



Australian Government
Productivity Commission

Childcare and Early Childhood Learning

Productivity Commission
Issues Paper

December 2013

The Issues Paper

The Commission has released this issues paper to assist individuals and organisations to prepare submissions to the inquiry. It contains and outlines:

- the scope of the inquiry
- matters about which the Commission is seeking comment and information
- information about how you can get involved in the inquiry.

Participants should not feel that they are restricted to comment only on matters raised in the issues paper. The Commission wishes to receive information and comment on issues which participants consider relevant to the inquiry's terms of reference.

Key inquiry dates

Announcement of terms of reference	Sunday 17 November 2013
Release of issues paper	Thursday 5 December 2013
Due date for initial submissions	Monday 3 February 2014
Release of draft report	early July 2014
Public hearings on the draft report	to be advised
Due date for final submissions	to be advised
Final report to Government	31 October 2014

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The Productivity Commission

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

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

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au) or by contacting Media and Publications on (03) 9653 2244 or email: maps@pc.gov.au

Terms of reference

Child Care and Early Childhood Learning

I, Joseph Benedict Hockey, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act* 1998, hereby request that the Productivity Commission undertake an Inquiry into Child Care and Early Childhood Learning.

Background

The Australian Government is committed to establishing a sustainable future for a more flexible, affordable and accessible child care and early childhood learning market that helps underpin the national economy and supports the community, especially parent's choices to participate in work and learning and children's growth, welfare, learning and development.

The market for child care and early childhood learning services is large, diverse and growing, and it touches the lives of practically every family in Australia. Almost all children in Australia participate in some form of child care or early learning service at some point in the years before starting school. In 2012, around 19,400 child care and early learning services enrolled over 1.3 million children in at least one child care or preschool programme (comprising around 15,100 approved child care services and 4,300 preschools). The Australian Government is the largest funder of the sector, with outlays exceeding \$5 billion a year and growing. It is important that this expenditure achieves the best possible impact in terms of benefits to families and children as well as the wider economy.

The child care and early learning system can be improved because:

- families are struggling to find quality child care and early learning that is flexible and affordable enough to meet their needs and to participate in the workforce
- a small but significant number of children start school with learning and developmental delays
- there are shortfalls in reaching and properly supporting the needs of children with disabilities and vulnerable children, regional and rural families and parents who are moving from income support into study and employment
- services need to operate in a system that has clear and sustainable business arrangements, including regulation, planning and funding

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- there is a need to ensure that public expenditure on child care and early childhood learning is both efficient and effective in addressing the needs of families and children.

The Australian Government's objectives in commissioning this Inquiry are to examine and identify future options for a child care and early childhood learning system that:

- supports workforce participation, particularly for women
- addresses children's learning and development needs, including the transition to schooling
- is more flexible to suit the needs of families, including families with non-standard work hours, disadvantaged children, and regional families
- is based on appropriate and fiscally sustainable funding arrangements that better support flexible, affordable and accessible quality child care and early childhood learning.

Scope of the inquiry

In undertaking this Inquiry, the Productivity Commission should use evidence from Australia and overseas to report on and make recommendations about the following:

- 1) The contribution that access to affordable, high quality child care can make to:
 - a) increased participation in the workforce, particularly for women
 - b) optimising children's learning and development.
- 2) The current and future need for child care in Australia, including consideration of the following:
 - a) hours parents work or study, or wish to work or study
 - b) the particular needs of rural, regional and remote parents, as well as shift workers
 - c) accessibility of affordable care
 - d) types of child care available including but not limited to: long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care
 - e) the role and potential for employer provided child care
 - f) usual hours of operation of each type of care
 - g) the out of pocket cost of child care to families
 - h) rebates and subsidies available for each type of care
 - i) the capacity of the existing child care system to ensure children are transitioning from child care to school with a satisfactory level of school preparedness
 - j) opportunities to improve connections and transitions across early childhood services (including between child care and preschool/kindergarten services)
 - k) the needs of vulnerable or at risk children
 - l) interactions with relevant Australian Government policies and programmes.

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- 3) Whether there are any specific models of care that should be considered for trial or implementation in Australia, with consideration given to international models, such as the home based care model in New Zealand and models that specifically target vulnerable or at risk children and their families.
 - 4) Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances.
 - 5) The benefits and other impacts of regulatory changes in child care over the past decade, including the implementation of the National Quality Framework (NQF) in States and Territories, with specific consideration given to compliance costs, taking into account the Government's planned work with States and Territories to streamline the NQF.
 - 6) In making any recommendations for future Australian Government policy settings, the Commission will consider options within current funding parameters.

Process

The Commission is to undertake an appropriate public consultation process including holding hearings, inviting public submissions and releasing a draft report to the public.

The final report should be provided before the end of October 2014.

J B Hockey
Treasurer

[Announced 17 November 2013]

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1 What is this study about?

This issues paper is intended to assist people preparing a submission to the Productivity Commission's new inquiry into childcare and early childhood learning in Australia. It provides some general background information and raises questions that can assist in preparing a submission. Given the scope of the terms of reference, the issues addressed in this paper and the guiding questions cover only a portion of the possible issues. In preparing a submission, participants are encouraged to comment on any or all issues they believe are relevant to the inquiry.

What has the Commission been asked to do?

The Australian Government has requested that the Commission examine childcare and early childhood education in Australia and recommend options for improving current arrangements. The background to the terms of reference (TOR) note the Australian Government's commitment 'to establishing a sustainable future for a more flexible, affordable and accessible child care and early childhood learning market that helps underpin the national economy and supports the community, especially parent's choices to participate in work and learning and children's growth, welfare, learning and development'.

Parents use childcare most commonly to allow them to work on a full time, part time or casual basis. Given their typically greater role in caring for children (particularly younger children), access to affordable quality childcare can be a more significant factor in workforce participation for women than men. The educational and social benefits that childcare and early learning services offer children are also a significant consideration for many families in their decision to use such services.

Some parents also have a need for childcare to enable them to study, undertake training or participate in other activities outside the home. Occasional childcare services are used, for instance, by parents for short periods whilst they attend appointments, shop, play sport, carry out domestic chores, or as respite care that simply gives a parent a break from full time childcare.

The TOR direct the Commission to examine (among other aspects):

- the contribution that access to affordable, high quality childcare can make to:
 - increased participation in the workforce, particularly for women, and
 - optimising children's learning and development
- the future needs of childcare in Australia
- affordability of childcare

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- accessibility, flexibility and options for improving choice
 - regulatory change in childcare over the last decade — but taking into account the Australian Government’s planned work with the states and territories to streamline the current quality framework arrangements.

In making recommendations for future policy and program settings, the Commission will be considering options for improving early childhood education and care (ECEC) regulation and funding, including options that are ‘within current funding parameters’, as directed by the TOR. The Commission’s focus in developing options will be ensuring the highest net community benefits are generated and options may include measures that enable cost savings for parents, providers and/or government.

Government budget constraints and the costs and inefficiencies associated with raising taxation revenue underscore the importance of well-targeted spending on ECEC. Any expenditure on these services means that potential net benefits for the community from alternative programs must necessarily, at least to some extent, be forgone.

There are also inherent tradeoffs between different aspects of ECEC systems. For example, measures to improve the quality of childcare and the standard of learning and development outcomes could often be expected to put additional cost pressures on ECEC providers, therefore working against the achievement of the objective of improving affordability.

Types of early childhood education and care covered by the inquiry

There is a range of different models for delivery of ECEC. The most common types of formal ECEC are provided away from children’s homes — long day care (including workplace based care); family day care; occasional care; outside school hours care; and preschool (box 1). Many children are also cared for in their own, or a family member’s, home. In this case, the carers may be family members or friends (and may be paid or unpaid) or other childcare providers such as nannies or au pairs, used on a casual or more permanent basis.

When determining eligibility for the main forms of government assistance, a distinction is made between ‘approved care’ and ‘registered care’. Approved care services (the dominant category of care) are generally those services, such as in box 1, approved by the Government as meeting certain quality standards and operating requirements (section 4).

