023, p. 43).

**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.

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## 10. Governance arrangements for a future ECEC system

### Key points

- ✳ **Governance arrangements in the early childhood education and care (ECEC) sector are not fit for purpose. Current structures may impede reforms intended to achieve universal access to ECEC.**
  - All levels of government have multiple roles in the ECEC system, underpinned by historical responsibilities.
  - Misaligned objectives and inconsistencies between governments, duplication and gaps in program delivery and inadequate data sharing practices hamper the effectiveness and efficiency of ECEC governance arrangements. Existing coordination mechanisms have had limited success in addressing these issues.
  - The limitations of current governance arrangements will become further apparent as governments start working towards universal access to ECEC, which will require a greater degree of coordination and collaboration. Government investment in the system is also likely to grow and enhanced governance arrangements are needed to ensure this investment is effective.
- ✳ **More effective system stewardship is needed to support universal ECEC.**
  - Effective system stewardship requires stewards to take joint responsibility for outcomes and coordinate their efforts to achieve common goals.
  - The Australian, state and territory governments should continue to act as system stewards. Better coordination between the stewards, a clearer division of responsibilities and stronger accountability mechanisms are critical to implementing a more effective model of stewardship.
- ✳ **A new national agreement on ECEC and an independent ECEC Commission are needed to support effective system stewardship.**
  - A new national agreement should be negotiated between the Australian, state and territory governments, covering the entire ECEC sector. The agreement should set overarching objectives and outcomes for the ECEC system; specify targets that governments should work towards; and formally articulate the roles and responsibilities of governments.
  - An independent ECEC Commission would enable greater transparency and accountability. An independent commission would perform this role more effectively than expanding the remit of existing government agencies, which have responsibilities and capabilities distinct from, and often incompatible with, those proposed for the ECEC Commission.
  - The primary functions of the ECEC Commission would be to hold governments – as stewards of the sector – to account for system-wide outcomes, provide advice to stewards, facilitate data sharing and oversee a research agenda for ECEC.

Early childhood education and care (ECEC) services, like other human services, are an essential part of the community, directly supporting the children and families who choose to use them while also contributing to broader social goals. ECEC can enable better outcomes for children – and in particular, for children experiencing disadvantage (paper 1) and support the labour force participation of their parents and carers (paper 4). High-quality ECEC services have the potential to contribute to better employment, health and educational outcomes for children over their lifetime (paper 1).

Governments have a central role in ensuring that ECEC is provided in a way that seeks to maximise the net benefits to the community, given the benefits that arise from people accessing these services and the costs associated with providing them.

While market delivery has sustained the provision of ECEC services in many communities, the children and families who would benefit most from attending services often face significant barriers to ECEC access. Government intervention is required to address these barriers and support the ECEC system to deliver the positive outcomes it has the potential to achieve. Australian, state and territory governments do this through a range of activities, including by regulating quality (paper 8), providing subsidies to reduce costs for families (paper 6), improving inclusion (papers 2, 7) and providing funding to establish new services (paper 5). There are still many areas in which government intervention falls short in breaking down barriers for families, and this report makes recommendations to address these issues. Moreover, these government activities are not coordinated and managed as well as they could be, which further reduces their efficiency and effectiveness (including for taxpayers, who are a substantial funder of the ECEC system) and accountability for this is lacking across the system.

This paper explores how the Australian, state and territory governments could improve the governance arrangements of the ECEC system in order to deliver an efficient and effective system that contributes to better outcomes for children, families and the broader community. This paper:

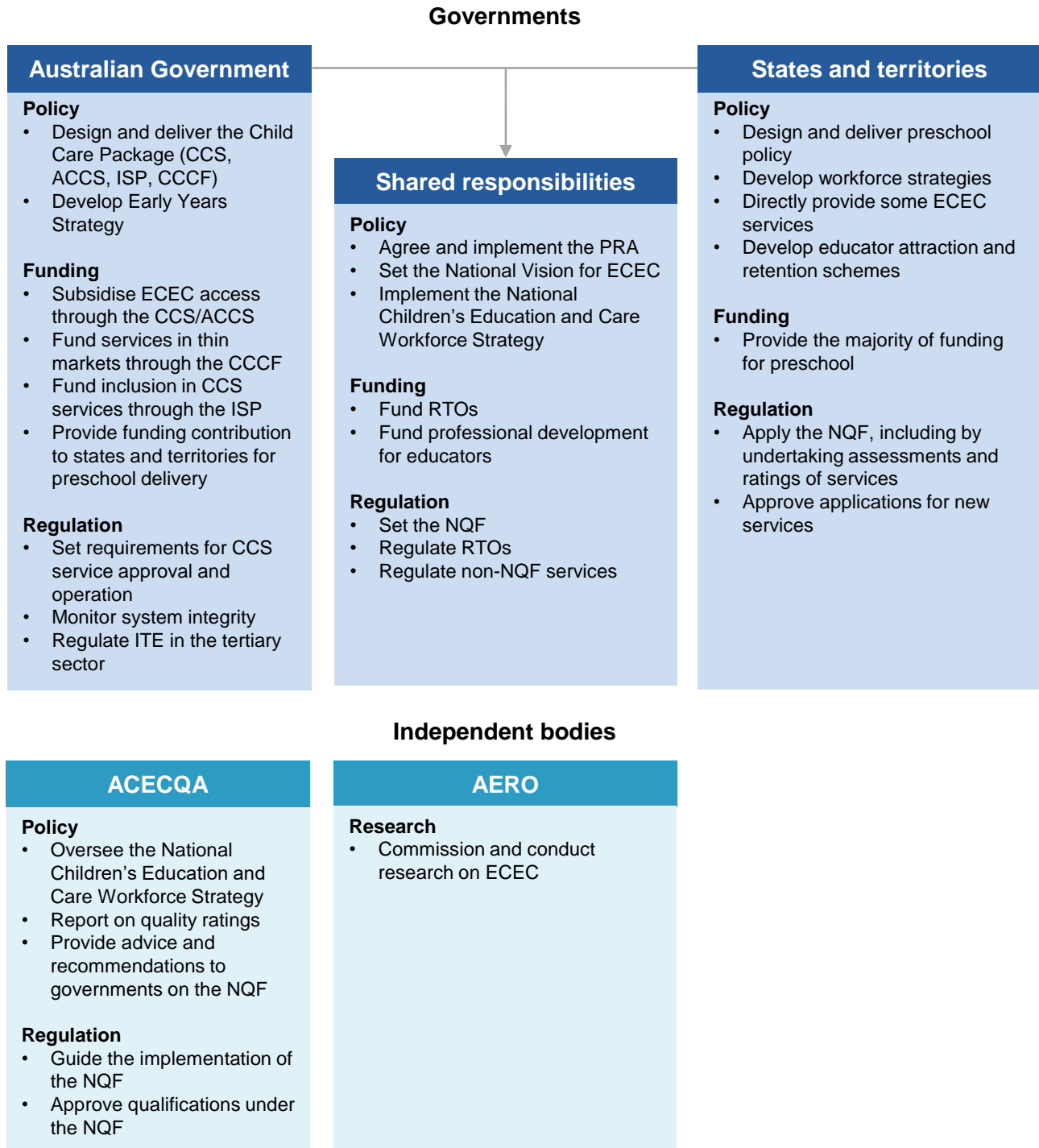
- examines the governance arrangements in the ECEC sector and their limitations (section 10.1)
- explores what a system stewardship approach in the ECEC system could look like (section 10.2)
- discusses how a new national agreement for ECEC and establishing an ECEC Commission would support the Australian, state and territory governments to oversee, manage and steward the ECEC system more effectively (section 10.3).

## **10.1 Current governance arrangements are not fit-for-purpose**

### **Current governance arrangements are a product of history**

All levels of government play a role in the ECEC sector. The nature of their respective roles largely reflects the constitutional and historical division of roles and responsibilities across governments. Over time, however, the lines of responsibility have blurred and different governments' roles are not always clearly delineated. New independent bodies have been established to support system governance (figure 10.1).

**Figure 10.1 – Governments and independent bodies have many different roles in the governance of the ECEC system<sup>a</sup>**



a. ACECQA stands for the Australian Children’s Education and Care Quality Authority and AERO stands for the Australian Education Research Organisation. RTOs are registered training organisations, which deliver training in the vocational education and training sector.

## The role of the Australian Government

The Australian Government's role in the ECEC system stems from its broader policy focus on economic welfare, employment and social security. Reflecting this, the main goal of the Australian Government's involvement in ECEC since the introduction of the *Child Care Act* in 1972 has been to support parents' labour force participation.

The Australian Government administers the Child Care Subsidy (CCS), the primary funding mechanism that supports families to access ECEC (apart from dedicated preschools). The CCS lowers out-of-pocket expenses for families but it is also intended to promote labour force participation – the CCS activity test means that as a family undertakes more recognised activity, such as work or study, they are entitled to a greater number of subsidised ECEC hours (the CCS is explored in detail in paper 6).

The Australian Government also offers a suite of 'safety net' supports that aim to improve ECEC access for certain groups of children and families, such as the Inclusion Support Program (ISP), the Community Child Care Fund (CCCF) and the Additional Child Care Subsidy (ACCS) (papers 2, 5 and 6). While preschool provision is primarily within the purview of the states and territories, the Australian Government also contributes funding to preschool through the Preschool Reform Agreement (PRA) (described in appendix E and discussed below).

The Australian Government has a substantial role with respect to the ECEC workforce. It sets the industrial relations framework through which the pay and conditions of the ECEC workforce are determined, and funds and oversees ECEC-related education and training courses in the university and vocational education and training sectors. As the main funder of ECEC, the Australian Government also indirectly affects the resourcing of the sector, which in turn can influence wage rates and providers' capacity to invest in the development of their workforce and other aspects of ECEC services.

The Department of Education is the lead Australian Government agency for ECEC policy and 'has primary carriage of implementing ECEC-focused policies and programs and administering [Family Assistance Law]' (Australian Government Department of Education, sub. 90, p. 17). This includes overseeing the CCS and associated 'safety net' supports, approving services to be eligible for CCS funding, awarding CCCF funding to services, administering the ISP and monitoring the system. A range of other agencies also have functions related to ECEC – for example, Services Australia is responsible for managing parents' applications and payments under the CCS, while the Department of Social Services is responsible for supporting playgroups. The Australian Children's Education and Care Quality Authority (ACECQA), an independent national agency funded by the Australian Government, is responsible for supporting state and territory governments to ensure the quality of CCS approved services (discussed further below).

The Australian Government is also responsible for a range of other policies and services that relate to child development, such as providing other types of financial support for families, and delivering housing, disability support and some health services.

## The role of state and territory governments

In contrast to the workforce participation focus that has shaped the Australian Government's involvement in ECEC policy, state and territory government involvement has focussed more on providing education to children, reflecting their broader responsibility for educational services and the schools system.

The primary function of state and territory governments in the ECEC sector is supporting preschool delivery. All states and territories contribute funding to the provision of preschool in their jurisdictions, and in several jurisdictions, state and territory governments are the largest funder of preschool services (paper 9). In addition, state and territory governments may directly provide preschool, including through dedicated

preschools located on public school premises. In some jurisdictions, such as Western Australia and Tasmania, this is the dominant model of preschool provision (appendix E).

State and territory governments also often facilitate the provision of outside school hours care (OSHC) services. In some state and territories, such as Queensland and Victoria, the department of education sets the frameworks and rules through which their schools can contract OSHC services, and some state and territory governments are directly involved in contracting OSHC services for their schools. (Providing financial support for OSHC, however, is primarily undertaken by the Australian Government through the CCS.)

Through their ECEC regulatory authorities, and with the support of ACECQA, state and territory governments have primary responsibility for regulating ECEC services by administering the National Quality Framework (NQF). This includes granting provider and service approvals, assessing and rating service quality and addressing non-compliance with the National Law (paper 8). State and territory governments also provide support, education and resources to assist ECEC services to meet their legal and quality obligations.

State and territory governments also hold key policy levers that affect the ECEC workforce, as they are responsible for some government-funded training providers (such as TAFE) and regulation of teacher registration.

Further, state and territory governments are deeply involved in supporting child development more generally. For example, state and territory governments are the primary governments responsible for providing family assistance and child and maternal health services, which can be linked with – or integrated into – ECEC services.

## **The role of local governments**

There is wide variation in the extent to which local governments participate in the ECEC. Some local governments are very active, and directly provide ECEC services or allow providers to use local government-owned buildings for free or at very low cost. However, many other local governments provide little support or contribution to the ECEC sector in their community.

Local governments can influence the availability of ECEC services in their jurisdictions through how they exercise their powers around local planning. The design and application of local government planning regulations can affect how easy it is to set up a new ECEC service in a local government area, as well as its size, location and other requirements (papers 5, 7).

## **Some coordination mechanisms are in place (or being developed)**

Reflecting that multiple levels of government have a policy interest in, and responsibility for, ECEC, governments have developed mechanisms that facilitate a degree of coordination across the system.

