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Strengthening quality and transparency in early childhood education and care

Productivity Commission submission

Submission to the Senate Standing Committee inquiry into the quality and safety of Australia’s early childhood education and care system

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Introduction

The Productivity Commission (PC) welcomes the opportunity to make a submission to the Senate Education and Employment References Committee’s inquiry into thequality and safety of Australia’s early childhood education and care system.

Early Childhood Education and Care (ECEC) can support better outcomes for children – particularly those experiencing disadvantage or vulnerability – throughout their lives. ECEC is also a critical enabler of parents’ participation in the labour force, especially mothers. As such, a well‑functioning ECEC system – one that is accessible, affordable, high‑quality, inclusive and safe – can provide net benefits not only for the children and families who use services, but also for the Australian community more broadly.

In 2023‑24, the PC undertook a public inquiry into Australia’s ECEC sector at the request of the Australian Government. The inquiry’s final report was released in September 2024. It contains 56 recommendations to improve Australia’s ECEC sector, and to transition to a universal system – where every child aged 0–5 whose family wishes to use ECEC would be able to access high‑quality services for at least 30 hours or three days a week for 48 weeks of the year (PC 2024a).

This submission summarises aspects of the report that are relevant to this inquiry’s terms of reference, namely regarding ECEC quality regulation, workforce, funding and system transparency.

In addition to the 2023‑24 inquiry, the annual *Report on Government Services* – produced by the Steering Committee for the Review of Government Service Provision with the PC as secretariat – reports on the performance of ECEC services (SCRGSP 2025). The PC also produces the *Closing the Gap Information Repository,* which reports data on the targets and indicators agreed as part of the National Agreement on Closing the Gap (PC 2025). This includes reporting against outcome 3 (early childhood education) and outcome 4 (early child development) of the Agreement.

While more services are meeting the required standards, there is room to strengthen sector regulation

ECEC is regulated with the aim of ensuring that providers are delivering quality services to children and families. Like other human services, regulating ECEC is necessary because failure to deliver a minimum level of quality can have serious harmful effects for children attending ECEC. Beyond the prevention of harm, effective ECEC regulation can assist with realising the additional benefits children can obtain from attending ECEC (such as strengthened development and learning).

Since the introduction of the National Quality Framework (NQF), there has been a general improvement in quality ratings across the ECEC sector. Australian Children’s Education and Care Quality Authority (ACECQA) data shows that, as of 1 April 2024, about 90% of assessed ECEC services were rated as meeting the National Quality Standards (NQS) or higher – an increase from about 60% in 2013 (PC estimates using ACECQA 2024d). This improvement in quality has taken place at the same time as considerable growth in the number of ECEC services, from about 14,000 services in 2013 to about 17,000 services in 2023.

Despite improvements in quality and growth of the sector, there remains a relatively small – but still significant – minority of services that are not meeting the NQS.[[1]](#footnote-2) These services are diverse and exist across all types of providers, service types and geographic areas. But some characteristics are overrepresented in services that do not meet the NQS; they are more likely to be:

* school or private for‑profit providers
* family day care and outside school hours care services
* located in remote and very remote areas
* located in areas with relatively high levels of disadvantage (ACECQA 2024d).

Most services that are rated as not meeting the NQS are subsequently rated as meeting the Standards when they are next assessed (ACECQA 2024c, p. 12). This indicates that not meeting the NQS is only temporary for many services. However, a persistent minority of services are underperforming for an extended period. In April 2024, about 6% of the services (or about 100 services) rated as not meeting the NQS had held this rating for ten 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 providers each making up just over half of all services (PC estimates using ACECQA 2024d).

Clear and consistent courses of regulatory action are needed to respond to services not meeting the NQS. To this end, the PC recommended that regulatory authorities and ACECQA publish consistent guidance outlining that it is not acceptable for services to be repeatedly rated as Working Towards the NQS (inquiry recommendation 8.5). Further, the PC recommended that, where a service is assessed as Working Towards the NQS, they should face a broadly consistent, escalating range of regulatory measures, namely:

* the first instance of Working Towards the NQS should generate increased support from regulatory authorities, and 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 provider
* if a service has been rated as Working Towards the NQS for three consecutive assessments and has not made meaningful progress towards meeting the NQS, the relevant regulator should issue a compliance notice to the provider, with a financial penalty issued if the service has not made changes to meet the NQS by the end of the compliance notice period
* if the service has not made progress following a financial penalty, it should be suspended, and if issues are not resolved after this suspension, approval should be cancelled. However, suspensions and cancellations should be viewed as a last resort, given the impact these actions have on children’s and families’ access to ECEC (recommendation 8.5).