Box 1 **Childcare and early learning outside the child's home**

Long day care — Centre based childcare services providing all-day or part-time care (services may cater to specific groups within the general community). Long day care primarily provides services for children aged 0–5 years. Some long day care may also provide preschool and kindergarten programs and outside school hours care. The service may operate from stand-alone or shared premises, including those on school grounds or based in workplaces. Centres may be privately owned and operated (including by corporate providers operating multiple centres), community centres (for example, run by church or other not for profit community groups), provided, funded or subsidised by employers, or in some cases operated by government.

Family day care — Comprises services, predominantly community operated, providing small group care for children in the home environment of a registered carer. Care is primarily aimed at children aged 0–5 years, but primary school children may also receive care before and after school, and during school holidays. Educators work in partnership with centralised scheme management and coordination staff.

Occasional care — Comprises services usually provided at a centre on an hourly or sessional basis for short periods or at irregular intervals. These services are aimed primarily at children aged 0–5 years.

Preschool — A preschool program is a structured, play-based learning program, delivered by a degree qualified teacher, aimed at children in the year before they commence full-time schooling. Programs may be government funded and/or provided, or privately provided. They can be delivered in a variety of service settings, including separate preschools or kindergartens, long day care centres, or in association with a school, religious or cultural group.

Outside school hours care — Services that provide care for school aged children before school, after school, during school holidays and/or on pupil free days. Outside school hours care may use stand-alone facilities, share school buildings and grounds and/or share facilities such as community halls.

Registered care is child care provided by grandparents or other relatives, friends, neighbours, nannies or babysitters who are registered as carers with the Department of Human Services. In some circumstances it can also include registered care provided by individuals in private preschools and kindergartens, some occasional care services, and some outside school hours care services. Registered care services also have to meet certain standards and regulations.

In this inquiry, all ECEC services that are covered by the main childcare regulations — the National Quality Framework for Early Childhood Education and Care (section 4) — will be examined. This includes care and early learning for children under school age (whether in the home or in a centre or family day care environment) as well as before and after school care, approved or registered holiday

programs, and publicly and privately provided preschool services (also termed kindergarten in some jurisdictions) for children in the year before starting school.¹

The Commission will also examine:

- other ECEC services eligible for fee support and programs, funded by any level of government, that support specialised and targeted services for ECEC — specifically, mobile care, occasional care, in home care services, specialist Indigenous services, Commonwealth Budget Based Funded Programme services and some services provided by nannies and informal carers, including au pairs and relatives (section 5)
- informal types of ECEC that are not currently regulated or funded — as well as considering the appropriateness of current programs, the Commission will consider whether there is a case for extending government involvement to cover these other forms of care and also whether aspects of their operation provide lessons or insights for the reform of regulation and government support for ECEC services, more generally.

The issues paper uses the terms ‘mothers’ and ‘parents’ because they are representative of the most common family types in Australia. In this regard, ‘parents’ should sometimes be read as any person who has caring responsibilities for a young child in their family. The term ‘mother’ is used in discussions about the workforce attachment of a child’s primary carer as mothers are still the most common primary care givers (despite some recent shifts in caring responsibilities).

Government involvement in childcare and early learning

Relative to some other OECD member countries, Australia has quite a high reliance on market provision of ECEC. Nevertheless, governments in Australia, in their roles as policy makers, funders, and regulators of the sector, provide considerable support to the operation of the market. Some Australian governments also have a role as providers of services, particularly preschool services.

The main rationale for government involvement in ECEC is to enhance learning and development outcomes for children and to generate broader social and economic benefits:

- enhancing early childhood learning and development opportunities contributes to: healthy child development (which builds human capital); better transitioning of children into the formal education system; reducing the risk of harm to certain

¹ Kindergarten services in Tasmania and Western Australia, which are not subject to the National Quality Framework, are also within scope of this inquiry.

children in the community, and overcoming disadvantage and its longer term social consequences

- facilitating greater participation in the workforce by parents can: boost economic output (particularly in the context of an ageing population) and tax revenue; reduce long-term unemployment and reliance on welfare support; and promote social engagement and self-esteem.

In the absence of some government involvement, the market may not deliver ECEC in a manner and to standards that meet the community's needs. This may be a consequence, for example, of:

- families not being able to access the information they need to make an accurate assessment of how well a service will meet their needs
- the decisions and choices made by providers and by families — for example, about the type and level of service supplied or sought — having not only direct impacts for those providers, families and their children, but also wider benefits or costs for the community.

Over time, ECEC policies have given greater emphasis to achieving early learning and education objectives (DEEWR 2010), reflecting a perceived shift in community expectations. With this change in emphasis, government funding of ECEC has been rising. Further, a major program for reform of regulation of ECEC services is being implemented (the National Quality Framework (NQF)) to raise the quality of services and enhance consistency across jurisdictions. The NQF, other regulation of ECEC services, and government support (for families, ECEC providers and ECEC workers), are discussed in more detail later in this issues paper.

What role, if any, should the different levels of government play in childcare and early childhood education?

What outcomes from ECEC are desirable and should be made achievable over the next decade?

International models of ECEC

The TOR specifically ask the Commission to look at international models such as the home based care model in New Zealand and models that target vulnerable or at risk children. The Commission is to assess whether any specific alternative care and early learning models should be considered for trial or implementation in Australia. To give a flavour of the different international models, box 2 highlights a few features of systems in selected countries.

Box 2 **Some features of ECEC in other countries**

Home-based care in New Zealand

Under home-based care, children under six receive education and care in a home setting (which may include their own home). Care is provided by educators who are often self-employed and may not be registered teachers. However, coordinators (who are formally qualified and registered) supervise the educators. Government funding for home based care may be claimed and children are taught in line with New Zealand's wider Te Whāriki curriculum for early education.

'Sure Start' Children's Centres in the United Kingdom

Sure Start Children's Centres provide childcare for targeted families with the greatest need. The role of the Children's Centres also extends to caring for the welfare of children and their families more generally. This includes providing pre- and post-natal advice to parents, providing immunisations for young children and even assisting disadvantaged parents with finding employment. Centres tend to be located in areas of disadvantage and, once set up, local authorities have some discretion to determine what services should be provided and which families are in most need.

Universal pre-school and support for parental care in France

Pre-school in France is a legal entitlement and is provided free of charge. As such, almost all children aged three to five attend pre-school. While the use of formal care for children under three is quite high relative to other OECD countries, a range of policies also support parental care. These include access to unpaid parental leave for up to three years per parent per child, the right for parents to request part time working arrangements and an allowance (payable for up to a year) for families with at least three children should one parent cease to work.

'Cash for care' in the Nordic countries

Under cash for care schemes, families receive a benefit from the government if they do not use state-subsidised childcare services. The benefit is designed to give parents additional choice by supporting care in the home and other private settings. Cash for care schemes currently exist on a national level in Finland, Norway and Sweden and on a municipal level in Denmark and Iceland. Under most of these schemes benefits are payable until a child turns three.

Stop-over centres in Quebec

In Canada, childcare is the responsibility of the provinces and territories. Stop-over centres (*haltes-garderies*) are a feature of childcare in Quebec, providing care on a drop-in, occasional basis for up to 24 consecutive hours. They are 'unregulated' and centres are limited to caring for a small number of children at any one time.

Sources: Childcare Resource and Research Unit (2005); Dickens et al. (2012); Duncan et al. (2008); Edyal and Rostgaard (2011); Elingsæter (2012); Lord et al. (2011); Ministry of Education – NZ (2013a, 2013b); OECD (2005, 2013); PC (2011).

In addition to these approaches to ECEC, the Commission notes moves in some countries to integrate ECEC with the formal schooling system — for example, in the province of Ontario, Canada (Pascal 2009). At this very early stage of the inquiry the Commission has not made any judgements about the lessons that can be learnt from overseas approaches or their possible application in Australia.