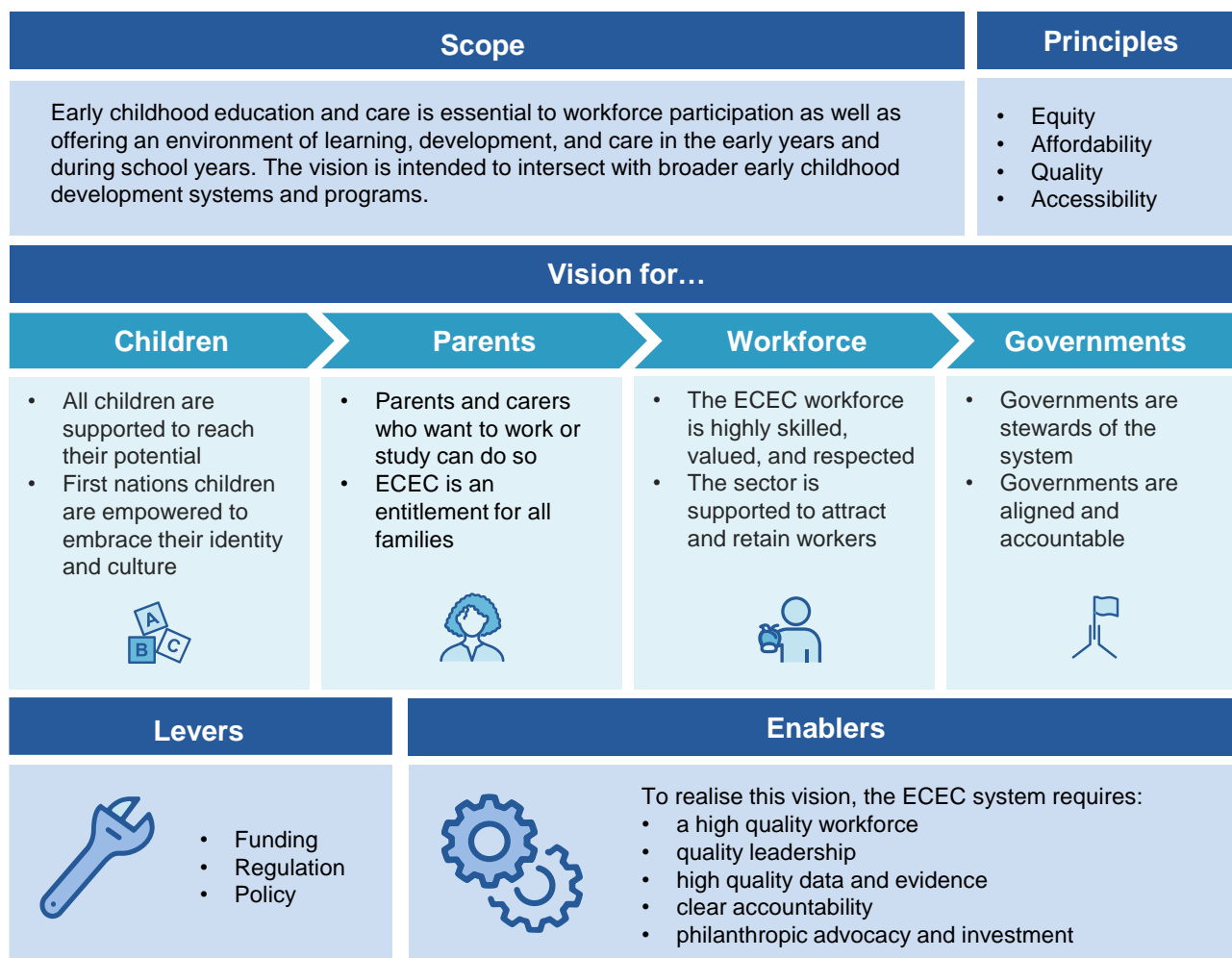
## **The National Vision for ECEC**

In August 2022, National Cabinet agreed to create a vision for ECEC to ‘provide long-term direction to achieve a quality, accessible, affordable and equitable early childhood education and care system’ (DoE 2023b). The Vision is a joint initiative of the Australian, state, and territory governments, and its development is led by their education and early years ministers, along with input from key system participants through surveys, submissions, workshops and discussions.

In March 2023, a draft National Vision for ECEC was released, which set out key principles, a vision for different actors within the sector, outcomes (figure 10.4), and the broad policy levers and enablers needed to realise the vision (figure 10.2).

National Cabinet is expected to further consider the draft Vision later in 2024 (DoE 2023b).

**Figure 10.2 – Summary of the draft National Vision for ECEC<sup>a</sup>**



a. The draft National Vision also contains a number of outcomes to support the achievement of the vision, and the description of the vision for children, parents, the workforce and governments draws on these.

Source: Adapted from DoE (2023a).

### The Early Years Strategy

The Early Years Strategy is an initiative of the Australian Government that ‘sets out the Australian Government’s long-term vision for children and families’ over the next ten years (Australian Government 2024, p. 9).

The underlying goal of the strategy is that:

Each child should have a strong start in life and thrive in their early years. They should have the opportunity to reach their full potential, nurtured by empowered and connected families who are supported by strong communities. (Australian Government 2024, p. 2)

The strategy outlines guiding principles, outcomes for children and families, and priority focus areas for action, with ECEC recognised as an important factor in achieving the goals of the strategy. The strategy notes that implementation will be undertaken through a series of action plans and will be measured against an outcomes framework. Both the plans and framework are yet to be developed.

While the Early Years Strategy was developed solely by the Australian Government, and is not a joint initiative with the states and territories, one of its goals is to improve coordination across the sector, including between different levels of government:

This Strategy establishes a new way to collaborate and coordinate effort across the Australian Government to invest and work more effectively. The Australian Government will also use this Strategy to guide its work with state and territory governments on improving outcomes for children and families. It will build on the many state and territory child and family strategies that already exist. (Australian Government 2024, p. 9)

### **The National ECEC Workforce Strategy (*Shaping our Future*)**

In 2021, under the direction of all Australian education ministers, a national strategy for the ECEC workforce (the National Children’s Education and Care Workforce Strategy (*Shaping our Future*)) was developed and released. The Strategy aspires to be a ‘roadmap for ongoing collaboration and partnerships between sector stakeholders’, including governments, and contains 21 actions to support the recruitment, retention, sustainability and quality of the ECEC workforce (ESA 2021, p. 5).

Progress towards implementing the Strategy is overseen by ACECQA (ACECQA 2023b). Paper 3 contains more information on the strategy.

### **The Education Ministers Meeting and the Australian Education Senior Officials Committee**

The Education Ministers Meeting (EMM) is ‘a forum for national cooperation on early childhood education and care, school education, higher education and international education’, in which the education ministers of the Australian, state and territory governments convene to agree on priorities and policy directions (DoE 2021). The EMM meets four times per year, with meeting agendas focussed on three priorities, determined every six months (DoE 2021). Examples of ECEC policy that has been coordinated through the EMM include the PRA and the National Children’s Education and Care Workforce Strategy (*Shaping our Future*).

The Australian Education Senior Officials Committee (AESOC) is made up of senior officials from the education departments of the Australian, state and territory governments, and is responsible for executing the decisions agreed in the EMM. Three standing working groups support AESOC, one of which is the Early Childhood Policy Group (ECPG) (ACECQA 2018). The ECPG provides ‘high-level strategic policy advice’ to the EMM on ECEC policy matters (Australian Government 2021).

### **The Preschool Reform Agreement**

The PRA is an intergovernmental agreement between the Australian, state and territory governments to support children’s access to preschool, including the delivery of 15 hours a week (or 600 hours a year) of preschool by a degree qualified teacher in the year before school. The Agreement contains a shared objective, outcomes and reporting requirements that have been agreed by governments, and is underpinned by funding that flows from the Australian Government to states and territories to support delivery of preschool.

The PRA is the latest in a series of agreements that aim to support the availability of preschool in Australia (appendix E).

## **The Australian Children’s Education and Care Quality Authority and the National Quality Framework**

ACECQA oversees the quality of services that receive funding from the Australian Government, and assists the state and territory governments in administering the NQF (ACECQA 2023a). While ACECQA does not generally conduct quality ratings or assessments<sup>1</sup> – as this is a responsibility of state and territory governments – it assists governments to implement the framework consistently, such as by training regulatory officers from state and territory agencies to conduct assessments, developing guides to the NQF for providers and parents, and publishing overviews of quality rating results (appendix C).

ACECQA also assesses the quality of ECEC qualifications and determines if they will be recognised for the purposes of the NQF and reports on governments’ progress in implementing the National Children’s Education and Care Workforce Strategy.

ACECQA is governed by a board whose members are nominated by the Australian Government and each state and territory government, to encourage continued collaboration in maintaining and implementing the NQF.

## **Coordination challenges make the ECEC system less effective and efficient**

While not uncommon, having multiple levels of government responsible for the funding, regulation and policy leadership of a particular service or policy area introduces challenges that are not present in services that involve only a single government. Even if the responsibilities of different levels of government are clear in principle, without the use of strong coordination mechanisms there is fertile ground for problems to arise that affect those who engage with the service. Problems can include:

- conflicting or misaligned objectives across governments
- duplication and gaps in policy and service delivery, including as a result of role ambiguity or because of unilateral or uncoordinated action from different governments
- inconsistencies in governments’ policies and regulations
- ineffective sharing of information and data across governments
- unclear or ineffective accountability measures.

Such problems are symptoms of inadequate governance arrangements and administrative approaches, and are common in the ECEC sector, despite the involvement of coordination mechanisms discussed above.

## **Objectives of government are poorly aligned**

Australia’s ECEC system has multiple aims, including providing high-quality ECEC to children to support their development and prepare them for school, reducing the impact of disadvantage, and facilitating the workforce participation of parents. Inquiry participants told the Commission that different governments, however, may place different emphases on these various aims, and define their roles, policies and programs accordingly, which can result in differing or inconsistent policy directions.

The Centre for Policy Development told the Commission:

in Australia, there is a general understanding that the policy objectives of ECEC are to support both children’s development outcomes and workforce participation. However, states and territories focus their actions on education and the Australian Government focuses their efforts on parental

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<sup>1</sup> ACECQA conducts assessments for services who have applied to receive an ‘excellent’ rating under the NQF.



workforce participation. As such, a national purpose of ECEC that all have agreed to is lacking, creating policies that conflict or undermine one or both of these objectives (sub. 156, p. 18).

One example of the implications of this differing emphasis can be seen in jurisdictions' approaches to preschool, where the dominant model supported in some states and territories involves part-day sessions that mirror the school term, with limited or no provision of care outside these times. These models have been justified on the basis that they effectively satisfy the educational needs of children, however, many inquiry participants noted that such models can greatly restrict the extent that parents are able to work or engage in other activities (paper 7).

The Victorian Government argued that there is a mismatch in who receives the economic benefits of ECEC, which can also affect the incentives that governments face:

the economic benefits of states and territories' investment in ECEC flow primarily to the Australian Government. This vertical fiscal imbalance is a barrier to state-level reforms and necessitates a national approach to ECEC investment. Under current arrangements, the tax revenue generated by investments to increase the participation and dosage of early childhood education by states and territories flow primarily to the Australian Government through increased income tax revenue from carers re-joining the workforce or increasing their working hours. There is also financial benefit to the Australian Government in the avoidance of future social services costs and decreased government expenditure. (sub. 146, pp. 6–7)

While the Commission considers that states and territories also benefit from an effective ECEC system – including through improved school readiness of children and potentially reduced expenditure on some other services for which they are responsible – the fact that different benefits and costs accrue to different levels of government can contribute to misaligned policy objectives and intentions for the ECEC sector.

### **Duplication and gaps in policy and service delivery are present**

Inquiry participants pointed to duplication and gaps between and within the ECEC policies and programs of different governments (for example, ACT Government sub. 27; the Centre for Policy Development, sub. 156; Lisa Bryant, sub. 204; Independent Schools Australia; sub. 251).

Participants submitted that duplication and policy gaps in the ECEC system were increasing because the division between providing 'education' services and 'care' services had become less clear. In many jurisdictions, for example, it is now common for preschool, which is notionally the responsibility of the state and territory governments – to be provided in centre-based day care (CBDC) services that are predominately funded by the Australian Government. The NSW Government submitted that:

the historical division of funding responsibility, whereby the Australian Government funds long day care to support parents' workforce participation, and States fund state and/or community preschool to support children to transition to school has increasingly become blurred. This division does not reflect the diversity of parental needs and preferences, with many parents combining different types of care arrangements for their children and facing complex trade-offs when deciding when, where and how much to use ECEC services. (sub. 158, p. 3)

The presence of duplication in the ECEC system is problematic. For parents, children, staff and providers, duplication contributes to a system that is more complex, cumbersome and difficult to navigate than it needs to be. As the Centre for Policy Development observed:

currently the roles are confusing, duplicative and overlapping in places while leaving gaps in others. This leaves families and services frustrated and sometimes overwhelmed. Greater role clarity will make the system more responsive, efficient, effective and accountable. (sub. 282, p. 19)

And for governments, duplication can result in wasted resources that might be better spent on other parts of the system. The ACT Government noted:

governments and community organisations spend a large amount of money providing early childhood development and education services. This includes centre-based early childhood education, preschool, health and community services. There are gaps and overlaps that reduce the effectiveness of money spent providing these services, reducing the possible overall benefit. (sub. 27, p. 4)

Inclusion of children with additional needs is a policy area that exemplifies this issue. As explored in paper 2, the Australian Government provides funding to children participating under the CCS through the ISP, while states and territories provide separate inclusion funding programs to support children who attend preschool. In some states, children are able to access both inclusion programs. However, the 2023 ISP review noted that in other instances, services that are eligible for the Australian Government's ISP are deemed ineligible under the state program, leading to uncertainty over which one to access (Deloitte Access Economics 2023, p. 92). Further, services must apply for and manage these programs separately, adding significant complexity to the system (Centre for Policy Development, sub. 156; NSW Government, sub. 158; Association for Children with a Disability, sub. 78; Goodstart Early Learning, sub. 125).

As well as encountering duplication, the Commission has also observed evidence of gaps in responsibility that detract from the effectiveness of the ECEC system. One example of this is limited oversight of the quality regulation system – while ACECQA and state regulatory bodies promote quality within their specific remits, there is insufficient monitoring of how these bodies work together to support quality improvement and address inconsistencies in approaches across jurisdictions (paper 8).

### **There is inconsistency across the states and territories**

Drawing on their experiences with the sector, some inquiry participants voiced frustration with inconsistent approaches, policies and programs between the different states and territories. For example, The Creche and Kindergarten Association submitted:

inconsistent application of policies and frameworks is an issue in Australia's early learning sector, resulting in an inequitable experience for children, families and the workforce. This impacts the amount of early learning a child can access, a family's out-of-pocket costs, the comparability of service quality and fees, and provider's efforts to meet and exceed the NQS [National Quality Standard], to name a few. (sub. 155, p. 12)

Variation between governments is not inherently problematic – and can be beneficial where state-based programs are better tailored to the needs of local communities, or where this introduces reasonable intergovernmental competition. But inconsistency is problematic when it contributes to outcomes that are

inequitable, makes the system unnecessarily complex, or impedes the effective functioning of the system. The Commission has identified a range of instances where this is occurring, including:

- inconsistency in teacher registration requirements for early childhood teachers (ECTs) across states and territories. This inconsistency risks limiting the work opportunities for ECTs who move across jurisdictions, and means that while some ECTs have access to the benefits that come with teacher registration, others do not (paper 3)
- inconsistencies within and between jurisdictions in quality assessment and ratings processes – including on the frequency of assessments, which can limit the usefulness of ratings for families (paper 8)
- inconsistencies in the regulation of services that are outside the scope of the NQF, which adds confusion and complexity to the system (paper 8)
- inconsistent approaches from state and territory governments in how they allocate funding received under the PRA (discussed further in section 10.3).