The time between quality assessments is also unacceptably long, to the point that the risk of poor‑quality service provision is increased and the relevance and value of quality ratings is undermined. PC analysis of ACECQA data found that targets initially prescribed in the National Partnership Agreement on the National Quality Agenda were well off being met – for example, while it was envisaged in the Agreement that services assessed as Working Towards the NQS would be reassessed each year, our analysis showed that about one‑third of services with a Working Towards rating went more than four years between assessments (PC estimates using ACECQA 2024a).

The PC concluded that the resourcing of regulators to carry out assessment and rating visits, alongside their other functions, did not seem sufficient to allow operating services to be assessed in reasonable timeframes and that this should be addressed as a matter of priority. The PC went on to recommend that the Australian Government should provide funding to the state and territory regulatory authorities that administer the NQF to allow for sufficient monitoring of quality and support quality improvement. This should be guided by an independent review to determine a regulatory resourcing standard sufficient for effective quality regulation (recommendation 8.3).

Additionally, the PC identified opportunities to further strengthen ECEC quality regulation by:

* requiring regulatory authorities to publish an annual report detailing progress against key objectives over the previous 12‑month period, including key metrics on their assessment activity, their assessment timeframes and their resourcing (recommendation 8.1)
* commissioning an independent review of the NQF, focussing on the way in which services are assessed against the NQS and if assessments could be made more accurate, consistent and efficient (recommendation 8.2)
* improving communication of quality ratings to families, including by ensuring families are informed when their service receives a new quality rating and requiring services to inform families of their quality rating before they enrol (recommendation 8.4)
* state and territory governments facilitating a more consistent suite of support for ECEC services, including more intensive programs for services not meeting the NQS, as well as education, training and information to assist all services to foster continuous improvement (recommendation 8.7).

Supporting paper 8 (in volume 2) of the PC’s final inquiry report contains its full analysis of ECEC quality regulation (PC 2024b).

The sector’s workforce is critical for delivering high‑quality ECEC

The 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. A high‑quality ECEC workforce is important for unlocking the developmental benefits that can arise from children attending ECEC.

PC analysis of data collected through the 2021 ECEC Workforce Census – the most recent data available to the PC at the time – found that over 200,000 people worked in ECEC in a typical week, and about 93% were women. About 90% of sector workers held an ECEC‑related qualification in 2021 – an increase from about 70% in 2010. This reflects in part the introduction of the NQF, which generally lifted the minimum qualification requirements for staff working in the sector (ACECQA 2017; SRC 2022).

Throughout the course of its inquiry, the PC heard from families about how influential and supportive ECEC workers were in their children’s lives. We also heard that children who attended ECEC services valued continuity in their educators and teachers – which allowed them to build ongoing relationships and supported them to feel safe and engaged while at services. This suggests that high levels of staff disruption, uncertainty and turnover can damage the quality of ECEC services in the eyes of families and children.

The PC’s inquiry took place at a time where significant workforce constraints were impacting the sector, which were impeding families’ access to quality ECEC. Staff vacancy and turnover rates in the sector were generally higher than those of the broader economy, and the inquiry heard that some services had to close rooms, or in some cases, cease operating, because they could not attract enough staff. Data on staffing waivers also showed that the proportion of services that held a staffing waiver was relatively high (at nearly 10% in 2023), relative to earlier years (ACECQA 2024b).

These constraints were partly cyclical – including impacts arising from the aftereffects of the COVID‑19 pandemic – and the most recent vacancy data available to the inquiry showed some moderation in vacancy rates in late 2023 and early 2024. Given that labour market conditions can shift quickly, it is possible the cyclical factors contributing to workforce constraints in the sector have further moderated since the inquiry’s conclusion, although the PC has not undertaken any comprehensive analysis to confirm this.

However, there are also structural factors that can impede the longer‑term supply of ECEC workers and adversely impact families’ access to high‑quality ECEC.

One of these factors is pay. Analysis of Australian Bureau of Statistics and Jobs and Skills Australia data that was available to the PC at the time of its inquiry showed that the pay of ECEC workers was relatively low and compared unfavourably to other occupations with similar or lower qualification requirements.[[2]](#footnote-3) A range of factors can contribute to low wages in the sector, including: the market‑based nature of ECEC provision, which can incentivise services to compete on price rather than quality; a general reliance on awards to set pay and conditions; limited capacity of services to fund wage increases; and preconceptions about the nature and value of work in the sector.