The Commission is seeking information on international models of childcare that may be relevant to Australia. The Commission has a particular interest in:

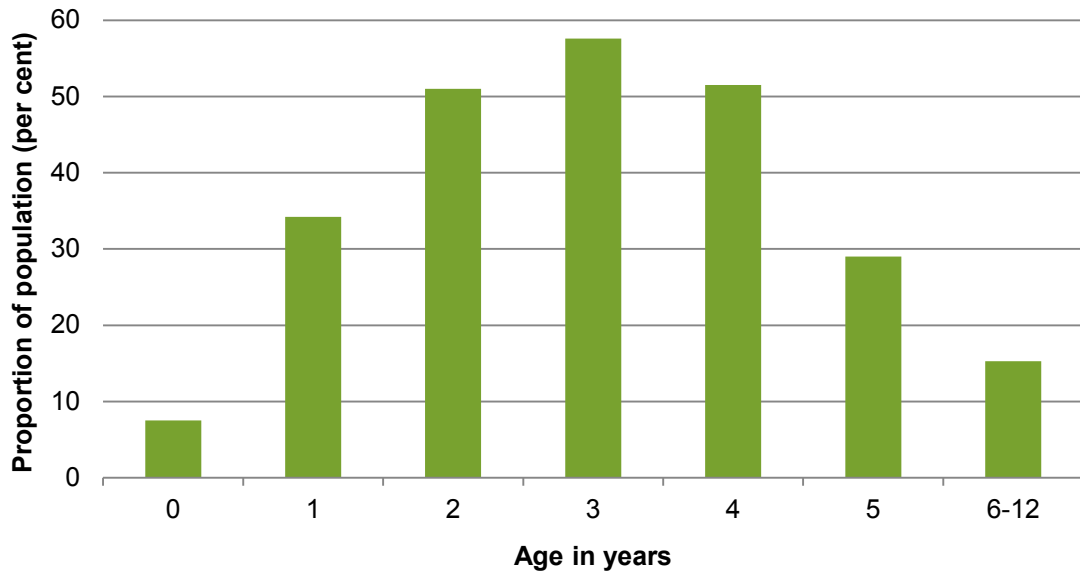
- *how the models affect child development outcomes and workforce participation*
- *the cost to government, families and the funding arrangements*
- *the types of providers and the financial viability of these*
- *the regulatory framework, particularly for quality assurance of providers, the facilities, and their staff.*

2 Demand for and expectations of childcare and early learning services

Almost all of Australia's 3.7 million children 12 years of age and under, have participated in some form of ECEC prior to, or in conjunction with, the early years of formal schooling. Attendance is greatest amongst 2 to 4 year olds — over 50 per cent of 2 to 4 year olds attend approved childcare (figure 1).

Depending on the particular state/territory, once children reach 4 to 5 years, the majority either move out of childcare into standalone preschools (generally available for 2 to 3 days per week during school term time), or attend a preschool program within a childcare centre (generally available for up to five days per week all year). Once formal schooling begins, many children attend before or after school care or vacation care programs. Use of informal (unregulated) care arrangements, either alone or in combination with formal care, is an option for some families.

Figure 1 **Children using approved childcare by age**
Proportion of the population, 2012



Source: PC (2013).

Who uses childcare and early learning services and why?

Family views about the kind of care appropriate for their children at different ages reflect differences in values, priorities, and perceptions about the relative merits of different care arrangements. Some families consider that parental care is best while others have a preference for using formal ECEC services — most commonly to enable them to work, but also for learning and development reasons (particularly as children get closer to school age). However, decisions about ECEC also reflect opportunities and constraints. Family-specific factors that may influence the type and extent of ECEC that families wish to use include:

- the composition of the family (one or two parents; the number and age of children; any disability or additional need of the child or a family member)
- the parents' employment status, income, and pattern of work, study or training (such as working or not; full time or part time basis; working from a fixed location or travel required; shift work or need to alter hours at short notice; income earned relative to ECEC costs)
- geographic location of the family in relation to ECEC services
- cultural appropriateness of services (including for Indigenous families)
- availability of informal carers.

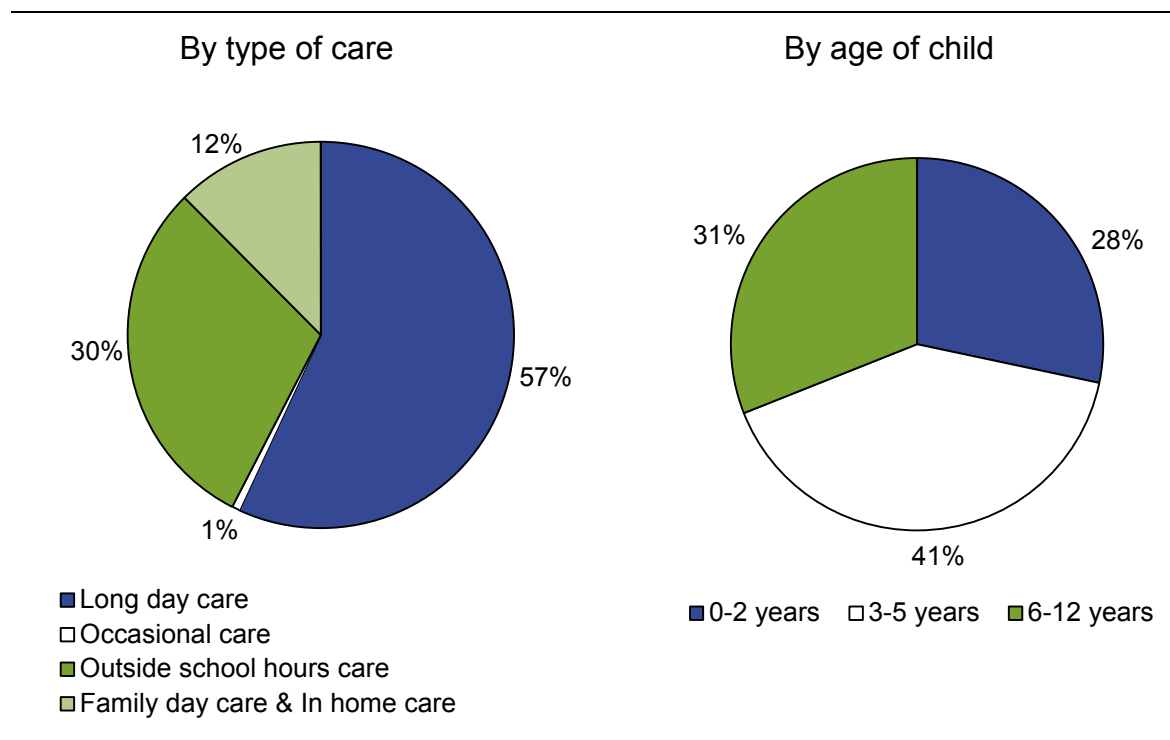
Changing demand for ECEC

While a wide range of ECEC is available in Australia, most published data relates to ‘approved’ forms of childcare — mainly long day care, family day care and outside school hours care — which is therefore the focus of much of the discussion below.

The use of approved childcare in Australia has increased substantially since the Australian Government introduced financial assistance in 1972. In 1991, just over 250 000 children were using approved childcare (DEEWR 2010). By the March quarter 2013, the number of children under 12 years of age using approved childcare exceeded 1 million (Department of Education 2013, unpublished data), with only a small proportion of the growth attributable to the increase in the population of preschool age children over the period.

The main forms of approved childcare being used are long day care and outside school hours care — which account for almost 90 per cent of all approved care used. The largest group using approved care in early 2013 was children aged 3 to 5 (figure 2).

Figure 2 **Use of approved care**
as at March 2013



Sources: Department of Education (2013a); Department of Education (2013, unpublished data).

The Commission is aiming to determine how much of the growth in ECEC use reflects changes in the underlying demand for ECEC (including parents choosing to keep their children in care for longer periods), how much relates to improvements in availability and affordability of care (which may have addressed previous unmet demand), and how future demand is likely to change.

One factor likely to affect future use of ECEC is access to formal preschool programs. Under the Early Childhood Education National Partnership endorsed by COAG, all Australian governments have agreed that by the end of 2013, every child should have access to a preschool program in the year prior to full time schooling — for 15 hours a week, for 40 weeks a year and at a cost that does not restrict access to these services.

There were around 250 000 children aged 4 or 5 attending a preschool program (not all of whom are progressing to school the following year) in Australia in 2012.² Over one-third of these enrolments were in preschool programs delivered in a long day care setting (ABS 2013b).