### **Data sharing arrangements are inadequate**

It is difficult to overstate the importance of governments and the community having good access to data. Data provides the basis for undertaking effective system planning, understanding the need for (and the effects of) government actions and interventions in the system, monitoring system performance and evaluating outcomes. But numerous inquiry participants reported poor data sharing practices across the sector, both between governments, and between governments and other key system actors. For example, the Benevolent Society submitted:

good data provides the evidence for good decisions. Collecting the right data can improve outcomes by bridging knowledge gaps and ensuring greater accountability ... But our data sets don't talk to each other. Tackling the silos in our early years must extend to the fragmentation of data. (sub. 280, p. 8)

And the Australian Education Research Organisation (AERO) stated that:

given the differentiated yet partially overlapping responsibilities and initiatives at a national and state/territory level, as well as the mixed market of ECEC service provision, early childhood data is held separately by many different custodians, with considerable variation in quality and consistency. It needs to be linked if we want a coherent picture that generates insights about what our policy priorities should be and what works for whom. (sub. 137, p. 4)

The NSW Government also pointed to the difficulty it faces in accessing Australian Government-held data to assist with its decision-making:

there is considerable scope for increased data and information sharing to strengthen decision-making, practice and behaviours for policymakers, ECEC services and ECEC users. The Australian Government is the largest custodian of administrative data through the tax and income support system. The NSW Government currently has limited and irregular access to comprehensive data on the ECEC sector. (sub. 158, p. 11)

The need to improve access to Australian Government-held data for state and territory governments was also raised by the Western Australian and Victorian Governments (Western Australian government, sub. 162, p. 13; Victorian Government Department of Education, sub. 146, p. 10). In addition, one of the recommendations of the South Australian Royal Commission on Early Childhood Education and Care was to ensure that the South Australian Government has access to regularly updated CCS data to support the

design and delivery of their system (SA Government 2023, p. 7). The Royal Commission reflected on its unique position to access data that is not routinely shared, despite the benefits of greater data use:

the Royal Commission has heard from a wide range of experts and practitioners about the value of linked, system wide data to show progress, highlight areas of need and vulnerability and support a system that can learn and evolve. The Commission has had the privilege of accessing a range of data sources not usually available to the State Government, notably Child Care Subsidy data to show patterns of participation in ECEC.

However, this data has not been linked to other data sets (including government preschool enrolments which are significant in South Australia), and so there is still a question around which children are missing out on preschool, and where they are. ... Improved data insight would add value to this exercise and to the ongoing challenge of ensuring universality for our most vulnerable children. (sub. 161, pp. 1–2)

It is likely that this goes both ways – that is, while state and territory governments find it difficult to access Australian Government-controlled data, the Australian Government likely also finds it difficult to access important data controlled by the state and territory governments, such as data related to preschool attendance and funding. As one example, some state and territory education departments decided that their dedicated preschools would not participate in the (Australian Government-funded) 2021 ECEC Workforce Census (DoE, pers. comm., 4 June 2024), reducing the available information on the workforces of these jurisdictions and deducting from the value and usefulness of the Census as a whole.

An unwillingness on behalf of governments to share data adds credibility to arguments that the system is siloed. This results in policy decisions being made without access to the best available information, to the potential detriment of those who use, operate in and work in the ECEC system, as well as the community more broadly.

### **Accountability measures are unclear or ineffective**

A theme that has emerged throughout the Commission’s consultation is that there are significant opportunities to improve accountability arrangements in parts of the ECEC sector (Centre for Policy Development, sub. 156; Goodstart Early Learning, sub. 277; Minderoo Foundation/Thrive by Five, sub. 288; ELACCA, sub. 299; Family Day Care Queensland, transcript, 19 February 2024).

This inquiry makes recommendations that seek to enhance accountability and transparency across some parts of the system, including with respect to implementing the National Children’s Education and Care Workforce Strategy (recommendation 3.12), monitoring of costs, fees and out-of-pocket expenses (recommendation 6.12), and the performance of regulatory agencies (recommendation 8.1).

But an observation from inquiry participants is that, even if accountability were improved in parts of the ECEC system, it remains unclear who is accountable for the overall outcomes and performance of the system as a whole.

For example, the Centre for Policy Development submitted that:

the split of responsibilities is largely not formalised, and accountabilities can be unclear. This is likely to change further, with states such as Victoria and New South Wales taking on a greater role in long day care, separate to their traditional role in preschool. (sub. 156, p. 29)

And Minderoo Foundation/Thrive by Five argued that:

despite the urgent need for reform, there is currently no single body that exists that has clear accountability for addressing affordability and supply gaps, with responsibilities for ECEC funding

and provision. With responsibility for ECEC shared between the federal, state and territory governments, there needs to be a high level of coordination to achieve universal access to ECEC. (sub. 288, pp. 26–27)

The Commission agrees that whole-of-system accountability is lacking. Where the performance of the system has been examined in its entirety, this has generally taken the form of infrequent ad-hoc reviews.

## **Existing coordination mechanisms are useful but limited in scope**

The presence and persistence of these challenges suggests that the existing coordination mechanisms (described above) are not working as effectively as they should be, and are unlikely to enable the delivery of a universal and accessible ECEC system for all children and families.

Existing coordination mechanisms provide a useful foundation for the system. The National Vision for ECEC and the Early Years Strategy, once finalised, have the potential to be unifying documents that present common, long-term aspirations across governments that guide policy development and action. As discussed in paper 3, the Commission has also identified the value of the National Children’s Education and Care Workforce Strategy as a means of aligning the different incentives governments face, and coordinating the various levers in their policy toolkit, with respect to growing and developing the ECEC workforce. The EMM and AESOC provide an environment where high-level decision-makers can come together to address emerging policy challenges. The PRA has underpinned better access to preschool, and delivered progress on how governments measure preschool performance (including the development of a national preschool measure). And ACECQA continues to help governments administer a suite of quality regulations that are accepted nationally.

But collectively, the capability of these coordination mechanisms to deliver a universal system is limited. The remit of some mechanisms, such as the EMM and the Early Years Strategy, is wide-ranging – extending beyond the ECEC sector – diluting their capacity to give adequate attention to ECEC-specific policy issues. On the other hand, others like the PRA and the National Workforce Strategy are narrow in scope, focussing on particular aspects of ECEC and lacking a remit to examine the sector as a whole. And some, like the National Vision for ECEC, while helping to define and align policy objectives between governments, lack practical measures and the ongoing architecture needed to report on progress of their delivery.

The system is missing a coordination approach that has the capacity to consider the entire ECEC system comprehensively and holistically, with the scope to respond to complex policy issues and challenges. The need for effective system-wide coordination and accountability would also be further heightened if the Commission’s recommendations were to be adopted. Achieving universal access to ECEC will require a high degree of co-operation and collaboration between governments to be implemented effectively.

To improve coordination and accountability in the system, address the policy challenges described above and steer the implementation of the reform agenda, governments should take a system stewardship approach, which positions them as leaders of the whole system and ‘owners’ of the outcomes produced.

Many inquiry participants have pointed to a governance model that promotes system stewardship as a potential answer to many of the coordination challenges identified above (box 10.1). The remainder of this paper explores what this system stewardship approach could look like and what would need to happen for it to be effective.

### **Box 10.1 – Inquiry participants supported a stronger stewardship approach**

A range of inquiry participants also supported strengthening the stewardship of the ECEC system. For example, the Victorian Government Department of Education submitted that:

on its own, the market will not be able to implement what is required to support step change in the quantum and quality of provision of ECEC, including an expanded universal preschool offer. This is not only a matter of tackling thin markets. Rather, there are a series of features of the ECEC sector that make an active stewardship approach essential (sub. 146, p. 9)

The Centre for Policy Development noted that:

in the ECEC system, responsibility for the system and its long-term outcomes needs to be taken by the Commonwealth and state governments. Both need to actively take on this system stewardship role, including to set direction around a common vision, objectives and outcomes. As part of this system stewardship, governments need to provide greater oversight and facilitation in the ECEC market. This means taking a broader role than funding and regulating, to include other more intentional steps such as better informing consumers, monitoring the market for inequities, filling service gaps, and actively setting and adjusting the 'rules of the game' (such as funding rules). (sub. 156, pp. 32–33)

The Front Project stated that:

another early step we would like to see government take is a strong system stewardship and we welcome the Productivity Commissioner's position that stewardship is a critical piece of the puzzle and it will be essential in charting the course for a longer-term reform. (transcript, 5 March 2024, p. 5)

The Early Learning and Care Council of Australia (ELACCA) suggested that:

the early learning and care sector is complex and sometimes disparate. There are clear differences between and within jurisdictions, operating and governance models and sector type, and thin markets appearing throughout. Targeted capital investment supporting quality providers of early learning and care to operate in thin or otherwise unviable markets would be a valuable investment by Government/s. An overarching, Commonwealth-led approach to market stewardship would support a stronger, overall learning and care system in Australia. ELACCA would support this being overseen by National Cabinet as a key strategic priority for the Commonwealth and all state and territory governments. (sub. 153, p. 13)

And Goodstart Early Learning submitted that:

evidence from the PC and ACCC has shown that a more deliberate stewardship approach will be necessary to deliver on a universal entitlement for all children. We agree with the PC that there is a role for governments ... in stewarding the ECEC system to ensure that a national vision and objectives of ECEC are met. (sub. 277, p. 7)

## 10.2 A universal ECEC system requires strong system stewardship

### What does effective system stewardship entail?

System stewardship is a model of governance that involves effective coordination of how governments and other actors work together and aligns them behind a shared aspiration for the system. Governing bodies are required to extend their focus beyond the specific areas that they are responsible for funding or regulating, and take on the role of steward over the entire system and its outcomes (PC 2018, p. 79; The Front Project 2022).

Stewards take responsibility for the system as a whole, working collaboratively with other actors – including different levels of government, advocacy groups, service providers, families and communities – to achieve the objectives that have been collectively agreed upon. The aim of this approach is to produce a more coordinated policy and governance response across the system, in line with the needs and preferences of the beneficiaries of the system (Moon et al. 2017, p. 10).

Some inquiry participants and other reviews have called for stronger *market* stewardship in particular, which would see government take a more proactive role in specifically steering services and the market (ACCC 2023, p. 10; ELACCA, sub. 153, p. 13). However, the governments responsible for ECEC must also go further to steward the ECEC system as a whole, reflecting its important role in enabling extensive benefits for both individuals and the broader Australian community (box 10.2). This approach was supported by many inquiry participants, such as Goodstart Early Learning, for example, who submitted that:

a commitment to an historic universal entitlement to ECEC for at least three days per week for all children will require active *market* stewardship to ensure that supply of places (through both infrastructure and workforce) meets increased demand. However, Goodstart considers there is also a broader stewardship role required to deliver on the National Vision for ECEC. As such, we welcome the PC's broader proposal for *system* stewardship. (sub. 277, p. 7, emphasis in original)

#### Box 10.2 – The difference between market stewardship and system stewardship

Market stewardship and system stewardship are two models of stewardship that envision different roles for government.

In the market stewardship model, government leads and influences market operations within a sector to shape the affordability, accessibility and quality of the services provided by that market. The Australian Government currently exercises this role to an extent in the ECEC sector, by regulating services, offering subsidies to families so they can access these services, and by providing grant funding to establish services under the CCCF. Such activities are generally aimed at improving the performance of the market and supporting it to deliver positive outcomes for those who access it.

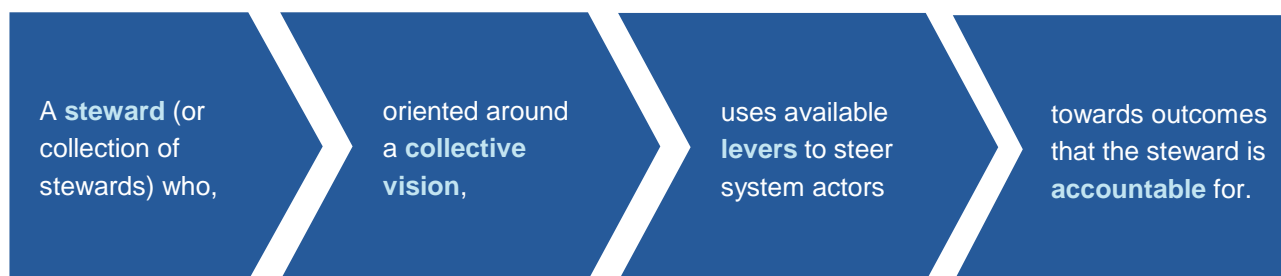
System stewardship, on the other hand, positions governments as responsible for all aspects of the system, rather than solely the operation of the market. Stewards are required to consider what can be done to maximise the benefits that are delivered through the system, including by setting system-wide objectives, coordinating the actions of system actors towards achieving these objectives and applying performance frameworks to assess the system and determine what can be improved.

**Box 10.2 – The difference between market stewardship and system stewardship**

In ECEC, aspects of system stewardship include, but are not limited to: ensuring all children and families can access and be included in the system if they so choose; using rich and transparent information to measure the outcomes produced by the system; and monitoring the extent to which the system is delivering on its different policy objectives, such as those relating to child development and workforce participation. This involves considering whether the suite of actions undertaken by governments, providers and other participants across the system are producing positive outcomes for families and children (including those who are currently not accessing ECEC), whether there is scope for improvement, and whether there is adequate coordination of actions to ensure that improvement is made.

System stewardship approaches must satisfy four key elements if they are to be effective (figure 10.3).

**Figure 10.3 – At its core, system stewardship involves:**



**A steward (or stewards)**

In an ideal model of system stewardship, each system actor is aware of its own unique but complementary stewardship role and carries this out in a way that best contributes to the overall health and performance of the system (PC 2018, p. 86; The Front Project 2022, p. 18). In practice, it is often necessary that one or a small number of stewards are given a larger oversight role in order to provide leadership within the system.

The steward(s) must have the trust and respect of other participants in the sector if they are to effectively influence their actions and objectives. The particular body or bodies that are best placed to take on this role depend on the characteristics of the system in question but may involve various levels of government or private organisations.

**A collective vision**

Actors in a system, including the stewards, should be guided by a collective vision that articulates the goals and priorities for the system (PC 2018, p. 84; The Front Project 2022, p. 32). This vision must be clear and endorsed by sector participants, in recognition that their buy-in is essential for system-wide co-operation. This means that any vision should be based on consultation with a broad range of system users and actors, and should reflect their needs and preferences, recognising that they are the ultimate beneficiaries of the system.