That said, there have been developments in the workplace relations environment of the sector since the PC’s inquiry concluded. These include:

* the introduction of the Australian Government’s *Early Childhood Education and Care Worker Retention Payment* (Australian Government Department of Education 2025)
* Fair Work Commission approval of the *Early Childhood Education and Care Multi‑Employer Enterprise Agreement 2024–26*, which arose out of a supported bargaining process (Fair Work Commission 2025a)
* continuing consideration by the Fair Work Commission around the potential for gender‑based undervaluation in the *Children Services Award 2010* (Fair Work Commission 2025b)*.*

The PC has not examined the impacts of these developments on the remuneration of workers in the sector, nor any subsequent impacts they might have on families’ access to quality and safe ECEC. However, the broad nature of these developments means that their potential impact on the pay and conditions of ECEC workers is significant. To the extent that these developments are contributing to higher pay for ECEC workers, they also have the potential to enhance recruitment and reduce turnover in the sector, which in turn, can help to promote quality and stable services for families.

There are other levers – beyond policy settings related to pay and conditions – that governments can use to support the ECEC workforce. For example, effective qualification and career pathways are vital for building and maintaining an ECEC workforce with the skills necessary to deliver quality and safe services to families and children, and for ensuring that talented and dedicated staff are attracted to (and retained in) the sector.

Career pathways in the sector can be inaccessible, opaque or difficult to navigate – something which can encourage high‑quality workers to leave ECEC and move to sectors with more established progression opportunities, such as schools. There are opportunities for governments to strengthen qualification and career pathways in ECEC, including by:

* working with universities and the sector to develop and promote accelerated degree programs through which experienced Diploma‑qualified educators can upskill to become Early Childhood Teachers, and to provide wrap‑around supports for educators undertaking university level qualifications (recommendation 3.5)
* state and territory governments ensuring that Early Childhood Teachers working in ECEC settings in their jurisdictions are required to be registered with their relevant teacher registration body and that Early Childhood Teachers have a pathway to become a Highly Accomplished and Lead Teacher should they be willing and able to meet the requirements to do so (recommendation 3.7)
* developing bespoke traineeship pathways for family day care that recognise and incorporate the unique features of providing ECEC in this setting (recommendation 3.4).

It is also important to ensure that the qualifications that ECEC workers are accessing are of good quality. The PC heard some concerns about the quality and work readiness of Certificate III and Diploma graduates who undertook ECEC‑related Vocational Education and Training (VET) courses. These are critical qualifications and much hinges on getting them right – both in terms of ensuring there are enough new educators entering the sector, and ensuring that they are entering the sector with the right skills to deliver high‑quality ECEC. The PC recommended that HumanAbility – the Jobs and Skills Council responsible for VET package development for the ECEC sector – commission an evaluation of these qualifications, including examining whether these courses are meeting the needs of the sector and providing graduates with the skills needed to be job‑ready (recommendation 3.2).

Access to professional development opportunities is another factor that can influence the workforce’s capacity to deliver high‑quality ECEC. Professional development can lead to higher quality services by ensuring ECEC staff remain up‑to‑date with the latest research about how children learn, grow and develop, and providing them with opportunities to maintain, improve or broaden their skills and knowledge. However, difficulty getting time off work or meeting costs can present barriers for ECEC workers wishing to access professional development. The PC recommended that governments provide financial support for the ECEC workforce to undertake high‑value professional development activities, including activities that build staff capability to understand and apply the NQS and nationally approved learning frameworks (recommendation 3.11).

The PC’s full analysis of the ECEC workforce – including further recommendations – can be found in supporting paper 3 of its final inquiry report (PC 2024b).

Building on the existing funding arrangements is the best way to improve affordability

Decisions about how governments fund families’ use of ECEC – both around the quantum of funding and how it is delivered – can have a significant impact on the outcomes they experience, including the quality of the services they receive.

There are many different potential ways to fund the ECEC sector. The appropriateness of these different funding approaches should be assessed against a set of desirable goals, namely the extent that the funding system delivers: equity (or inclusivity); affordability; quality; accessibility (or availability); simplicity; efficiency; and integrity. Such an assessment can help highlight the trade‑offs that exist across different funding approaches.

Mixed funding models, that draw on both demand‑side and supply‑side instruments to fund the sector, perform strongly against these principles, especially with respect to affordability, accessibility, equity, quality and efficiency. A mixed model is the funding approach operating in Australia, and it provides a sound baseline to support families’ access to quality ECEC.

Other approaches, like flat‑fee models, generally do not perform as strongly against these principles. In the case of flat‑fee approaches – where funding is predominately delivered through supply‑side instruments, supplemented by all families paying a standard daily or weekly fee – there are benefits in terms of simplicity, but their regressive nature (where lower income families a required to pay a higher proportion of their income for services than higher income families) mean that such approaches perform poorly against a principle of affordability. Further, the need for governments to set supply side funding levels with precision or risk under‑ and/or over‑funding service providers also risks unintended impacts on equity, quality and availability.

There may also be substantial transition costs associated with shifting significantly away from the mixed funding model currently in use.