The Commission is seeking empirical evidence on demand for ECEC, in particular:

- *are there families from particular household structures, socioeconomic groups or geographic areas that are now using some forms of ECEC significantly more than in the past?*
- *which types of families are likely to require significantly more or less use of ECEC in the future?*

Children's development needs

The Commission has been requested to examine approaches to ECEC that address children's early learning and development needs, including the transition to school. The extensive overseas literature and recent Australian research suggests that benefits of ECEC vary depending on the age of the child, the quality of care and each child's specific circumstances. Some of the key findings of the research include:

- The use of childcare for infants under 3 years has been associated with relatively better cognitive and language development, but with some evidence of adverse behavioural and health (largely from greater exposure to communicable

² This figure may be an over estimate as data for Queensland reflect the number of enrolments in preschool rather than the number of children (and a given child may be enrolled in multiple preschool services). However, participation in preschool programs in long day care centres is typically under-reported.

diseases) outcomes (NICHD 2006; Wake et al. 2008). However, higher quality care may eliminate or mitigate some of the negative effects (Harrison 2008; Loeb et al. 2007).

- Where non-parental care is initiated very early (especially for children aged 3 to 4 months or younger), maternal employment is full time, and care is of low quality, there is strong evidence of behavioural problems and delayed cognitive development (Bowes et al. 2009; Love et al. 2003; NICHD 2006; Sylva et al. 2003).
- There is consistent evidence of improved educational and social outcomes from children attending pre-school programs, with the greatest benefits applying to children from disadvantaged backgrounds (Elliot 2006; Heckman 2006; Huntsman 2008; Melhuish 2004).
- Attendance at preschool programs in Australia has been associated with higher year 3 NAPLAN scores in the domains of numeracy, reading and spelling (Warren and Haisken-DeNew 2013).
- Family characteristics (such as level of income, education and emotional support provided) can be stronger determinants of childhood development outcomes than the features of childcare (Elliot 2006; NICHD 2006).

Overall, most Australian children appear to be doing well in transitioning to school — less than 3 per cent of children in their first year of formal schooling are reported by their teachers as not making good progress in adapting to the structure and learning environment of school (Australian Early Development Index, AEDI 2013).

However, around one fifth of children are considered developmentally vulnerable in relation to one or more of the AEDI development domains and Indigenous children are twice as likely to be developmentally vulnerable than non-Indigenous children (AEDI 2013). The childcare and early learning needs of vulnerable children and those with additional needs are discussed in the next section.

The Commission is seeking evidence on the effect of the different types of ECEC, including separate preschool programs, on children's learning and development and preparedness for school.

How does the amount of time spent in ECEC and the age at which a child first enters childcare impact on learning and development outcomes?

Would extending the length of the school day have a significant impact on children's learning and development outcomes or parents' workforce participation decisions? What other impacts would such changes have?

Impacts on workforce participation

The Commission has also been requested to examine approaches to ECEC that encourage greater workforce participation of parents. In 2011, there were around 2.1 million families in Australia with one or more children aged 0 to 12 (ABS 2012). Within these families, if parents have a preference to work (and a willingness to use ECEC services), then access to appropriate services may be crucial for their workforce participation. In 2012, 65 per cent of partnered mothers (of children under 15 years) and 52 per cent of single mothers were employed (ABS 2013a). The participation rate of mothers and hours worked increase as children get older.

While Australia's female participation rate is above the average for OECD countries, it is well below that of the countries with the highest participation rates, particularly for mothers of preschool aged children. The Grattan Institute (2012) estimates that GDP would be about \$25 billion higher in a decade if Australia's female participation rate rose to levels evident in Canada.

There is evidence to suggest ECEC does play an enabling role in allowing parents to participate in the labour market. In 2011, 73 per cent of children aged 0 to 12 who attended formal childcare did so mainly for parent 'work related' reasons. In contrast, the proportion of children in formal care for mainly 'personal' reasons (9 per cent) or because it is 'beneficial for the child' (18 per cent) was significantly lower (ABS 2012).

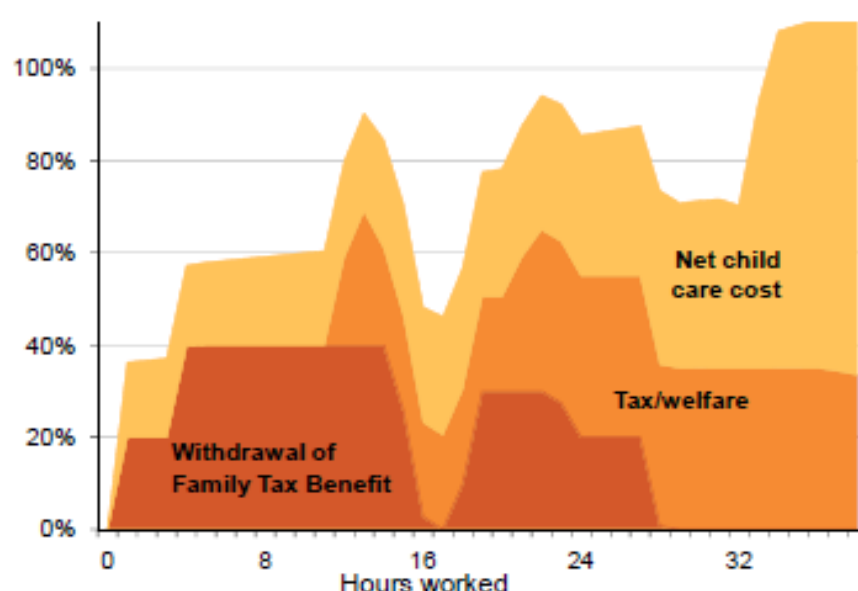
Some recent academic studies have also found that parents are less likely to work or work fewer hours where they report difficulties in finding appropriate ECEC (see for example Breunig et al. 2011; Ulker and Guven 2011). However, views differ on the strength of any association between access to ECEC and workforce participation, and studies also report significant differences depending on household characteristics and other demographic factors. Female labour participation rates in Canada increased strongly when the costs of childcare were reduced, although reductions in marginal tax rates may also be an important driver (Grattan Institute 2012).

Of course, many factors other than access to suitable ECEC can influence the work decisions of parents. The nature, hours and location of available work, skills and past personal experiences with work, length of time spent away from work when children are born, the expected financial return from working and government policies for parental leave also have an impact. The way the tax, welfare and childcare support systems interact with the cost of childcare can create a disincentive for some women with young children to undertake paid work. Taking

into account childcare costs incurred and reductions in Family Tax Benefits and childcare support received once working, the Grattan Institute (2012) found that such disincentives can mean that a second income earner (usually a woman) is financially worse off by returning to work (figure 3).

Different family structures, parents' views on childcare and early learning and their personal circumstances may also have an effect on workforce participation decisions. This includes demographic and economic characteristics of the household (see for example Ulker and Guven 2011). For mothers who are primary care givers, factors such as: recovery from the birth; breastfeeding; availability of family support and social networks; expected timing of any subsequent children; and the level of their commitment to a career, can also influence their return to work decisions.

Figure 3 **Reduction to take home pay of second income earner ^a**



^a Effective marginal tax rate for a second income earner, assuming one partner works full time and earns \$70000 per year, the second partner can work up to 38 hours per week at \$70000 per year if working full time, there are two children aged 2 and 4 using child care at \$8 per hour for 125 per cent of the time worked by the second partner.

Source: Grattan Institute (2012).

What is the relative importance of accessibility, flexibility, affordability and quality of ECEC (relative to other key factors) in influencing decisions of parents as to whether they work or remain at home to care for children?

What trade-offs do working parents make in relation to their demand for ECEC? For example, are they prepared to accept lower quality care if that care is close to where they live or work and/or enables them to work part-time or on certain days?

Has increasing workforce participation by mothers increased demand for childcare, or has improved availability, affordability, and/or quality of childcare led to increased participation?

How have government ECEC support programs affected workforce participation?