The steward should promote the collective vision by providing an accessible way for sector participants to understand the vision and why and how they should support it. The system’s desired outcomes can continue to evolve after an initial vision is established, with the steward promoting a continuous cycle of evaluation of the system’s objectives to ensure that they remain appropriate.



## Relevant and effective levers

Stewards must actively use their funding, regulatory and policy levers to lead other system actors towards delivering on the agreed objectives (Centre for Policy Development, sub. 156, pp. 5–6). Levers should be particularly focused on areas where the market alone will not deliver on these objectives, and stewards should aim to steer other actors' behaviour without being overly prescriptive.

The levers used depend on the characteristics of the particular sector, and can include actions that are both indirect, such as sharing information and incentivising certain behaviours, and direct, such as setting minimum standards, providing services directly and removing certain providers from the market.

In cases where there are multiple stewards operating in partnership, there should be flexibility for each steward to identify the levers most appropriate to its role. Stewards should establish a formal plan that articulates the division of responsibilities between them – including which levers each will use – in line with their individual strengths.

## Accountability measures

Stewards are required to take responsibility for the outcomes of the system, and where the system is failing to meet its overall objectives, it is up to stewards to recognise and address this (Moon et al. 2017, p. 10). Producing and publishing a formal plan for a stewardship model can establish clear and public accountability for the stewards. This would also help to identify gaps where there may not be anyone responsible for certain outcomes.

Performance against the objectives of the collective vision should be measured, and there should be clear benchmarks for when the steward is to intervene. Reporting on progress should also be shared publicly to strengthen the accountability of the stewards to the public.

New Zealand's education system provides an example of system stewardship in practice, where it was introduced to address a number of policy challenges (box 10.3).

### **Box 10.3 – System Stewardship in New Zealand's education system**

In 2016, seven New Zealand government agencies with stewardship responsibilities over the education system – including ECEC, compulsory schooling and tertiary education – requested that the State Services Commission (now the Public Service Commission) undertake a performance assessment of the education system and how it was being governed.<sup>a</sup>

The assessment found that unclear system-wide objectives and poor coordination between agencies limited the system's success, and that 'a more coherent and systematic approach is required to generate the substantial lift in system performance necessary to ensure that every learner can succeed' (New Zealand Government 2016, p. 4). As a result, the State Services Commission and the seven agencies co-designed *A Blueprint for Education System Stewardship* to outline a new, more collaborative governance approach.

### **Box 10.3 – System Stewardship in New Zealand’s education system**

Introducing a more comprehensive model of stewardship was seen by the agencies as an opportunity to create common understanding, agreement and ownership of the system. The Blueprint also emphasised the importance of strengthening accountability for system outcomes among the stewards.

If those charged with this stewardship are not responsible for the outcome produced by the system, then who is? ... system stewardship implies responsibility even when system stewards do not control all the factors that influence [an] outcome. This attitude defines stewardship: it is about ‘best endeavours’. (p. 10)

The Blueprint identified a number of priorities for the system to address, including large disparities in student performance, inconsistent uptake of innovation and best practice, and systemic weaknesses in how funding, information and human resources are developed and deployed (New Zealand Government 2016, pp. 22–23). The Blueprint then identified a shared purpose for the system, as well as medium- and long-term goals. Some of the initial actions aimed at addressing these goals included creating shared online resources for use by other system actors, aligning data systems and forming joint planning processes across the agencies.

Since the publication of the Blueprint, a number of programs and policies have also been implemented that further strengthen government stewardship of New Zealand’s education system. A new agency, Te Mahau, was introduced in 2021 within the Ministry of Education to provide responsive, accessible and integrated local support to early learning services, schools and kura (Māori-language schools) (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2021; Te Mahau 2023). Te Mahau staff across multiple regional offices work directly with schools to provide support with curriculums, learning support and teaching resources to help align service delivery with the goals of the stewards and the education system more broadly.

a. The seven agencies involved were the Ministry of Education, the Education Review Office, the New Zealand Qualifications Authority, the Tertiary Education Commission, Careers New Zealand, Education New Zealand and the Education Council (New Zealand Government 2016, p. 6).

Source: New Zealand Government (2016); Te Mahau (2023).

## **What could stewardship in the ECEC system look like in practice?**

Stewardship should be understood as existing on a spectrum – rather than a binary concept that is either achieved or not achieved – and existing mechanisms such as the PRA and the draft National Vision represent elements of system stewardship already present. However, there is scope to further improve stewardship of the ECEC system to produce a better coordinated and more effective government response.

Considering Australia’s ECEC system against the four elements identified above – a steward, a collective vision, levers and accountability – informs how a more comprehensive model of system stewardship could be achieved.

## **The Australian, state and territory governments are well positioned to be system stewards**

All three levels of government are involved in ECEC, and some collaboration mechanisms are already in place. However, if system stewardship is to be effective, one or multiple system actors would need to take on

a stronger role as a 'steward' to ensure the system is led in a more coordinated way. Determination of who may be best positioned to act as a steward needs to take account of the different powers, strengths and limitations of each actor. The Australian Government, for example, has significant funding, resources and oversight over the entire system compared to other governments, while state and local governments better understand local market conditions and relationships. There is therefore an argument to have multiple stewards acting in different but complementary roles.

Some possible candidates, suggested by inquiry participants and by other reports, include:

- the Australian Government (The Front Project 2022, p. 32; The Creche & Kindergarten Association, sub. 155, p. 11)
- state and territory governments (The Front Project 2022, p. 33)
- local governments (The Front Project 2022, p. 33)
- a taskforce or other new body, such as an ECEC Commission (The Front Project 2022, p. 33; Fiona Stanley, sub. 34, p. 6; Thrive by Five, sub. 70, p. 6)
- existing entities that could be given more responsibilities or powers, such as ACECQA or National Cabinet (The Front Project 2022, p. 33; Early Learning and Care Council of Australia, sub. 153, p. 13)
- a combination of the above – for example, the Australian, state and territory governments (Centre for Policy Development, sub. 156, p. 35) or all three levels of government (The Front Project 2022, p. 33; Municipal Association of Victoria, sub. 117, p. 9).

The Commission considers that the Australian, state and territory governments are the most practical stewards for the ECEC system, as they hold the key policy, regulatory and funding levers, as well as access to existing forums for collaboration such as the EMM. The Australian Government commits the majority of total government funding into the sector, estimated to have been about \$11.6 billion in 2022-23 (paper 9). State and territory governments are also significant funders of the system (their contribution in 2022-23 was estimated to be about \$2.7 billion) and have a strong historical connection to the funding and provision of preschool, as well as constitutionally granted powers over education policy more broadly. No other governing bodies have a similar or consistent level of influence over ECEC policy, regulation or funding.

However, having the Australian, state and territory governments assume the role of joint system stewards is not without challenge. As discussed above, having multiple governments share responsibility for a policy area can lead to issues unless robust and practical coordination mechanisms are put in place. If the Australian, state and territory governments are going to effectively fulfil the role of system stewards, better coordination mechanisms and clearer delineation between their respective responsibilities are needed.

Some inquiry participants suggested that local governments should have a stewardship role. For example, the City of Sydney noted that:

there is a real opportunity for Federal and State Government to work more closely with Local Government who are well placed to deliver outcomes in the community, but who are also able to provide insights into community needs. (sub. 65, p. 14)

And the Municipal Association of Victoria (MAV) submitted that:

the MAV believes that local government is in the best position to coordinate access for [children with additional needs and children living in regional and remote areas] and proposes each council be funded to take on this role. ... Councils could further be funded to undertake deliberative engagement with their communities to truly understand the ECEC needs of their local families, including barriers to participation, preferred service models and opportunities for integrated early years services. (sub. 117, p. 13)

While local governments act as system stewards in certain overseas models (appendix B), they do not have capacity to take this leading role in Australia. Some local governments play a prominent role in ECEC markets; for example, in Victoria all local governments have developed detailed kindergarten infrastructure and services plans, in conjunction with the state government, outlining the current and future needs of their communities (Victorian Government 2024). But there is wide variation in the extent to which local governments across the country participate in the ECEC sector. It would be impractical to give all local governments key responsibilities as stewards when many have limited involvement in the sector.

However, local governments should still be given the opportunity to play an active role in the sector if they wish to do so. They have a level of understanding of their communities that national and state governments do not, and this understanding should be leveraged where possible to better design ECEC policy. As such, local governments should be considered as valuable partners by the Australian, state and territory governments, particularly in identifying where and what services are needed in their communities.

### **The National Vision for ECEC can provide a common foundation for stewards**

As discussed in section 10.1, the Australian, state and territory governments are developing a National Vision for ECEC. The draft vision has been codesigned with other system actors and was publicly released for feedback, with the intent that the final version be considered by National Cabinet later in 2024 (DoE 2023b).

While the vision is in draft form and therefore subject to change, once finalised it will represent a solid foundation to guide the priorities, behaviours and actions of system stewards. In its current form, the vision describes outcomes that could be used to measure success, and establishes a series of principles that can underpin decision-making in the sector. Further, the vision, once endorsed by National Cabinet, will have the support of the Australian, state and territory governments.

### **Governments hold relevant levers to carry out their stewardship role**

The Australian and state and territory governments already use many funding, regulatory and policy levers to steer the ECEC system (figure 10.1). Other parts of the report have also recommended improvements to these levers, such as enhancing inclusion support (paper 2), expanded funding to address supply shortfalls in persistently thin markets (paper 5), and a range of improvements to the CCS, which would make ECEC more affordable for families (paper 6). These improvements will change the way system actors behave and steer them towards the outcomes that have been identified by the draft National Vision (figure 10.4 below). The key difference between using these levers and viewing them as mechanisms for stewardship lies in them being strategically aligned and well-coordinated to achieve a common vision.

After establishing a collective vision for the sector, stewards should develop a plan that divides and coordinates individual responsibilities for each governing body within the system. By designating certain roles for each body, the system will be able to both retain flexibility and leverage the strengths of the different levels of government. This approach also recognises that different states and territories would be starting from different places and are responding to different needs in their communities, and that a uniform approach would not be appropriate.

### **Accountability measures are limited in their scope**

A stewardship model requires mechanisms for keeping stewards accountable for the system. Where the stewards are governments, it is ultimately the public that is responsible for holding stewards to account, and transparent public reporting on the performance of the system under the stewardship of those governments becomes very important.

Strong accountability measures are required to give other system actors – and the public in general – a mechanism through which they can understand and assess the performance of governments. Any social service the size of the ECEC system needs robust accountability measures to ensure the system is meeting the needs of its users, and is using the Australian community’s resources efficiently and effectively.

The current division of policy responsibility in ECEC means that responsibility for outcomes is spread across multiple levels of government. There are limited stated objectives against which outcomes can be assessed, leaving only infrequent ad-hoc reviews to provide a comprehensive view of how the system is supporting children and families. And while data is published about the way ECEC operates, there are significant knowledge gaps and questions that cannot be answered using existing data collections.

For example, ELACCA indicated a number of additional ‘spaces where explicit responsibility and accountability would be beneficial’, including:

- reporting on system outcomes and performance, supported by an effective data infrastructure, to support accountability, price monitoring and transparency, identification of priority issues, and enhanced understanding of the scope/nature/drivers of key systemic issues.
- overall system strategy and cohesion, noting that while there are existing mechanisms they have not always been as effective as desirable (sub. 299, pp. 58–59).

For an effective system stewardship approach to be implemented in the ECEC sector, there must be appropriate mechanisms to keep stewards accountable – and with this accountability will come incentives for stewards to undertake and resource actions that will promote continued improvement of the system over the longer term.

### **More effective mechanisms for coordination and accountability are key to improving stewardship of the ECEC system**

Considering the four key elements necessary for system stewardship – that is, the presence of appropriate stewards, a shared vision, relevant and effective policy levers and system-wide accountability measures – the Commission’s assessment is that a system stewardship approach can be highly effective in the ECEC sector. The Australian, state and territory governments are well placed to assume the responsibilities of system stewards, given their already central role in funding and regulating the sector, and the wide array of policy levers available to them that are capable of steering system outcomes. Further, when formally endorsed by National Cabinet, the National Vision for ECEC will represent a long-term vision for the sector that has been agreed to by the Australian, state and territory governments and can guide their day-to-day stewardship of the system.

But if the Australian, state and territory governments are to fulfill this stewardship role effectively, two fundamental aspects of current governance arrangements need to be improved. The first is better coordination between the stewards, including a clearer division of responsibilities and ongoing opportunities to coordinate their responses to emerging issues as they arise. The second is better accountability for system-wide outcomes. Accountability ensures that there are consequences if system stewards do not perform their roles well and promotes the continual improvement of the system.

Two key pieces of governance architecture are needed to address these areas of concern – a new national agreement for ECEC to clarify roles and responsibilities and an independent entity that can promote accountability in the 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.

### **10.3 What is needed to implement system stewardship?**

#### **A new national agreement on ECEC should delineate governments' roles and responsibilities and set clear objectives**

National agreements are formal agreements between the Australian, state and territory governments<sup>2</sup> that are used to agree and articulate the roles and responsibilities of different governments, as well as the objectives and outputs that guide service delivery (Northern Territory Government 2022). They stem from the recognition that 'the states and territories have primary responsibility for many areas of service delivery, but that coordinated action is necessary to address Australia's economic and social challenges' (PM&C nd). National agreements are often underpinned by funding commitments that flow from the Australian to the state and territory governments in return for a commitment to deliver services in line with the objectives of the agreement.

The PRA is an example of such an agreement and is the most significant national agreement currently in place across the ECEC system. A range of agreements concerning the delivery of preschool predated the PRA, and the Commission heard that these had been relatively successful in uniting governments around the shared goal of lifting preschool participation (for example, Goodstart Early Learning sub. 125, p. 14). However, the focus of the PRA agreement is narrow – it only covers the provision of preschool and does not consider the rest of the ECEC system, such as ECEC for younger children and OSHC. It also does not effectively address the policy overlaps and gaps that exist between preschool and the CCS system, such as those discussed in section 10.1 above.

In the draft report, the Commission recommended that a new national agreement be developed to encompass the ECEC system in its entirety. A range of inquiry participants supported this recommendation. For example, the Front Project said:

the Front Project supports the proposal for a new National Partnership Agreement for Early Childhood Education and Care as a positive step towards achieving a cohesive and coordinated approach to ECEC across Australia. This agreement could potentially offer a framework for articulating a unified vision for ECEC, thereby clarifying roles and responsibilities among various levels of government, moving to a system of stewardship which we have long advocated for. (sub. 227, p. 49)

<sup>2</sup> Local governments can also be party to national agreements (such as in the case of the National Agreement on Closing the Gap).