Given these costs, and the strength of the mixed funding model against the key design principles set out above, the focus should be on delivering improvements to the existing ECEC funding architecture rather than embarking on more comprehensive change to funding arrangements. In its inquiry report, the PC identified ways to enhance funding arrangements to enable universal access to ECEC, including by:

* developing and implementing a new needs‑based Early Childhood Education and Care Inclusion Fund. This fund should have three streams – a *Disability and* *Complex Needs Inclusion Stream* to support children with high needs; a *Mainstream Inclusion Stream* that provides funding to services for inclusion needs based on the characteristics of the community they serve; and an *Inclusion Fund Grant Stream* to enable services to apply for support to upgrade physical facilities to ensure all children can be included (recommendation 2.3)
* providing additional financial support in markets where it is clear that ECEC providers are unlikely to invest (recommendation 5.2)
* modifying the Child Care Subsidy to: remove the activity test; raise the subsidy rate for families with annual adjusted taxable income at or below $80,000 to 100% of their fee (up to and including the hourly rate cap); and increase the Higher Child Care Subsidy rate (recommendation 6.1)
* changing the indexation approach used for setting the Child Care Subsidy hourly rate cap so it is either:
  + the higher of either a 3% indexation floor or a composite index comprising 75% the Wage Price Index and 25% the Consumer Price Index, or
  + a rate prescribed by the Minister of Education (recommendation 6.3).

Potential funding models for the ECEC sector are explored in more detail in supporting paper 9 of the PC’s inquiry report.

An ECEC Commission would promote system transparency and improve data sharing

There are many government entities operating in the ECEC system, across all jurisdictions. But there is no dedicated body that monitors the system’s performance against its objectives and takes a comprehensive national view of ECEC, including its availability, quality and outcomes. There is limited transparency and accountability – both from governments and service providers – and despite substantial collections of data, data is not always used to improve decision making.

In its inquiry report, the PC recommended that the Australian, state and territory governments establish an independent ECEC Commission to fulfil critical monitoring, advice and data management functions in the ECEC sector (recommendation 10.2). Figure 1 sets out the full range of possible functions an ECEC Commission could undertake.

Figure 1 – Potential functions of an ECEC Commission

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| **Hold the stewards to account** | Assess and report on governments’ progress on commitments made under the national agreement and other relevant agreements and strategies  Report on key metrics that can inform assessments of the system’s performance  Collate and publish information on how governments are exercising their functions in the system  Conduct or commission evaluations of government programs |
| **Advise governments on how to better steward the system** | Make recommendations on what governments can do to improve their stewardship of the system. This should include making public recommendations to governments on:   * + widespread availability gaps and trends   + how to better connect the ECEC system with other child and family services   + the effects of the hourly rate cap on families and services   + steps that can be taken to maintain or improve the quality regulation system   + the impacts of inconsistencies across jurisdictions on families’, services’ and employees’ experiences with the system   + other matters at the request of the Australian, state and territory governments |
| **Act as a custodian for research and data** | Oversee the ECEC research agenda, including by coordinating, conducting and commissioning research into educational processes, innovative programs and policies  Act as a data custodian for the sector, including by:   * + collating and publishing data on system performance   + developing rules, protocols and procedures to facilitate the sharing of data   + identifying where there are gaps in current data collection arrangements |
| **What the ECEC Commission should not do** | Make any funding or policy decisions, manage any funding or administer any programs  Focus on particular local markets  Regulate any services – either with respect to quality or price  Provide advice for non-government actors  Provide ‘hard’ recommendations (for example recommending that the hourly rate cap should be set at a particular dollar figure) |

Source: PC 2024a, p. 52.

A core function of the ECEC Commission should be to promote transparency and accountability across the system by monitoring and publicly reporting on how governments are exercising their functions and how well the ECEC system – as a whole – is performing. This stands in contrast to current arrangements, where accountability measures are often piecemeal and system‑wide accountability for the sector’s overall outcomes and performance is lacking.

Further, the ECEC Commission should serve as a data custodian for the sector. As part of this custodian role, the ECEC Commission should be empowered to:

* collate data across different government and private sector sources, for the purposes of monitoring ECEC system performance. 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 data sharing. 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.

Supporting paper 10 of the PC’s inquiry report examines how an ECEC Commission could work in detail, including consideration of its design, composition and resourcing.

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1. ‘Not meeting’ the NQS refers to both services rated as Working Towards the NQS and Significant Improvement Required – noting that at April 2024, only eight (out of nearly 16,000) assessed services were rated in the latter category (ACECQA 2024c). [↑](#footnote-ref-2)
2. PC estimates using ABS *Employee Earnings and Hours*, *Australia, 2023* and Jobs and Skills Australia *Occupations profiles data, February 2024*. [↑](#footnote-ref-3)