3 Availability and cost of childcare and early learning services

Availability of childcare and early learning services

Over 15 400 approved childcare services were operating in Australia in the March quarter 2013 (Department of Education 2013a). There were around 6800 separate providers of these approved services (ACECQA 2013b). Most childcare services (around 60 per cent) were operated by providers that own multiple services, with only around 40 per cent operating as a standalone service. Of the approved care services, approximately 40 per cent were operated as not-for-profit (Department of Education, unpublished data). As a proportion of all approved ECEC services:

- outside school hours care (including vacation care) accounted for 55 per cent
- long day care services accounted for 41 per cent
- family day care and in-home care together accounted for just over 3 per cent. of services.

In addition to these approved services, there were:

- just over 5200 registered childcare and early learning providers in 2010-11³ (Department of Education, unpublished data)
- approximately 4300 preschools (either stand alone or part of a school) (ABS 2013b).

There appears to be little consistent information available on the extent of informal ECEC (those neither approved nor registered), including that occurring in a child's own home.

The extent of changes in the composition and number of ECEC services has varied substantially across jurisdictions. For Australia as a whole, the number of long day

³ This estimate is based on child care benefit claims submitted to Centrelink, so is limited to those registered providers which provided care during 2010-11 and for which families submitted claims.

care services in Australia increased by 46 per cent in the decade to 2011-12, and family day care and in home care by 15 per cent (primarily due to growth in family day care). In contrast, the number of registered care providers⁴ is estimated to have fallen by 33 per cent between 2000-01 and 2010-11 and the number of occasional care services by 27 per cent (Department of Education 2013, unpublished data). This latter fall is because the number of occasional care places is capped — meaning that once a service closes, its places are returned to the Department of Education for allocation at a later date (the most recent allocation was in late 2012). It is difficult to analyse trends in the number of outside of school hours care services, because the method by which these services are counted was changed post-2009.

For some families, their preferred type and level of care is not available when or where they need it. This may be because there is a shortage of childcare in their location, there may not be vacancies in the age groups required or the days of care that are available may not match a family's needs. Obtaining appropriate childcare becomes more complicated when families have multiple children of the same or different ages needing care.

The extent of unmet need in childcare is uncertain and also varies from area to area. Indeed, in some parts of Australia there is an excess supply of childcare places and this is likely to be threatening the viability of some services. Despite the rapid increase in the aggregated number of childcare places in Australia, the ABS found that families report difficulty in obtaining sufficient and appropriate childcare. In 2008, some 89 000 children had 'formal' childcare needs that were not being fully met (ABS 2010). Responses noted that families were on multiple lists awaiting a suitable placement, that the cost of childcare was prohibitive and that parents lacked knowledge of services near to them that could provide appropriate care.

During a sample week in late August 2012, around 85 per cent of long day care centres and outside school hours services had at least one ongoing vacancy each day — while 57 per cent of family day care operators reported vacancies (DEEWR 2012b). Nevertheless, anecdotal evidence suggests availability issues exist in some regions and for some age groups.

The Commission will examine how the sector has responded to growth in demand — for example, by changing occupancy or utilisation rates, building larger centres, or providing a greater variety of care types.

⁴ Providers for which families submitted child care benefit claims for registered care.

The Commission is seeking evidence on:

- *the extent to which parents are experiencing difficulties accessing ECEC that meets their needs/preferences and whether there are particular categories of care, times, locations or circumstances for which accessing ECEC is more difficult — for example, regional areas, certain days or part days each week, or for children with additional needs?*
- *how parents identify vacancies or choose which ECEC service to use — for example, are parents aware that the My Child website (www.mychild.gov.au) and at least one privately operated website allows them to search for centres reporting vacancies and do they find this service accurate and/or useful?*

The Commission is seeking information from ECEC providers on:

- *how the sector has responded to growth in demand, including changes to types of care offered, cost and pricing structures used by different types of providers, and any viability pressures*
- *the key barriers that are inhibiting an expansion in ECEC services where demand is highest, development of more flexible ECEC, or alternative models of care*
- *approaches to managing childcare waiting lists that have been shown to be successful.*

The Commission is seeking information from employers that currently provide childcare services or assist employees to access childcare, on:

- *the nature of the services or assistance provided*
- *issues encountered in supporting employee use of childcare services.*

Flexibility of childcare and early learning services

In the context of ECEC, flexibility generally relates to:

- the degree to which care is available across non-standard hours, for example to cater for parents that work late, shift workers or those studying in the evenings
- the ease with which additional services can be obtained should the needs of parents or children change.

The Child Care Services Handbook (DEEWR 2012a) defines standard childcare operating hours as 7am to 6.30pm. In 2010, the proportion of long day care, after school hours services, occasional care and vacation care services offering care outside of these hours was in each case around 35 per cent. In contrast, over

80 per cent of before school care services and home care services offered care outside of standard operating hours (DEEWR 2013b). The Commission has been advised in early consultations that centre based providers have experimented with extended operating hours (and in the past some have operated 24 hours) but demand from parents has been low.

In addition to limitations with respect to operating hours, there can be inflexibility in how the hours of care are charged. For the main forms of care used — long day care and outside school hours care — parents usually cannot purchase care in hourly blocks — instead they typically have to purchase care in half or full day blocks.

In March 2013, the Australian Government announced the establishment of Child Care Flexibility Trials to enhance the capacity of the ECEC sector and better meet the needs of Australian families (Department of Education 2013b). Under the trials, \$5.5 million was allocated to care providers to trial flexible care models. Some of the initiatives the selected service providers are trialling include extended weekday care, overnight care and additional flexibility in catering for shift changes (DEEWR 2013a).

The Commission is seeking information on:

- *the extent and nature of unmet demand for more flexible ECEC*
- *the reasons why current providers are not offering more flexible care options*
- *the experiences of providers who offer flexible care options and their management strategies to maintain financial viability*
- *the outcomes of the Child Care Flexibility Trials and circumstances under which successful approaches can be replicated*
- *affordable approaches to improving flexibility, including innovative options that could involve new provider models.*

Services for additional needs and regional and remote areas

Children with additional needs and those in regional and remote communities can have greater difficulty accessing appropriate ECEC services. This can lead to reduced preparedness for school and entrench disadvantage from an early age (McLachlan et al. 2013). There may be wider community benefits from improving access to ECEC services for these children and for those in families that may be unable to adequately protect their children from harm or provide for their development or wellbeing.

Additional needs or ‘at risk’ children may include:

- children with a disability or other medical needs or those with a carer or sibling that has a disability
- Indigenous children
- children from non-English speaking or culturally and linguistically diverse backgrounds
- children from low-income families
- children at risk of abuse or neglect
- other vulnerable or disadvantaged children.

Such children can present particular challenges for ECEC services, including the need for additional support, equipment or tailored services; the employment of specialist workers; as well as appropriate training for the mainstream workforce.

Governments in Australia have various measures that seek to support the inclusion in ECEC services of children with additional needs, with a particular focus on professional development programs to assist childcare workers to deliver high quality services to these children (these are discussed under government support, below).

There are also particular challenges in provision of appropriate ECEC in regional and remote areas. For example, many providers in areas outside of major metropolitan centres face greater difficulties attracting suitably qualified staff. This and other factors such as more volatility in enrolment numbers, can seriously impact on the viability of ECEC services.