The Australian Childcare Alliance suggested a range of objectives for national agreement:

ACA supports forming a new NPA [National Partnership Agreement], with the shared goal of achieving national consistency for the ECEC sector and a greater focus on outcomes. This would include creating a more efficient regulatory structure and a **nationally consistent school starting age**, to underpin a consistent framework for the years before school. The improved policy and coordination for the ECEC sector needs to reflect:

- Higher quality educational outcomes for children
- Better compliance outcomes
- Clearly delineation of responsibilities of funding and policy
- Collaborative policy agendas. (sub. 255, pp. 56–57, emphasis in original)

Several other inquiry participants pointed to the need for – or the benefits of – a broader national agreement for the ECEC sector (for example, ELACCA, sub. 299, p. 19; Goodstart Early Learning, sub. 277, pp. 11–12; National Catholic Education Commission, sub. 274, p. 2; The Parenthood, sub. 276, p. 6).

The Commission maintains the view that a new national agreement, covering the entire ECEC system, should be negotiated between the Australian, state and territory governments. Such an agreement would represent an opportunity to clearly and formally articulate how responsibility for different segments of the ECEC system is divided across governments, and how each government's respective policy levers interact with those managed by others. A clear agreement of responsibilities would make it easier to identify and address the gaps, overlaps and other issues created by the siloing of Australian, state and territory government policies. It would also facilitate the setting of clear objectives and aims, which can work to align governments' policies and deliver improved transparency and accountability over their actions in the sector.

### What form should the agreement take?

The draft report recommended that the proposed agreement take the form of a National Partnership Agreement, or, more formally, of a schedule under a Federation Funding Agreement. These instruments are 'predominantly short-term vehicles for nationally significant reforms, service delivery initiatives and/or projects', of which the Preschool Reform Agreement is an example (Northern Territory Government 2022). Some inquiry participants, however, suggested that the new ECEC agreement would operate more effectively as a National Agreement. National Agreements are a different type of agreement which aim to establish ongoing funding arrangements between the Australian and state and territory governments in 'key service delivery areas' (Northern Territory Government 2022). There are five current National Agreements in operation, and they cover the areas of health, school education, mental health, skills and housing and homelessness (Federal Financial Relations nd).

For example, Goodstart Early Learning submitted that:

Goodstart recommends the PC final report recommends a National Agreement (NA) instead of a National Partnership Agreement (NPA), which would provide funding certainty and continuity, largely safeguarded from changing political agendas or budget priorities. The experience of the unexpected cessation of the NPA on the National Quality Agenda in 2018 demonstrates the uncertainty inherent in NPAs whereas National Agreements 'typically contain significant policy content and act as sources of ongoing funding'. (sub. 277, p. 11)

And ELACCA also advocated that:

consideration of a National Agreement rather than a National Partnership Agreement also provides our sector with increased funding certainty and longevity. (sub. 299, p. 19)

The key differences between the two types of agreement are that, in general, schedules to the Federation Funding Agreements tend to cover shorter timeframes, involve smaller funding commitments, and aim to address specific programs or policy aims, whereas National Agreements often cover core policy areas in which the Australian Government is expected to be involved in service delivery over the long term (Treasury, pers. comm., 11 June 2024).

The type of agreement used will ultimately depend on the negotiations between the Australian, state and territory governments – based on the content they wish to include (noting that the Commission recommends some specific matters that the agreement should cover below) and their ambitions for how the agreement will be operationalised. Regardless of the specific type of agreement or mechanisms it relies on, the new ECEC agreement should be set up in a way that supports the goals discussed by this paper of improved coordination and accountability.

### **What should the national agreement contain?**

National agreements are products of negotiation between the agreement's parties. This means that there is a degree of flexibility about their content, and the Commission does not wish to unduly restrict or prescribe the scope and content of any negotiations and ensuing agreement. The onus to deliver a workable, effective and enduring national agreement ultimately lies with the governments that are to negotiate and implement it.

This said, there are some critical components that need to be included if the national agreement is to be effective. Some of these form part of the framework used in many other national agreements. The ECEC agreement should contain:

- one or more overarching objectives for the sector and the outcomes that are sought from government action
- measurable aims to promote accountability. These can include targets for ECEC participation, access to services, workforce and other key aspects of the system.
- a clear articulation of the roles and responsibilities of different governments and government agencies, including a commitment to system stewardship
- commitments to advance reforms relating to funding preschool and collecting preschool data, which are currently covered by the PRA
- consideration on how the agreement interacts with other key strategies and reform agendas that impact the ECEC sector.

### **Overarching objectives and outcomes**





The national agreement should begin with an articulation of parties' overall objectives. This should set the high-level aspiration that the agreement seeks to achieve and provide a set of shared goalposts for governments to aim for as they exercise their policy levers.

These objectives should in turn inform the outcomes that governments seek to achieve through the operation of the agreement. Outcomes should be measurable (through one or more performance indicators), and achievable largely within the scope of the agreement and the actions and policy levers of governments under it (that is, whether an outcome is delivered or not should not depend on factors outside the agreement).

The National Vision, once finalised, will serve as a solid foundation for crafting the objectives of the national agreement. The outcomes set out in the draft vision (figure 10.4) provide a starting point for those that should be pursued in the national agreement.



**Figure 10.4 – Outcomes for the sector, as set out in the draft National Vision for ECEC**

Outcomes for...			
 <b>Children</b>	 <b>Families</b>	 <b>ECEC workers</b>	 <b>Governments</b>
Children and families experiencing vulnerability and disadvantage receive the support they need	ECEC supports parents and carers, especially women, to work when they want to	ECEC workers are valued and respected	Governments take shared responsibility for the system and collaborate together and with the sector to realise shared goals
Children are engaged lifelong learners	Families get the services they need where they need them	A sustainable and experienced workforce builds relationships with children	There is holistic governance and clear roles and responsibilities for the ECEC sector
Services respond to community, cultural and family contexts and can provide continuity of learning and care to children	ECEC is recognised as an essential service that all families who choose to use can access	Workers feel supported and are retained in the sector	Governments use funding, regulatory, and policy levers within the market environment in combination with service delivery to shape a system that is sustainable, flexible, aligned to need, and driven by outcomes for beneficiaries
	Cost is not a barrier to accessing an appropriate quality service	New workers are inspired and supported to train and work in the ECEC sector	
	Where practicable, services offer integrated education and care to support a more holistic approach to development	ECEC services respect and nourish First Nations culture and kinship. We grow our First Nations and Aboriginal community-controlled workforce, recognising the importance of children seeing themselves, their identities, and cultures reflected in their environment	
	First Nations families feel supported to consistently access quality, culturally inclusive ECEC		
	The ECEC system is joined up and easy to navigate, providing connections between ECEC and broader early childhood development systems and programs		

Source: DoE (2023a)

However, there is scope to further refine this set of outcomes. In their current form, some of the draft outcomes are not conducive to supporting consistent, objective targets or performance indicators to assess the extent to which they are being achieved, and would benefit from greater detail on what a successful outcome looks like in practice. For example, it is not clear how an evidence-based assessment might be made to determine the extent to which the system is 'joined up and easy to navigate' with current data.

Moreover, if these outcomes contained in the draft National Vision are to form the basis of the outcomes sought through the national agreement, there needs to be more explicit reference to outcomes for ECEC services, as key actors in the system. For example, governments could seek to ensure that services are supported to navigate government funding and quality processes, and that services are financially sustainable. A greater focus on the quality of ECEC provided by the system is also needed, reflecting greater emphasis on ongoing quality improvement. About 90% of ECEC services are meeting or exceeding the National Quality Standard – making it, in effect, the baseline for service quality. Future policy direction should seek to build on the National Quality Standard, and promote ongoing quality improvement, informed by research into the factors that make a difference to children's outcomes.

### Measurable aims

The national agreement should include explicit aims or targets for the system, along with identified indicators to measure progress towards them. Targets would provide a practical way to assess progress towards the overarching objectives and outcomes set out in the agreement, and be one yardstick for accountability mechanisms. They should set clear and measurable benchmarks that can be reported on, and in turn provide families, services, ECEC workers and the public more broadly with an understanding of how the government is performing and whether it is adequately meeting the needs of the community. Further, targets can serve as a source of motivation for governments to aim for continual improvement across the system.

Drawing on evidence and analysis gathered as part of this inquiry, the Commission has developed a number of targets which should be included in the Agreement. These are:

- by 2028, increase the ECEC attendance of children with disability, children experiencing disadvantage, and Aboriginal and Torres Strait Islander children
- by 2028, reduce ECEC workforce vacancy rates and increase ECEC qualification completion rates
- by 2028, states and territories should facilitate the provision of OSHC in all public schools where there is sustainable demand
- by 2030, increase in the proportion of children who are developmentally on track when starting school by five percentage points in all jurisdictions
- by 2030, no more than 5% of services rated as 'Working Towards the National Quality Standard'
- by 2036, all children aged 0-5 should have access to at least 30 hours or three days a week of quality ECEC, for 48 weeks a year.

The Commission's recommended targets need not be the only ones pursued, and governments may wish to negotiate additional targets consistent with their policy aims. But at the same time, there needs to be a clear nexus between the targets and the outcomes and objectives that the agreement seeks to achieve. Criteria for developing relevant targets are set out in box 10.4.

### Box 10.4 – Criteria for setting targets in the national agreement

In order to be most useful in steering government actions and holding governments to account, any targets in the national agreement should:

- be **valid** – the target should be linked to, and validly capture, one of the agreed outcome areas
- be **unambiguous** – the target should be clear in meaning and interpretation
- be **attributable** – the target should be able to be achieved primarily through government actions, with relatively little influence from other factors
- be **credible** – the target should be meaningful to relevant people and groups
- **avoid unintended consequences** – the target should avoid creating perverse incentives that give rise to undesirable or unwanted actions
- be **able to be assessed with data** – data should be available to allow for assessment against the target, and where it is not, a plan should be developed to obtain it that takes into account the costs and benefits of different approaches. Data should be available at the frequency at which targets will be assessed, and be available quickly enough to inform decision-making.

Source: Adapted from PC (2021, p. 126).

### A formal articulation of the roles and responsibilities of different governments and agencies

The new national agreement should clearly outline respective governments' roles and responsibilities in the ECEC system to reduce overlap, complexity and uncertainty. This should include articulating the functions, responsibilities and obligations of the Australian Government, the state and territory governments and independent agencies in the sector – ACECQA, AERO and the ECEC Commission (discussed below). Within the agreement, the Australian, state and territory governments should also 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.

The agreement should also articulate the remit, function and governance arrangements for key collaboration mechanisms across the sector, such as the EMM, AESOC and ECPG.

While a small number of inquiry participants called for the Commission to reconsider the roles and responsibilities of different governments in the sector (for example, the Centre for Policy Development, sub. 282, p. 18), a substantial change in responsibilities across governments would represent a significant shift for the sector. It would require long timeframes and a strong and consistent will from governments to change the status quo, including a willingness to cede control over parts of the sector they have traditionally been responsible for.

As part of defining the roles and responsibilities of governments in the next national agreement, on a system-wide level:

- the Australian Government should continue to be responsible for the CCS system, inclusion funding for ECEC services except dedicated preschools and grant funding to ensure service provision in persistently thin markets
- state and territory governments should continue to be responsible for preschool. Reflecting the national agreement's ambition to encompass government objectives across both supporting child development and labour force participation, the agreement should include a commitment from states and territories to support flexibility for families whose children attend a preschool program. Given that preschool delivery

differs significantly between states, governments could consider establishing bilateral agreements between the Australian Government and each state and territory government to articulate how their preschool system can coordinate with the CCS system, as well as to address any bilateral funding arrangements negotiated between governments (paper 9).

Notwithstanding this broad delineation, as part of the agreement, there should be an obligation on governments to specify their functions on a more granular level. This includes governments' roles with respect to inclusion funding and supporting the establishment of new ECEC services, where there is significant ambiguity about the role of respective governments that needs to be clarified (papers 2 and 5). In the long run, governments could also consider combining certain programs and funding streams, such as by delivering a single inclusion program across the ECEC system (papers 2 and 9).

Another specific area that would benefit from more policy clarity is OSHC.

OSHC is crucial to supporting working families, but availability of places is mixed across the country (paper 5) and inquiry participants pointed to a range of issues associated with both the availability and operation of OSHC (including vacation care) (box 10.5).

#### **Box 10.5 – A number of inquiry participants raised concerns about OSHC**

Bray and Gray observed that:

the overall framework for the coordination of schools and Outside School Hours Care is one in which there is generally no responsibility upon schools to provide this service, but rather it appears to be an option. This has clear implications for parents and workforce engagement. (sub. 14, p. 25)

Early Childhood Australia noted that:

in many communities, schools have the infrastructure available but are reluctant to provide OSHC because of the additional regulatory requirements. Harmonising or bridging regulatory requirements between schools and OSHC providers could create the conditions in which more schools would be willing to deliver OSHC. (sub. 154, p. 44)

The National Outside School Hours Services Alliance submitted that:

schools regularly use OSHC (particularly in the Government schools sector) to revenue raise and this is often at the expense of quality OSHC operations including investment in children's resources, professional development and non-contact time for OSHC educators and providing adequate staffing levels (beyond minimum standards) to promote children's wellbeing, learning and development. (sub. 103, pp. 1–2)

In 2014, the Commission recommended that state and territory governments proactively encourage the provision of OSHC on school sites. This included placing the onus on school principals to take responsibility for ensuring there was an OSHC service for their students on and/or offsite if demand were sufficiently large (PC 2014, p. 416). However, inquiry participants have reported unmet demand for OSHC, including where schools choose not to establish services due to concerns about regulatory burdens (Outside School Hours Council of Australia, sub. 82, p. 8; National Outside School Hours Services Alliance, sub. 305, p. 1). Only half of primary schools have an OSHC service available, and these tend to be more common in areas of socio-economic advantage (paper 5).

Notwithstanding that the Australian Government subsidises families' use of OSHC through the CCS system, the Commission has heard that, in practice, OSHC services typically have much more contact with state and territories' school systems than they do with Australian Government agencies. And many of the levers that have the potential to affect the viability and availability of OSHC services lie solely within the remit of state and territory governments – such as policies around the use of school spaces, obligations on school principals to support OSHC provision, actions to better accommodate OSHC within school regulations and, in some cases, contracting arrangements. As such, the Commission recommends that the responsibility to facilitate families' access to OSHC in schools should rest with state and territory governments.