The Commission is seeking information on:

- *how well the needs of disadvantaged, vulnerable or other additional needs children are being met by the ECEC sector as a whole, by individual types of care, and in particular regions*
- *the extent to which additional needs are being met by mainstream ECEC services or specialised services*
- *key factors that explain any failure to meet these needs*
- *what childcare operators and governments can do to improve the delivery of childcare services to children with additional needs?*
- *the types of ECEC services which work particularly well and would be viable in regional and remote locations.*

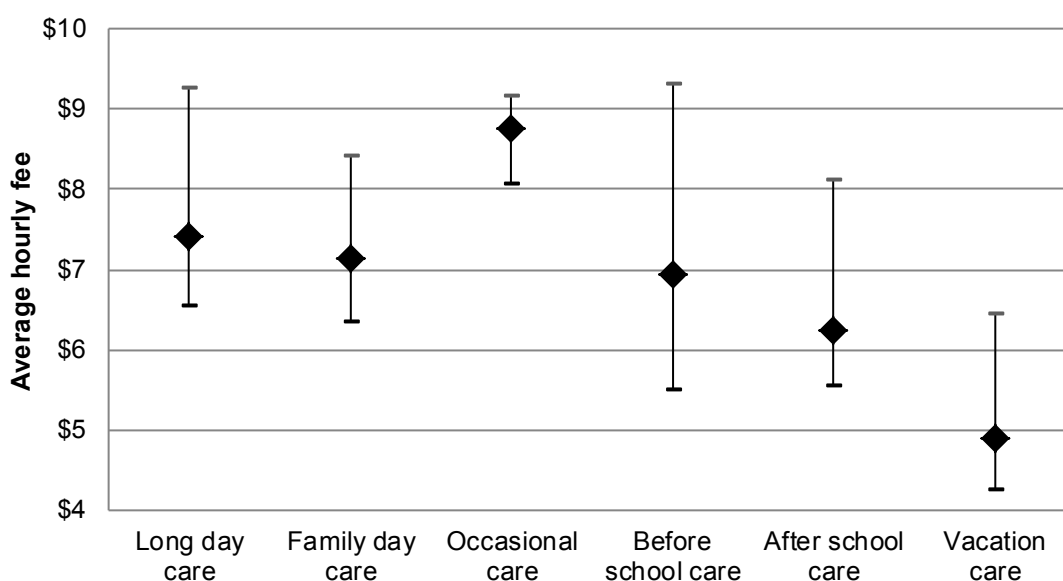
Cost of childcare and early learning services in Australia

The cost of ECEC varies depending on individual circumstances, but some families report childcare to be one of their largest household expenses. The existence of extensive subsidies (section 5) means it is necessary to consider both fees before subsidies and ‘out-of-pocket’ expenses after subsidies. Some employers reduce out of pocket expenses for staff, by allowing salary sacrificing or packaging of childcare costs.

The average fee, for Australia as a whole, for both long day care (LDC) and family day care (FDC) was just over \$7 per hour in the March quarter 2013, before subsidies (figure 4). The average fees charged by service type in Queensland and South Australia were below the national average, while average fees in the ACT were substantially above the Australian average. It should also be noted that there is considerable variation in fees within each jurisdiction and across types of childcare.

While childcare fees have increased substantially in recent years — LDC fees rose by an average of 7 per cent in nominal terms (or 4 per cent in real terms) each year over the decade to 2011-12 (DEEWR 2013b) — an increase in childcare assistance in 2008 reduced families’ out-of-pocket costs such that hourly fees (after subsidies) in 2012 were similar to, or lower than, those in 2008.

Figure 4 **ECEC fees in Australia by type of care^a**
Australian average fee and lowest and highest state/territory average fee, March quarter 2013



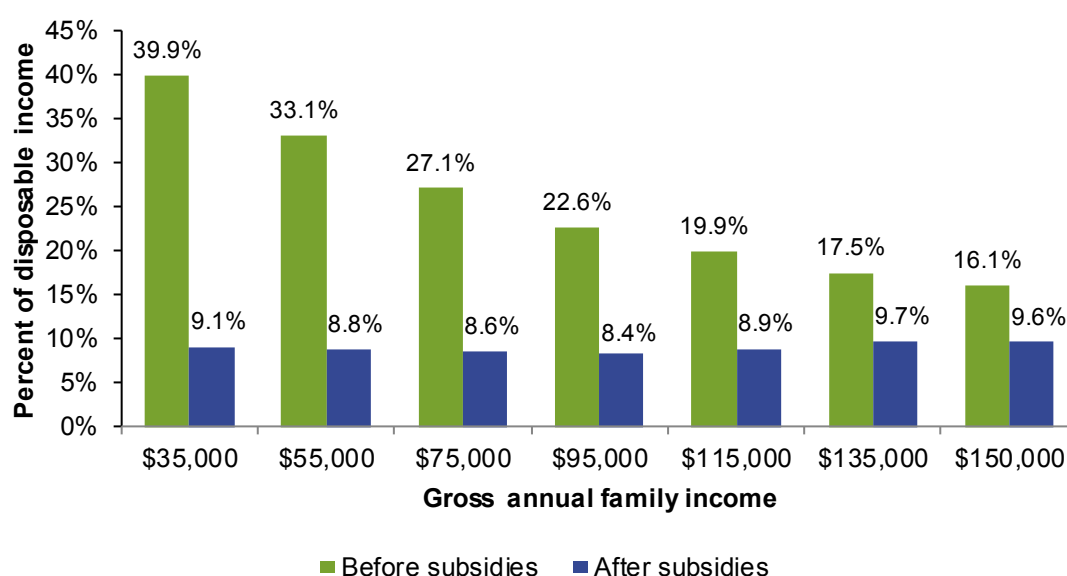
^a Excluding in-home care for which the Australian average fee was \$13.95 per hour (state/territory averages range from \$7.10 to \$19.65 per hour).

Source: Department of Education (unpublished data)

Overall, the proportion of family disposable income spent on childcare has fallen since 2004 (DEEWR 2013b). It is unclear at this stage to what extent this fall is due to growth in incomes or to increases in subsidies. Higher income families are eligible for a Child Care Rebate of up to \$7500 annually per child in care, whereas lower income families (those with a family income below \$42 000) with one child could receive (from the Child Care Benefit and Child Care Rebate) as much as \$17 870 in assistance (see box 5 for details on the child care benefit and rebate). For a family with one child in LDC for 50 hours per week, out-of-pocket costs after subsidies are reduced to approximately 9 per cent of disposable income for all income ranges (figure 5). These costs are slightly lower for FDC and, for both types of care, are almost double for families with two children in full time care (PC 2013).

As well as varying with the type of ECEC service used and the level of government support for which they are eligible, the cost of ECEC for a family will depend on factors such as the number of days or hours a child requires care, and the number of children in care. Costs also vary substantially between jurisdictions, and locations (for example, inner city vs. suburban and capital city vs. regional or remote). Services may charge on a weekly, daily, sessional or hourly basis and may also impose additional charges, for example to cover the provision of food, nappies, extra educational opportunities or contributions to a building fund.

Figure 5 **Out-of-pocket costs before and after subsidies**
For families with one child in LDC for 50 hours per week, March quarter 2013



Source: Department of Education (2013a).

ECEC fees are affected by the cost structures and objectives, including a return on invested capital, of individual ECEC providers. Staff costs are almost always the

largest single cost for ECEC services; so factors affecting these costs (such as regulations mandating minimum staff-to-child ratios) can have a significant impact on fees. Two recent studies indicate that staff costs may comprise 80 per cent of operating costs (COAG 2009) and absorb up to 64 per cent of a service's revenue (McMillan 2011). McMillan (2011) found that these staff costs are lower, relative to revenue, for long day care services compared with other types of ECEC services; whereas other types of care have lower property and depreciation expenses (estimated to be 13 per cent of sector revenue). Furthermore, community based long day care services were found to have high costs relative to revenue compared to private services.

Even with government support, many families still report difficulties with ECEC affordability. Although dated, a study of HILDA data (Cassells et al. 2005) found that 12 per cent of couples and 8 per cent of lone parents reported difficulties with the cost of childcare. The study also indicated that families with higher income recorded greater perceived difficulties than lower income families. This may be because wealthier families are eligible for smaller benefits or because families with more income require or choose to use more ECEC (for example because they tend to work more hours) or choose to use higher standard, more expensive ECEC.

The average cost of preschool services remained steady at \$49 per week (in real terms) between 2008 and 2011, although overall, there were more preschool services at the lower weekly cost levels in 2011 than in 2008 and there was an increase in the highest costs charged (PC 2013, p. 3.37). Preschool delivery models vary significantly across jurisdictions and costs are higher in the more populated states. Affordability may also be more of an issue where preschool is delivered as part of long day care services.

The Commission is seeking information and where possible quantitative evidence on:

- *financial difficulties arising from paying childcare fees, including the types or location of families experiencing the greatest difficulties in meeting childcare costs*
- *changes in the use of ECEC, including the type of care used (formal and informal), in response to changes in the cost of care*
- *the extent of price competition between providers and the effect this has had on fees and the quality of services provided*
- *the flexibility providers have to price in response to demand and/or to meet the particular care and learning needs of children.*

4 Government regulation of childcare and early learning

There is a wide array of government regulation affecting ECEC services. This regulation includes:

- the various elements of the National Quality Framework for Early Childhood Education and Care (NQF) — primarily related to quality assurance standards
- other regulations specific to ECEC (such as child protection laws)
- laws relating to the provision of family assistance
- broader (generic) regulations relevant to many types of businesses (such as planning and zoning laws).

There have been longstanding concerns about the burden of regulation on ECEC providers. While a number of the overlap and duplication issues previously identified by the Commission (PC 2009) are being addressed with the implementation of the NQF, there are concerns in the sector about the cumulative impact of regulation and the ability of services (particularly smaller operators) to cope with new regulatory requirements. Indeed, one of Australia's largest childcare operators, G8 Education (2012), was founded 'in response to increasing government regulations making it harder for single-centre operators to survive'. Only recently, the Uniting Church announced that it intended to close four childcare centres in Gippsland Victoria, citing increased costs associated with new regulatory requirements as an important factor in its decision (ABC Online 2013).

The Commission is seeking up-to-date evidence, specific examples and case studies that will inform an assessment of both the benefits and costs of current regulations impacting on ECEC services.

National Quality Framework

Since 1 January 2012, most long day care, preschool, family day care and outside hours school care services fall within the scope of the COAG endorsed National Quality Framework for Early Childhood Education and Care (NQF). Key requirements of the NQF (box 3) are being phased in over the period to 2020. The NQF creates a uniform national approach to the regulation and quality assessment of ECEC services and replaces separate licensing and quality assurance processes in each jurisdiction. It was a response to concerns about inconsistent quality standards across jurisdictions and overlap between Australian, state and territory government regulatory arrangements.

Under the NQF, state and territory regulatory authorities are responsible for administering most aspects of the regulation of ECEC services while a new national body, the Australian Children's Education and Care Quality Authority (ACECQA), oversees the Framework and is responsible for ensuring consistency of approach across jurisdictions. State and territory regulatory authorities continue to be the first point of contact for childcare services in each jurisdiction and are responsible for the approval, licensing (now nationally recognised), monitoring and quality assessment of services. The Commission notes that the TOR specifically state that the Australian Government intends to work with the states and territories 'to streamline the NQF'.

Box 3 The National Quality Framework

The NQF has four key components:

- a national legislative framework to ensure consistency across jurisdictions
- a National Quality Standard (NQS)
- a national quality rating and assessment process to complement the NQS
- the Australian Children's Education and Care Quality Authority is responsible for providing oversight of the new system.

The NQS comprises guiding principles and a number of elements and standards under seven quality areas:

1. educational program and practice
2. children's health and safety
3. physical environment
4. staffing arrangements (including qualification requirements and staff ratios)
5. relationships with children
6. collaborative partnerships with families and communities
7. leadership and service management.

While the NQF and NQS apply, in full, to long day care, family day care and preschool services, there are no staff qualification requirements or educator-to-staff ratios applying to children of school age, so these changes should not affect outside of school hours care services.

Sources: Australian Children's Education and Care Quality Authority (2011, 2013a).

Workforce issues and the effects of the National Quality Framework

A significant regulatory change in the NQF which directly affects the structure of childcare services are the National Quality Standards on staff qualification requirements and minimum educator-to-child ratios. These standards are different

for centre-based care (long day care and preschool) and family day care, but will generally require increases in staffing and average qualification levels for ECEC services in most jurisdictions. Centre-based services will also be required to meet additional requirements, based on the number of children cared for, relating to the employment of an early childhood teacher.

These changes may present a significant additional cost to some services, since labour costs account for the majority of childcare services' operating costs. The Council of Australian Governments' (COAG 2009, pp. 42–3) regulatory impact statement for the NQF reforms estimated the incremental cost of the national quality standards (compared with a 'no NQF' scenario), over the decade to 2019, to be \$1.6 billion in real terms (mostly through increased staffing and wages) — including additional costs of \$1.2 billion for long day care, \$350 million for preschool and \$40 million for family day care. The likely incidence of these costs varies by jurisdiction depending on pre NQF minimum standards that applied in each state and territory and the extent to which some individual service providers chose to operate above the minimum standards. Modeling undertaken for COAG (2009, p. 98) suggests that 50 per cent of any associated fee increases will be borne by parents, which may result in reduced use of these services.

The Commission is seeking views and evidence on:

- *the effect of increased staff ratios and qualification requirements on outcomes for children*
- *how ECEC providers are handling the pace of implementation of new staffing ratios under the NQF*
- *the case for greater recognition and assessment of competencies as an alternative in some cases to additional formal training and qualifications*
- *the impact of changes to staff ratios and qualification requirements on the cost of employing ECEC workers*
- *whether any increased staffing costs have been, or will be, passed on in higher fees charged to families.*

Achieving the quality ECEC outcomes desired by the community relies on the availability of sufficient ECEC workers that are suitably trained and qualified. The number of qualified carers and teachers that are appropriate in different ECEC settings and the nature of the qualifications that are appropriate have been the subject of extensive analysis in recent years, in particular as part of the development of the NQF. The Commission (PC 2011) also examined ECEC workforce issues as part of its *Early Childhood Development Workforce* research report (box 4).

Box 4 Productivity Commission Review of Early Childhood Development Workforce

The Commission found that up to 15 000 additional workers are likely to be required as a result of NQF reforms (mainly in centre based care services) and the average level of qualifications will need to increase. In particular:

- occasional care services, while not covered by the NQF, will face increased competition for staff
- the universal access reforms for preschool, agreed to by COAG, will also increase demand for early childhood teachers.

It was also reported that the workforce may be slow to respond to this increased demand:

- recruitment and retention of workers was already an issue before the NQF reforms, particularly in rural and remote areas
- long day care services compete with preschools which typically offer higher salaries and better conditions
- family day care educators may leave the workforce if fee increases do not offset any reductions in income (because new staff ratios mean they can look after fewer children) and the cost of meeting qualification requirements
- wages for the more highly qualified workers will need to rise, but various impediments and apparent rigidity around levels set by industrial awards seem to be moderating the responsiveness of wages to demand factors
- temporary exemptions (waivers) from the new standards are likely to be required.

Source: PC (2011).

As of 2010, there were almost 140 000 individuals working in ECEC services, of which approximately 49 per cent were employed in long day care services, 22 per cent in outside of school hours care, 18 per cent in preschool and 10 per cent in family day care (The Social Research Centre 2011).⁵ This workforce is overwhelmingly female and 72 per cent are in casual or part-time employment.

The ECEC workforce contains two key groups of workers — directors, teachers or group leaders (30 per cent), and ECEC educators (70 per cent). ECEC educators are commonly paid at or just above rates equal to the federal minimum wage. Directors, teachers and group leaders are paid somewhat higher wages, possess more advanced qualifications and are more likely to work full-time. Volunteers also play an important role in the ECEC workforce, however their role is diminishing as increasing qualification and other requirements reduce the contribution they are able to make (PC 2011).

⁵ These figures do not reflect the results of the 2013 ECEC workforce survey as the results had not been released prior to finalising this issues paper.

In addition, anecdotal evidence suggests that many workers leave the sector because of the physical or emotional demands. Regulatory burdens are considered to have a significant negative impact on worker satisfaction — with both directors and educators spending substantial time on administration. It appears to be the experience of many educators that this work cannot be completed during limited ‘programming time’ at work and so often is done, unpaid, in their own time.

The Commission is seeking information on:

- *initiatives of governments to address workforce shortages and qualifications, including the cost and effectiveness of these initiatives*
- *initiatives of providers to address their workforce shortages and skill needs, including the cost and effectiveness of these initiatives*
- *particular locations and areas of skill for which it is hard to find qualified workers*
- *the extent to which training/childcare courses enable workers to meet the requirements of the NQF and how training could be improved*
- *other workforce and workplace issues, including any aspect of government regulation, that affects the attractiveness of childcare or early learning as a vocation.*

Are the requirements associated with more subjective aspects of the National Quality Standards, such as ‘relationships with children’, clear to service operators and regulatory staff? Is further guidance required?