This does not mean that state and territory governments would have an obligation to fund, or directly provide, OSHC services in public schools. Rather, the obligation should be for state and territory governments to set and maintain a policy environment that is conducive to OSHC being provided in public schools wherever there is enough demand for a service to be viable. The ambition is for OSHC to be incorporated into standard school practices so that the transition that children and families face between the school day and an OSHC service is as seamless and as integrated as possible.

### Commitments to advance preschool reforms

At a minimum, a new agreement should advance reforms set out in the PRA.

Under the PRA, governments committed to three key reforms related to the passing on of Australian Government contributions, new preschool enrolment and attendance measures and a new preschool outcomes measure. But there is scope to progress these further.

- While states and territories are required to ensure that Australian Government preschool funding follows children (appendix E), this applies in aggregate at the setting level, rather than being attached to an individual child or the service they attend. Where children are not participating in preschool, funding is to be directed to programs to support participation. States and territories have agreed with the Australian Government to implement this reform in various ways. Some pass on funding directly to children or services, for example, as fee relief. But due to data or other barriers, others pass on Australian Government contributions to CBDC through sector level programs, for example by providing funding for quality improvement strategies (ACT Government nd; Australian Capital Territory and Commonwealth of Australia 2024, p. 9). States and territories are able to use an alternative definition of preschool to the main definition used in the PRA, provided it is agreed with the Australian Government. This provision has been used by some states – for example, Tasmania uses an alternative, stricter definition of preschool, which requires all services offering a preschool program, including CBDC services, to register as a school in order to be recognised as 'preschool' (and therefore access funding) (State of Tasmania and Commonwealth of Australia 2023, p. 7).
- The new preschool attendance measure will capture a child's aggregate attended hours over one or two terms only,<sup>3</sup> meaning it will not be possible to determine weekly attendance over a year. It will also not be possible to determine if the preschool program was delivered by an ECT, or how many preschool program hours in CBDC were delivered by an ECT.<sup>4</sup>
- Under the PRA, Education Ministers agreed to develop a new preschool outcomes measure,<sup>5</sup> which is due to be trialled nationally in 2025 (DoE 2024b). Separately, via the EMM, Education Ministers have also

<sup>3</sup> Preschool Reform Agreement, Appendix A1, pp. 3–4, 7, 12.

<sup>4</sup> For the purposes of reporting attendance under the PRA, compliance with ECT requirements under the NQF are taken to meet the requirement for a preschool program to be delivered by an ECT. However, NQF requirements do not guarantee delivery of the program by an ECT. In effect, this means all hours of CBDC are treated as a preschool program for the purposes of reporting attended hours.

<sup>5</sup> Preschool Reform Agreement, Appendix A, pp. 13–14.

agreed to pursue a shared national research agenda that will use data from the new measure to answer a set of agreed research questions of national interest (DoE, pers. comm., 4 June 2024). Options for national implementation of the measure and the shared national research agenda are subject to a successful trial and are likely to be progressed in the context of post-PRA funding negotiations from 2026 onwards (DoE, pers. comm., 4 June 2024).

A future national agreement should build and improve upon the foundations laid by these reforms.

Improving funding arrangements for preschool delivered in the CBDC sector should be a key priority. There may be genuine barriers for some states in passing on Australian Government contributions to preschool programs delivered in CBDC, particularly where states do not collect data on the CBDC sector. But it is also inequitable that some children and families benefit from having Australian Government funding passed directly to their service, while others do not. Governments should work together to address these barriers and ideally ensure Australian Government funding follows individual children to the service they attend. This should apply regardless of whether a child attends preschool in dedicated preschool or CBDC.

In doing so, states should retain the ability to agree with the Australian Government an alternative definition of preschool where needed, or to require providers to meet certain conditions to access funding (for example, by requiring them to apply for funding, be approved providers, or to meet quality or audit requirements). But this should not unreasonably restrict the ability of CBDC services to deliver a preschool program or to access Australian Government preschool funding where CBDC delivery reflects a family's preference.

Commitments to improve preschool data collection, sharing and research should also be part of a new agreement. Work on new preschool enrolment and attendance measures and the new preschool outcomes measure will help fill some gaps, but others remain. Data collection on measures such as out-of-pocket costs for preschool in CBDC could also be improved. These knowledge gaps limit the ability of governments to fully understand the impact and effectiveness of their preschool investment.

### **Interactions with other strategies and agreements affecting the ECEC sector**

In addition to the proposed national agreement, a range of other strategies and agreements – both specific to the sector and broader – seek to influence ECEC outcomes. In addition to the Early Years Strategy and the National Children's Education and Care Workforce Strategy mentioned above, these include:

- the Alice Springs (Mparntwe) Education Declaration
- Australia's Disability Strategy
- the National Strategy for the Care and Support Economy.

A national ECEC agreement will need to align with these initiatives. At a minimum, this will require acknowledgement of these strategies and agreements, and care to ensure that the content of the national agreement is consistent with (or complementary to) the undertakings made through these initiatives. The national agreement could represent an opportunity to further progress commitments that have been made as part of these arrangements, recognising the relationship that ECEC has with many other sectors and government services and its potential to improve outcomes for children, particularly those experiencing disadvantage.

The agreement must also align with commitments made by governments under the National Agreement on Closing the Gap. The National Agreement includes four priority reforms aimed at changing how governments promote improvements in life outcomes for Aboriginal and Torres Strait Islander people. The priority reforms include commitments to shared decision-making, building the community-controlled sector, improving accountability and sharing data. There are also 17 socio-economic outcomes (and 19 socio-economic targets) under the Agreement, of which many relate to, or impact on, ECEC. Outcomes 3 and 4 seek to ensure that 'Aboriginal and Torres Strait Islander children are engaged in high quality, culturally appropriate

early childhood education in their early years' and that 'Aboriginal and Torres Strait Islander children thrive in their early years', measured by an increase in the proportion of Aboriginal and Torres Strait Islander children assessed as developmentally on track under the Australian Early Development Census.<sup>6</sup> Both the negotiation process – and the contents of – the national agreement should align with these commitments and should include the expertise and knowledges of Aboriginal and Torres Strait Islander people and organisations, as well as the Early Childhood Care and Development Policy Partnership (ECPD). The ECPD, discussed further below, is a partnership between Australian governments and several Aboriginal and Torres Strait Islander peak organisations, and one of its objectives is to enable Aboriginal and Torres Strait Islander representatives, communities and organisations to negotiate and implement agreements with governments (DoE 2024a).

### **Facilitating on-going coordination**

While the delineation of governments' roles and responsibilities through a national agreement would provide much greater clarity in the ECEC policy landscape, this does not address the need for ongoing coordination mechanisms. As system stewards, governments need to be able to consider how their policies and programs interact; identify and address persistent or emerging challenges; and coordinate the design and implementation of new policies.

As discussed above, no existing forum has the breadth and depth of scope required to perform these tasks effectively, and new arrangements are needed. There are at least two options that should be considered.

First, the remit of an existing forum could be expanded. While the EMM and AESOC may not be appropriate bodies – as they are responsible for all parts of the education system, rather than solely ECEC – the ECPD, which supports AESOC and EMM on issues relating to ECEC, could be tasked with this ongoing coordination role.

Second, the architecture that governments create to support the negotiation of the national agreement could continue to convene after the agreement is finalised.

Whatever forum is chosen, it is important that it has the capacity and capability to discuss the system as a whole, while also being able to consider policies in detail. It needs to involve officials of a high enough level (so that they have adequate power to make or influence policy decisions within their jurisdictions), but it is also critical that it is able to consider policy challenges in a degree of detail that may go beyond the scope of discussions between the highest-level decision-makers (such as those who participate in EMM and AESOC).

### **Negotiation of the national agreement should commence immediately**

Negotiation of the national agreement should commence as a priority. This would facilitate improved coordination, enabling governments to more effectively implement the reforms recommended by this inquiry. The Commission envisages the new national agreement would commence when the PRA concludes at the end of 2025. The timeframe to negotiate the new national agreement is, therefore, tight – especially given the agreement's breadth. If it is to be met, negotiations need to commence as soon as possible.

The first national agreement should run for five years, from 2026 to 2031. To inform negotiations for the following agreement, a comprehensive review of the ECEC sector should be commissioned by government that assesses overall progress towards universal access to quality ECEC (paper 9). This review should commence no later than 2030.

<sup>6</sup> National Agreement on Closing the Gap, Table B.



### 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.

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.

## A new ECEC Commission should be established to facilitate greater accountability and transparency

A new and broader national agreement would go some way to creating governance arrangements that support a universal ECEC system, including by requiring governments to commit to a system stewardship approach, clarifying who is responsible for what, setting targets that governments will be accountable for meeting, and putting in place a forum for ongoing policy development and coordination. But a new national agreement alone will not be sufficient to address many of the governance challenges outlined in section 10.1, nor ensure that a system stewardship approach is implemented effectively.



To assist governments to steward the ECEC system more effectively, and to improve accountability system-wide, a second piece of new governance architecture is needed – an independent ECEC Commission.

In the draft report, the Commission recommended that an ECEC Commission be established and canvassed a relatively wide range of functions that it could undertake, including publishing regular reports on progress against commitments made under the national agreement, providing governments with information and advice on a range of specific matters, overseeing a research agenda for ECEC and developing mechanisms for data sharing.

Many inquiry participants were supportive of the proposal for an ECEC Commission (for example, the Minderoo Foundation, sub. 288, p. 26; Goodstart Early Learning, sub. 277, p. 13; KU Children's Services, sub. 303, p. 16; The Front Project, sub. 227, p. 51; Outside School Hours Council of Australia, sub. 232, p. 11) while some raised questions about its remit and operations (for example, ELACCA, sub. 299, p. 56; Bray and Gray, sub. 279, p. 6; Social Ventures Australia, sub. 247, p. 13). Others raised concerns that the Commission may add to, rather than reduce, complexity by duplicating roles that government departments should be responsible for (for example, Australian Childcare Alliance, sub. 255, p. 57). The Victorian Government submitted:

adding a new governmental actor with broad functions to the system will increase the overlap and risks greater confusion of roles and responsibilities that currently exists between Commonwealth and state and territory governments. It may also increase the complexity of policy, funding and governance arrangements. (Victorian Government, sub. 311, p. 5)

And Gabi Burman said:

providing a separate, independent ECEC Commission with a variety of functions could undermine this stewardship approach and confuse accountability for the system. Simply put, it would give government someone else to blame for the failings of the system. Government should feel more on the hook for the ECEC system as a result of a move to stewardship, not less. (sub. 317, p. 19)

Some inquiry participants supported the need for an oversight body, but not the establishment of a new commission:

G8 highlighted in its original submission to this inquiry that there is a need for a 'champion' to harmonise policies, regulations, systems, and processes across governments and regulators. This would take out significant complexity and ultimately make it easier for all families to access high quality education and care and for providers to operate. ... G8's strong preference is for an existing organisation to assume this role, to enable synergies of operations and to be set-up in a cost neutral manner. (G8 Education, sub. 301, p. 13)

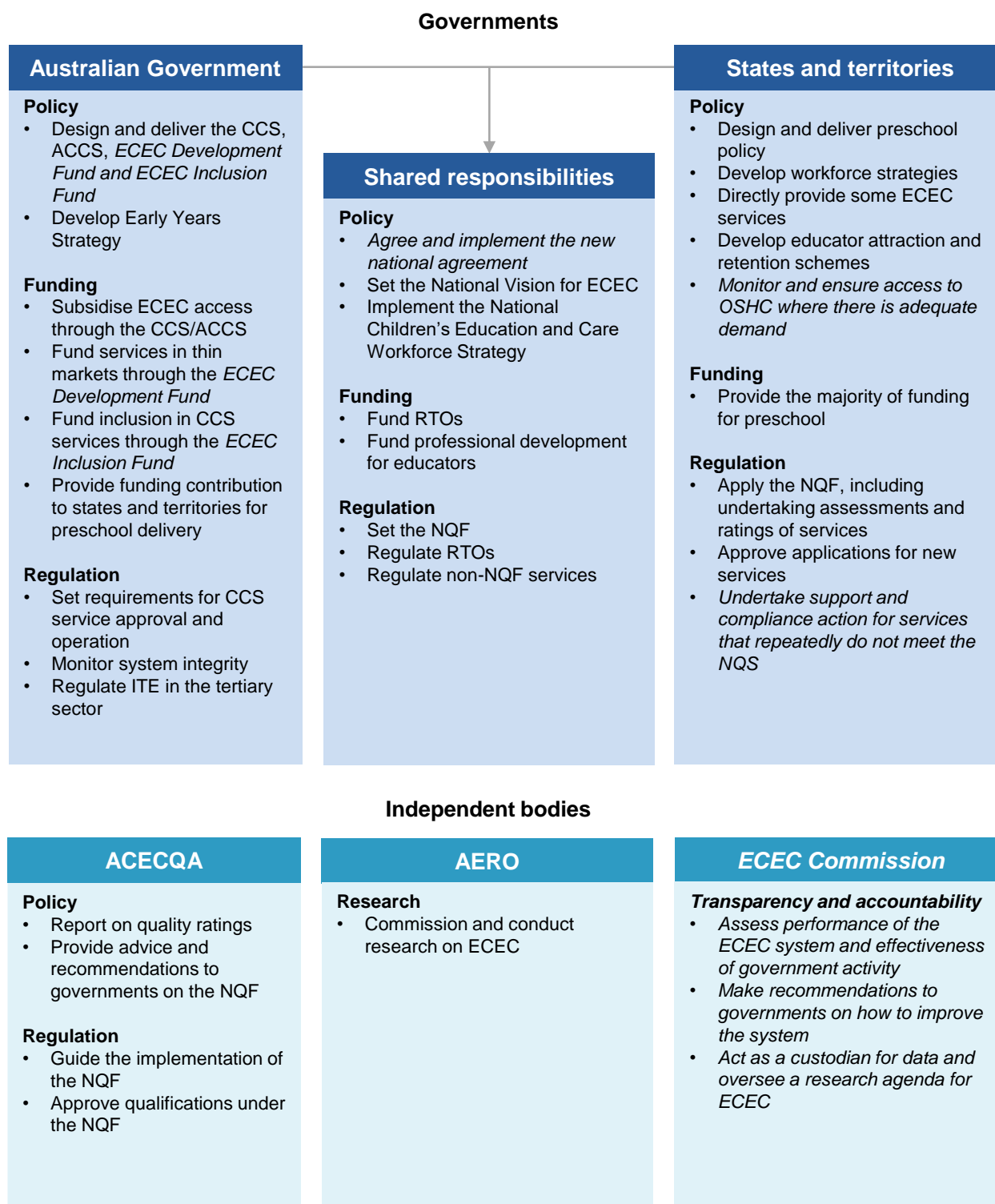
However, without a new body, there would continue to be clear gaps in the ECEC governance structure. These gaps – which cannot be fully addressed by existing agencies and institutions – are affecting governments' ability to fully evaluate the effects of their investment in ECEC, and this issue will become more pressing as the ECEC system progresses towards universal access. As such, this inquiry recommends the establishment of a new ECEC Commission, with core functions focussing on system level monitoring and accountability, which are explored further below.

These functions represent a substantially narrower remit for the ECEC Commission than the suite of functions proposed in the draft report. This shift reflects the feedback of inquiry participants and further reflection and analysis by the Commission. It also reflects efforts to ensure that an ECEC Commission does not simply add a layer of bureaucracy to the sector or duplicate functions already ably undertaken by other actors.

The establishment of an ECEC Commission – along with other proposed changes to the roles and responsibilities of governments as a result of the recommendations of this inquiry – would lead to a significant shift in governance arrangements and support a universal ECEC system. Figure 10.5 sets out this proposed allocation of responsibilities, and highlights the gaps that would be filled by the establishment of the ECEC Commission. Governments would continue to hold the critical policy levers essential for turning

the ECEC sector into a universal system, while the ECEC Commission would have the role of monitoring the effectiveness of policy settings and their coordination.

**Figure 10.5 – Proposed division of responsibilities post- ECEC Commission<sup>a,b</sup>**



**a.** Italic font indicates responsibilities that are new or have moved. **b.** ACECQA stands for the Australian Children’s Education and Care Quality Authority and AERO stands for the Australian Education Research Organisation. RTOs are registered training organisations, which deliver training in the vocational education and training sector.

## The ECEC Commission should have three core functions

The ECEC Commission should be responsible for three core functions:

- monitoring and publicly reporting on the progress of governments towards their commitments under the national agreement 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 its ability to take a system-wide view
- facilitating the better use and dissemination of ECEC data and research findings, by overseeing an ECEC research agenda and taking on the role of data custodian (figure 10.6).

**Figure 10.6 – The core functions of the ECEC Commission**

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

## The ECEC Commission should hold the stewards to account

The ECEC Commission should address one of the key gaps in the current governance structure – the lack of system-wide accountability.

The primary means through which the ECEC Commission should deliver this is by conducting assessments of the performance of governments in stewarding positive outcomes from the ECEC system. As part of this, the ECEC Commission should:

- produce and publish assessments of governments' progress towards commitments made under the national agreement, as well as any other agreements related to ECEC, such as the National Children's Education and Care Workforce Strategy (*Shaping our Future*). The ECEC Commission should use data, consultation with system actors and other relevant research to publish annual reports that assess the performance of the system and governments' progress against targets, and triennial reports that provide recommendations for how governments should address any issues that arise
- collate and publish information on how governments are exercising their functions in the system, for example performance metrics for regulatory authorities, as well as other key metrics that can inform further assessments about the system's performance, such as on fees, the availability of services, market health and inclusion across the system
- evaluate the effectiveness of government policies from a national perspective, with a view to address cross-jurisdictional issues. As government departments should continue to be responsible for ensuring that the individual policies and programs they manage are evaluated, the ECEC Commission should focus their evaluations on policy areas where responsibility is shared between the Australian, state and territory governments and a lack of coordination may be creating additional barriers for other system users.

To promote transparency, the ECEC Commission should publicly release their assessment and reports on government performance.

In carrying out this role, the Commission should consider the work done by the Australian Centre for Evaluation, which seeks to support better policy through improved use of evaluations (Treasury 2023). Further, where other relevant agreements are already supported by reporting and review frameworks, such as the National Agreement on Closing the Gap, the ECEC Commission should complement and reflect – rather than duplicate – this work.

While the Australian Government Department of Education and its counterparts in state and territory governments, as well as ACECQA, already carry out somewhat similar monitoring and reporting roles, these are different in scope and approach to the work that the ECEC Commission would undertake.

Government departments have a remit that is limited to their jurisdiction, and would not be able to provide a system-wide view that is necessary for system stewardship. There is also a potential conflict in tasking departments that are responsible for implementing policy with assessing their own progress – hence the common practice of commissioning reviews and evaluations from independent actors. Further, many reviews commissioned by government departments are not released publicly, limiting transparency over the functioning of the system.

Similarly, ACECQA helps to regulate and set policy in the ECEC system, by maintaining and overseeing the NQF, determining which qualifications are recognised under the NQF, and training regulatory officers. As such, it forms part of the system that would need to be assessed. Further, the close relationship that ACECQA must maintain with governments in order to effectively coordinate matters around the NQF, would reduce their ability to credibly hold these same governments to account in the eyes of the public. The Commission is therefore of the view that ACECQA could not exercise these functions without a significant change to their existing remit – including separating key regulatory and policy setting functions – and changing their relationship with governments. It would likely be less costly and more effective to assign this accountability function to a new, independent body.

## The ECEC Commission should advise the stewards and other actors in the system

The ECEC Commission should also be able to use its wide view of the ECEC system and access to data to provide advice and recommendations on what governments can do to improve the way they carry out their stewardship role, as well as promote coordinated policy development and consideration of broad system objectives.

The issues that the ECEC Commission could provide advice on would mirror the priorities of governments as they implement universal access to ECEC. This may include topics such as:

- availability gaps and how they could be addressed
- how the ECEC system can be better connected with other child and family services
- the effects of government policy on affordability for families and viability of services
- the operation of the national quality regulatory system
- appropriate regulatory arrangements for non-NQF services (recommendation 8.9)

In addition, the ECEC Commission could use its understanding of the system across different jurisdictions to report on where state-based approaches diverge or where there are overlaps between national and state level approaches that may be causing fragmentation and complexity for families and providers. The Commission could identify whether these inconsistencies could or should be improved by introducing nationally consistent arrangements. This could cover a range of domains, such as:

- inclusion support programs offered by states and territories, and their interactions with the Australian Government's inclusion policies (discussed in paper 2)
- workforce policies, such as educator and teacher qualification requirements, career development pathways and professional development policies (paper 3)
- regulatory approaches, such as ensuring sufficient resources for state regulators (paper 8)
- OSHC contracting approaches, such as promoting a more consistent approach to OSHC provision in schools.

While government departments already do some of this work, they do so in respect to policies in their own jurisdiction, meaning that their research and advice relate to Australian Government *or* state or territory policies, rather than being able to consider the policies of both levels of government together. This only increases the significance of the policy siloes that exist between the two tiers of government. Further, often the research and advice produced by government departments is delivered only to their ministers and government, and is not released publicly.

As ACECQA does conduct similar exercises in relation to quality, the ECEC Commission should ensure that its work complements – rather than duplicates – that of ACECQA. The comparative advantage of the ECEC Commission is likely to be in providing advice on the operation of the quality regulation architecture itself – such as on how regulators are funded, how regulatory priorities are set and how quality outcomes are reported – rather than on the specific quality standards that are applied by state and territory governments.

## The ECEC Commission should be a custodian for research and data

### *Overseeing a research agenda*

The ECEC Commission should oversee an ECEC research agenda, including by coordinating, conducting and commissioning research into educational processes, innovative programs and policies. As discussed in paper 1, there are many important questions in the design and delivery of ECEC policy that need to be resolved using better evidence and analysis. Building on the work done by the Australian Education Research Organisation (AERO), the ECEC Commission should develop and implement a broad research agenda. It should also have a 'clearinghouse' function, in which it brings together and summarises the

findings and trends of research conducted on the sector by others. This should include the findings of any trials of innovative service delivery and funding models conducted by the Australian, state and territory governments (paper 5). Dissemination of research findings to educators and families would support a quality uplift across the ECEC sector.

In paper 1, this inquiry recommends that the responsibility for overseeing the research agenda should lay with AERO until the ECEC Commission is established. In its submission, AERO stated that it is 'best placed to lead the development and implementation of any national ECEC research agenda due to our existing research function as Australia's independent education evidence body and our established relationships with ECEC system leaders' (sub. 248, p. 2). While AERO has made – and will continue to make – important contributions to the ECEC evidence base and the resources available to educators and services, it may not have the capacity to deliver a broad ECEC research agenda. First, AERO conducts work over the entire education system, ranging from early childhood education to higher education and while their ability to view ECEC in the context of the wider education system is a strength, this may also impact the capacity of AERO to dedicate sufficient attention and resources to this one area of their wider scope. Second, AERO's research is focussed on supporting children's outcomes and educational practices. This is only part of the research agenda necessary for the ECEC system, which would also include research on labour force participation, effectiveness and efficiency of government and performance of the market.

The ECEC Commission would be better placed to oversee this research agenda. This view was also supported by inquiry participants (Centre for Research in Early Childhood Education, sub. 244, p. 11, The Front Project, sub. 227, p. 75, Social Ventures Australia, sub. 247, p. 15). However, it is important to recognise and leverage the expertise and relationships built by AERO over time, and AERO would still play a significant role contributing to the ECEC research agenda, including by undertaking research commissioned by the ECEC Commission.

### *Serving as a data custodian*

To monitor the ECEC system effectively, the ECEC Commission would require ongoing access to a wide range of data sources, including data collected by the Australian Bureau of Statistics, administrative data collected by the Australian, state and territory governments, operational data from service providers and survey data (including longitudinal surveys).

As discussed in section 10.1, while significant volumes of data are collected on many aspects of ECEC, data sharing practices across the ECEC system are inadequate. There is a reluctance from governments to share data with each other and with other system actors, such as researchers and peak bodies. This prevents governments and other actors from better understanding the ECEC system, and limits the evidence base available to them to make informed decisions about how they participate in the sector.

Hesitation from governments to share data is not unique to the ECEC sector. When reflecting on the data practices of governments in general, the Attorney-General's Department found that:

agency culture has a significant impact on the use and availability of data within government. Agencies regularly point to concerns such as privacy or security, but the real issue can be a reluctance to make data available. This reluctance can be driven by a concern for how an agency's information will be used by other entities (loss of control), concerns about the cost of changing systems and processes to enable sharing of data, and concerns about exposure to criticism and/or legal risk. ... In addition, public servants have a positive obligation to control access (the need to know principle), which makes increasing accessibility counter-cultural. (2016, p. 1)

ECEC is one area where the benefits from greater data access are likely to be relatively large – and good data sharing practices are an essential prerequisite if stewardship of the ECEC system is to be undertaken

effectively. Greater data sharing between government bodies would also reduce administrative burden for families and services.

As part of its data custodian role, the ECEC Commission should be empowered to:

- collate data across different government and private sector sources, for the purposes of monitoring the ECEC system performance against the objectives and targets specified in the national agreement and other key policies. As part of this, the ECEC Commission should be given the power to compel relevant data from governments if it is not provided
- develop and apply rules, protocols and procedures to facilitate the sharing of data. This should include sharing data across governments, with researchers and with sector actors such as service providers, as appropriate and where privacy, ethical and data sovereignty requirements can be met
- encourage government agencies and other holders of ECEC data to link their data sets, and provide a richer picture of the ECEC system
- assess applications for data access made by researchers and other users of data, and facilitate their access to data sets
- consider where there are gaps in data collections and recommend actions that governments should take to address these.

An independent entity, such as the ECEC Commission, would be better placed to publish data on the performance of the ECEC system against the national agreement targets, compared with other types of government bodies. Governments appear more willing to share data with independent agencies who are then able to aggregate and analyse the data, and reduce some of the risks associated with sharing data with other jurisdictions (similar to the roles played by the Australian Bureau of Statistics and the Steering Committee for the Review of Government Service Provision). The Productivity Commission's inquiry report into data availability and use also stated that 'an independent structure ... is especially important for the purposes of data release, where political considerations may prevent or delay the publication of certain data' (PC 2017, p. 253).

In working to facilitate greater data access and use, the ECEC Commission should collaborate with the Office of the National Data Commissioner and other relevant state and territory bodies that seek to support greater data sharing across governments.

### **Some roles should not be carried out by the ECEC Commission**

There are two main types of function that an ECEC Commission should *not* carry out. While these roles were raised as possible functions for the ECEC Commission in the draft report, they are not included in the final recommendation in response to submission feedback and further analysis.

#### ***Advising on program delivery***

As discussed above, the ECEC Commission should be tasked with providing high-level policy advice to governments, particularly where their national and system-wide view of the ECEC system can provide deeper insight into policy issues than individual governments can achieve on their own. However, the ECEC Commission should not be responsible for advising government on how specific programs should be delivered, such as providing recommendations on where grants should be awarded, or identifying where occasional care or integrated services should be located.

Government departments are, and should remain, the authorities that are ultimately accountable for funding decisions and for how programs are delivered. This means that if the ECEC Commission were to dedicate resources to determining the best use of program funding, the responsible department would also have to dedicate significant resources to undertake their due diligence on funding decisions, in order to fulfill their

own obligations when dispensing government funding (Bray and Gray, sub. 279, p. 6, Gabi Burman, sub. 317, p. 22).

Further, the way in which governments reach their decisions on service funding forms part of the system that must be held to account. If the ECEC Commission were responsible both for determining where grant funding is spent and demonstrating accountability for those decisions, it would create a conflict of interest for the ECEC Commission and reduce its credibility with the public, while also diluting the stewards' accountability. The ECEC Commission must therefore have some separation from determining how policies and programs are delivered, beyond making high-level recommendations for how programs could be improved.

### **Regulatory functions**

In the draft report, the Commission sought views from participants about whether ACECQA could be integrated into the ECEC Commission. Several inquiry participants expressed concerns should this occur (including the Victorian Government, sub. 311, p. 6; Social Ventures Australia, sub. 247, p. 15; Bray and Gray, sub. 279, p. 6). For example, to combine the two agencies risks conflating two disparate focuses – the functions of the ECEC Commission require a system-wide focus, while the functions undertaken by ACECQA require a narrower, highly detailed understanding on how to deliver quality in the ECEC system. Further, the Commission is mindful that shifting ACECQA's regulatory and quality functions into the ECEC Commission risks changing the ECEC Commission's relationship with the sector (Social Ventures Australia, sub. 247, p. 14), and that ACECQA's role in maintaining quality is a key function of the regulatory system that the ECEC Commission would be aiming to hold to account (Bray and Gray, sub. 279, p. 6).

Taking on this feedback, and after further consideration of the strengths of ACECQA and those of the ECEC Commission, the Commission has concluded that these bodies should remain separate. Further, the final recommendation for the scope of the ECEC Commission does not include any of the regulatory roles currently conducted by ACECQA, and the Commission would anticipate that ACECQA's assigned roles and responsibilities would remain largely unchanged following the creation of the ECEC Commission. As such, the focus of the ECEC Commission in relation to quality will be around monitoring the operation of the national quality regulatory system, rather than the specific quality standards that are being implemented.

## **Some key features of the ECEC Commission's structure**

### **The ECEC Commission should be independent and underpinned by legislation**

Independence is essential if the ECEC Commission is to be effective in promoting accountability and transparency, and would empower the Commission to have a longer-term focus. Operating as an independent body would enable the ECEC Commission to be impartial, candid and credible in holding governments to account for the outcomes of the system. Without independence from governments, any assessments undertaken would invariably be open to criticisms of bias or political interference, reducing the ECEC Commission's credibility in the eyes of other system actors and the public more broadly.

Establishing the ECEC Commission through legislation would be an important pillar of this independence. Because legislation can only be changed by Parliaments, and not solely by executive decision-making, providing a legislative underpinning reduces the risk that the ECEC Commission could be abolished, which could undermine progress towards a universal ECEC system.

As Social Ventures Australia said:

in addition to funding security, establishing the Commission through legislation will also help ensure durability over political cycles and increase the likelihood that the Commission will have confidence to provide independent assessment and recommendations without the risk of political interference. (sub. 247, p. 13)



Other advantages in legislating the ECEC Commission include that:

- legislation would provide an opportunity to formally articulate the ECEC Commission's remit and functions, and equip it with statutorily-defined powers in order to fulfil these effectively. This could be especially important for the ECEC Commission's proposed role as data custodian, for which there would be benefit in establishing a legislated power for the ECEC Commission to compel data from governments and disseminate it further where there are benefits to doing so (Goodstart Early Learning, sub. 277, p. 13)
- the Commission would have more certainty and scope to make longer-term investments to build their capability and to carry out their functions more effectively.

Several inquiry participants also pointed to the benefits of enshrining the ECEC Commission in legislation. For example, the Minderoo Foundation/Thrive by Five said:

we recommend that the Early Childhood Commission ... be established through legislation ... passed by the federal, state and territory governments, to ensure the Early Childhood Commission has appropriate authority and resources to fulfill its role, completes its functions in a timely manner, and is sustainable into the future. (sub. 288, p. 9)

Given that both the Australian and state and territory governments should have input into the ECEC Commission's work, there are two possible ways that it can be legislated. Perhaps the simplest would be for the ECEC Commission to be constituted through Commonwealth legislation, but with the input (and ideally agreement) of state and territory governments. In such a case, the ECEC Commission would ultimately be accountable to the Commonwealth Parliament, but provisions could be built into the legislation to ensure states and territories have a degree of oversight as well.

The alternative would be for the ECEC Commission to be constituted through corresponding legislation in both the Australian Parliament and the Parliaments of the states and territories – a practical example of which can be seen in the introduction of the NQF and the establishment of ACECQA through the *Education and Care Services National Law Act 2010*, which was passed by all state and territory Parliaments. This approach would give the ECEC Commission a broader foundation, and greater buy-in from all jurisdictions, but would require a much more complex process.

### **The ECEC Commission should be led by an independent board**

To further enhance the independence and credibility of the ECEC Commission, it should be led by an independent board that would oversee its operation and strategic direction. Board members should be statutory appointments (under the enabling legislation for the ECEC Commission) with fixed terms of service – meaning that they would be protected from dismissal if they presented assessments or advice critical of how governments are exercising their stewardship responsibilities.

The value of an independent board was recognised by inquiry participants, including Social Ventures Australia:

SVA encourages the Productivity Commission to consider options to ensure an ECEC Commission to is guided by an independent, skills-based board and a governance structure reflecting its independence from annual Departmental budget cycles. (sub. 247, p. 13)

Ideally, board members would be appointed with the support of all governments, but if this proves impractical, a situation where a set number of board members are appointed by the Australian Government and a set number appointed by the state and territory governments would also be a viable approach.

In appointing board members, an important consideration for governments should be to ensure that a broad cross-section of skills, expertise and lived experiences are represented. This diversity would add to the credibility of the ECEC Commission and provide it with a richer knowledge base to draw upon as it exercises its functions. Experience within government education departments is a valid skillset that could inform board

appointments, but only a small number of board members should have this background, with other positions filled by individuals with other forms of experience in the sector. There are a range of backgrounds which the Commission considers would add important capability to the board, including:

- representatives of service providers (ELACCA, sub. 299, p. 59; Goodstart Early Learning, sub. 277, p. 17; Centre for Policy Development, sub. 282, p. 23)
- representatives of parents
- culturally and linguistically diverse people (Minderoo Foundation/Thrive by Five, sub. 288, p. 27)
- people with disability (Minderoo Foundation/Thrive by Five, sub. 288, p. 27)
- Aboriginal and Torres Strait Islander people (Minderoo Foundation/Thrive by Five, sub. 288, p. 27).

### **The ECEC Commission should have the expertise to work with Aboriginal and Torres Strait Islander people, services and communities**

The perspectives of Aboriginal and Torres Strait Islander families and service providers will be critical to the ECEC Commission, reflecting the importance of cultural safety in ECEC for Aboriginal and Torres Strait Islander children, families and educators, and the unique role that Aboriginal community-controlled organisations play – and the unique challenges they face – in the sector (papers 2 and 7).

The ECEC Commission must uphold the commitments of governments under the National Agreement on Closing the Gap – including implementing the Agreement’s priority reforms. Priority Reform 3 – which relates to the ‘systemic and structural transformation of mainstream government organisations to improve accountability and respond to the needs of Aboriginal and Torres Strait Islander people’<sup>7</sup> – highlights the importance of embedding and practicing meaningful cultural safety and effective engagement with Aboriginal and Torres Strait Islander people in the ECEC Commission’s work. However, this can only be achieved by also sharing decision-making with Aboriginal and Torres Strait Islander people (Priority Reform 1), empowering the community-controlled sector (Priority Reform 2) and sharing relevant, contextualised data (Priority Reform 4).

The presence of board members who are Aboriginal and/or Torres Strait Islander people and are able to represent the experiences and priorities of Aboriginal and Torres Strait Islander families and/or services will be important in building trust and credibility with Aboriginal and Torres Strait Islander communities. The ECEC Commission must make deliberate investments to build relationships with Aboriginal and Torres Strait Islander communities, and develop cultural capability across its entire organisation to ensure that the Commission works effectively and has meaningful impact. As such, Aboriginal and Torres Strait Islander people – including policy makers, community representatives and sector leaders – should be involved in the process of establishing and legislating the ECEC Commission to ensure its scope, structure and work processes promote expertise and cultural safety both within the Commission and the work it undertakes.

In their submission, SNAICC provided an overview of how the ECEC Commission can align with and embed the four Priority Reforms of the National Agreement on Closing the Gap in practice.

If an ECEC Commission is to be established, the creation and functioning of the body must align with and embed the four Priority Reforms of the National Agreement on Closing the Gap. This includes:

- Ensuring the ECEC Commission is designed in partnership with Aboriginal and Torres Strait Islander people, peak bodies and service organisations to ensure the functions and scope complement, rather than displace, Aboriginal and Torres Strait Islander sector leadership
- Embedding shared decision-making into any Commission functions that impact Aboriginal and Torres Strait Islander children, families or organisations

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<sup>7</sup> National Agreement on Closing the Gap, s. 58.

- Ensuring the ECEC Commission mandate includes specific focus on building the community controlled sector and ensuring this is embedded in all its functions
- Ensuring the ECEC Commission mandate includes specific focus on transforming mainstream organisations to ensure cultural safety and ensuring this is embedded in all its functions
- Shared access to data and information in accordance with Indigenous Data Sovereignty principles. (sub. 290, p. 41)

The NSW Aboriginal Education Consultative Group also emphasised that:

the involvement of consultative groups like the NSW AECG is crucial in ensuring that the voices and perspectives of Aboriginal and Torres Strait Islander Peoples are heard and elevated within ECEC decision-making processes. (sub. 217, p. 21)

It will also be important that the ECEC Commission engage with the ECPP (described above) in the course of its work, particularly given that the objectives of the ECPP include enabling Aboriginal and Torres Strait Islander representatives to negotiate and implement agreements with governments, and undertaking and commissioning research that advances the priority reforms of the National Agreement on Closing the Gap (DoE 2024a; ECPP 2023, p. 2). As such, it is essential that the workplan of the ECEC Commission complements – rather than competes with – the work of the ECPP.

### **The ECEC Commission should be adequately resourced**

The ECEC Commission needs to be sufficiently resourced to do its job well. Given its relatively narrow focus, it would not need to be especially large – a few, relatively small teams may be all that is needed (with the option to use contracts for larger, infrequent tasks, such as collecting cost data from services (paper 6)). The ECEC Commission would also benefit from employing staff with experience with different states and territories' ECEC systems, reflecting the importance of the Commission having a nation-wide understanding and perspective.

Funding for the ECEC Commission should be negotiated as part of the broader national agreement for ECEC (recommendation 10.1). Recognising that the work of the ECEC Commission would benefit all governments – by providing recommendations on policy, improving the accountability of their ECEC systems and facilitating greater access to data – the Commission's strong preference would be for all governments to contribute to the funding of the ECEC Commission. A less desirable model would be for the Australian Government to be the sole (or majority) funder. While this approach might still be sustainable, it may detract on the Commission's credibility and influence. If the Australian Government were the predominant funder of the ECEC Commission, there is a case that it should have more control over board appointments and the Commission's work program compared to a situation where funding was equally shared with the states and territories.



### **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.

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## Abbreviations

<b>ABS</b>	Australian Bureau of Statistics
<b>ACCC</b>	Australian Competition and Consumer Commission
<b>ACFCs</b>	Aboriginal Child and Family Centres
<b>ACCO</b>	Aboriginal community-controlled organisation
<b>ACCS</b>	Additional Child Care Subsidy
<b>ACECQA</b>	Australian Children's Education and Care Quality Authority
<b>AEDC</b>	Australian Early Development Census
<b>AERO</b>	Australian Education Research Organisation
<b>AIC-DEA</b>	Assistance for Isolated Children Distance Education Allowance
<b>AIFS</b>	Australian Institute of Family Studies
<b>AIHW</b>	Australian Institute of Health and Welfare
<b>AITSL</b>	Australian Institute for Teaching and School Leadership
<b>ANZSCO</b>	Australian and New Zealand Standard Classification of Occupations
<b>ANZSIC</b>	Australian and New Zealand Standard Industrial Classification
<b>ASQA</b>	Australian Skills Quality Authority
<b>ATI</b>	Adjusted taxable income
<b>ATO</b>	Australian Taxation Office
<b>BBF</b>	Budget Based Funded
<b>CALD</b>	Culturally and linguistically diverse
<b>CAPITA</b>	Comparative Analysis of Personal Income Tax and Transfers in Australia
<b>CBDC</b>	Centre-based day care
<b>CCB</b>	Child Care Benefit
<b>CCCF</b>	Community Child Care Fund
<b>CCR</b>	Child Care Rebate
<b>CCS</b>	Child Care Subsidy
<b>COAG</b>	Council of Australian Governments
<b>CPI</b>	Consumer Price Index
<b>DAMA</b>	Designated Area Migration Agreement
<b>DDA</b>	<i>Disability Discrimination Act 1992 (Cth)</i>
<b>DEWR</b>	Department of Employment and Workplace Relations
<b>DSE</b>	<i>Disability Standards for Education 2005 (Cth)</i>
<b>ECCD SSP</b>	Early Childhood Care and Development Sector Strengthening Plan

<b>ECEC</b>	Early Childhood Education and Care
<b>ECT</b>	Early childhood teacher
<b>EMM</b>	Education Ministers Meeting
<b>EMTR</b>	Effective marginal tax rate
<b>FDC</b>	Family day care
<b>FTB</b>	Family Tax Benefit
<b>FTE</b>	Full-time equivalent
<b>GDP</b>	Gross Domestic Product
<b>GST</b>	Goods and Services Tax
<b>HALT</b>	Highly accomplished and lead teachers
<b>HCCS</b>	Higher Child Care Subsidy
<b>HILDA</b>	Household, Income and Labour Dynamics in Australia (HILDA) Survey
<b>IA</b>	Inclusion Agency
<b>ICFC</b>	Integrated Child and Family Centre
<b>IDF</b>	Inclusion Development Fund
<b>IDF-AE</b>	IDF Subsidy for an Additional Educator
<b>IDFM</b>	Inclusion Development Fund Manager
<b>IHC</b>	In Home Care
<b>ISP</b>	Inclusion Support Program
<b>IS Portal</b>	Inclusion Support Portal
<b>/TTL Support</b>	Immediate/Time-Limited Support
<b>LDC</b>	Long day care
<b>LSAC</b>	Longitudinal Study of Australian Children
<b>LSIC</b>	Longitudinal Study of Indigenous Children
<b>MACS</b>	Multifunctional Aboriginal Children's Services
<b>NAPLAN</b>	National Assessment Program — Literacy and Numeracy
<b>NDIS</b>	National Disability Insurance Scheme
<b>NPA</b>	National Partnership Agreement
<b>NQF</b>	National Quality Framework
<b>NQS</b>	National Quality Standard
<b>OCC</b>	Occasional care
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OOP</b>	Out-of-pocket (expenses)
<b>OSHC</b>	Outside School Hours Care
<b>PPL</b>	Paid parental leave scheme
<b>PRA</b>	Preschool Reform Agreement



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<b>SEIFA</b>	Socio-Economic Index for Areas
<b>SES</b>	Socio-economic status
<b>SIH</b>	Survey of Income and Housing
<b>SIP</b>	Strategic Inclusion Plan
<b>SRS</b>	Schooling Resource Standard
<b>SRF</b>	School Readiness Funding
<b>SSP</b>	Sector Strengthening Plan
<b>STP</b>	Single Touch Payroll
<b>VET</b>	Vocational Education and Training
<b>WDR</b>	Workforce disincentive rate
<b>WPI</b>	Wage Price Index
<b>YBFS</b>	Year before full-time school