Could the information provided on the ‘My Child’ website be changed to make it more useful or accessible to families? Are there other approaches to providing information to parents about vacancies, fees and compliance that should be considered?

Other regulations

In addition to the specific regulation for ECEC embodied in the NQF, ECEC services must also comply with a range of other regulatory requirements. These include:

- national, state and territory regulations that most businesses must comply with — this includes health and safety, taxation, industrial relations and privacy laws and also planning and zoning laws, which preliminary consultations suggest may be a particular impediment to the development of ECEC services in some local government areas

-
- regulations in a number of areas more directly related to the provision of ECEC, such as: vacancy reporting; immunisation requirements; and child protection laws (for example, ‘working with children laws’ that require background checks for ECEC workers and requirements in relation to the reporting of missing children, injuries and abuse). In addition, because childcare centres typically provide food to children as part of their service, they must satisfy certain food safety requirements.

The Commission is seeking information on:

- *how particular regulations (including the NQF) impact on the structure, operations, cost and profitability of ECEC services — for example, are services consolidating or amalgamating their operations to reduce administration costs*
- *the share of fees that can be attributed to compliance costs (quantified if possible)*
- *the extent to which regulatory requirements are causing services to change the number or mix of children they care for*
- *the extent to which regulatory burdens arise from duplication of regulations and/or inconsistencies in regulations across jurisdictions.*

Options for regulatory reform

The Commission will examine whether there is scope to reduce or streamline regulatory requirements, including further harmonisation of regulations across jurisdictions, with specific consideration given to impacts of regulatory changes on compliance costs over the last decade. This work will take account of any specific initiatives that come out of ongoing intergovernmental processes, foreshadowed in the TOR, to streamline the NQF

How could the NQF and other regulations affecting ECEC be improved — both requirements and their implementation/enforcement — to be more effective and/or to reduce the compliance burden on ECEC services or workers and/or administration costs for governments?

Are there lower cost ways to achieve the regulatory objectives for ECEC?

Are there areas currently regulated that would be better left to sector self-regulatory codes of practice or accreditation schemes?

5 Government support for childcare and early learning

Various government programs currently provide assistance to families, ECEC providers and workers. Most of the government support is provided by the Australian Government. However, there are also a number of programs administered by state, territory and local governments.

Australian Government support

Funding was first provided to help finance childcare in 1972 and the level and form of support has changed significantly over time. Initially support was provided only for non-profit centres then subsequently extended to private centres. Changes such as this and a greater proportion of support being paid directly to parents have been partly motivated by giving consumers greater choice of provider.

Currently, the Australian Government provides families with financial assistance to help cover the cost of approved childcare primarily through the Child Care Benefit (CCB) and the Child Care Rebate (CCR) (box 5). The CCB is also available — but paid at a lower rate — for ‘registered care’, where children are cared for by a provider registered with the Department of Human Services. This can include support for care provided by a registered carer at home, but the care must be work, training or study related. In very limited circumstances care provided in the home can also be treated as ‘approved childcare’.

Support provided through these measures totaled \$28 billion over the period 2003-04 to 2012-13 (DEEWR 2013b). While total support amounted to just under \$1.5 billion per year in the early 2000s, annual government outlays to families for CCB and CCR have steadily increased to an estimated \$5.2 billion in 2013-14. By 2016-17, government expenditure on CCB and CCR are forecast to be around \$6 billion per year and rising (DEEWR 2013b). The Commission will examine the relative importance of factors that may have contributed to past growth. This includes increases in ECEC usage (which in turn can be related to changes in available support); changes in payment rates and limits; and increases in fees (which affects how much the Government spends on the child care rebate).

Box 5 Child Care Benefit and Child Care Rebate

Child Care Benefit (CCB)

An income (means) tested subsidy that varies with the type of care, number of hours used, number of children in care and whether children attend school. Payments are based on an hourly rate for care and usually made directly to approved childcare services, but some families receive the subsidy as a lump sum at the end of the year. For registered care, no means test is applied and the benefit is paid at a lower rate.

Special Child Care Benefit (SCCB)

Family assistance law provides for the approval of the SCCB rate to support participation or increased participation in CCB approved childcare of children who are identified as being at risk of serious abuse or neglect and the cost of care is a barrier to participation. The SCCB rate can also be approved in exceptional cases for families experiencing hardship.

Grandparent Child Care Benefit (GCCB)

GCCB is available to grandparents who meet the existing CCB eligibility requirements and are the sole or major provider of the ongoing daily care for the grandchild and have the responsibility for the day-to-day decisions about the grandchild's care. They must also be receiving an income support payment from the Department of Human Services or the Department of Veterans' Affairs.

Child Care Rebate (CCR)

An additional non-income tested payment. Parents have the option to receive a rebate of up to 50 per cent of out-of-pocket childcare costs (up to a cap of \$7,500 per child per annum) in approved childcare. Out-of-pocket costs are calculated after deducting any child care benefit payments and Jobs, Education and Training Childcare Fee Assistance received. The rebate is paid fortnightly, quarterly or annually directly to parents' bank accounts or directly to the childcare service provider which passes it on to parents as a fee reduction. The CCR cannot be claimed for registered care. The CCR replaced the child care tax rebate (CCTR) from the 2006-07 income year. While the value of the CCTR varied depending on an individual's tax liability, all eligible families, even those with low or no tax liability can receive the CCR.

For both CCB and CCR, there are residency and child immunisation requirements. There is also a 'work, training or studying test', which operates differently between the benefit and the rebate and, in the case of the benefit, depends on whether care is provided by an approved or registered provider.

Source: DEEWR (2012a).

Other Australian Government childcare support or financial support and incentives available to parents or families that may also influence the use of ECEC, include:

- Jobs, Education and Training (JET) Childcare Fee Assistance — helps with the cost of approved childcare for eligible parents undertaking activities such as job search, work, study, training or undertaking rehabilitation to enter, or re-enter the workforce
- numerous income and family support arrangements, for example: paid parental leave; family tax benefits (parts A and B); parenting, carer and child support payments; assistance for isolated children; and the school kids bonus
- salary sacrificing of childcare costs — subject to the condition that childcare facilities are provided for the benefit of employees on an employers' business premises, employers can allow employees to salary sacrifice payments (i.e from pre-tax income) for childcare, or childcare may be provided as part of a remuneration package.

A range of other Commonwealth measures provide support directly to ECEC centres or workers. The most significant financial assistance is paid to ECEC service providers under the Childcare Services Support Program. This program seeks to improve access for children, families and communities. It encompasses the Community Support Program and the Inclusion and Professional Support Program (box 6). Other measures include:

- Early Years Quality Fund — subsidies paid to eligible providers to assist them to meet the ratio and qualifications requirements under the NQF, by supplementing wage increases. No payments have been made from this fund and the fund is currently subject to a review.
- Child Accessibility Fund — provides grants to local governments to deliver more long day care places in areas of high demand.
- HECS-HELP debt reduction — Degree qualified Early-Childhood teachers operating in areas deemed to be disadvantaged have their debt reduced for each year they work in such an area. If they work in a disadvantaged area for five years they can reduce their debt by half.
- Tax benefits — certain not-for-profit providers benefit from a range of income and other tax concessions.

Box 6 **Key support measures for childcare services**

Community Support Program

Establishment and Sustainability Assistance — a range of payments for ‘Mainstream services’ (mainly those approved to administer Child Care Benefit (CCB) on behalf of families) that are dependent on the type, size and location of the childcare service.

Capital Funding for Long Day Care Services in Exceptional Circumstances — individual one-off discretionary grants of up to \$500 000 (excl. GST), subject to available funding, to assist in ‘exceptional circumstances’, such as market failure or documented unmet demand, which may result in no formal childcare being available.

Budget Based Funded Programme (BBF) — for ‘Non-Mainstream’ services providing care in communities, including regional/remote locations, where mainstream services are not available or viable, or Indigenous-focused or culturally competent services are needed.

Inclusion and Professional Support Program

Inclusion Support Subsidy (ISS) — assists eligible services to improve their capacity to include children with disability or ongoing high support needs, for example by contributing to the cost of an additional carer or educator. Eligible services include those approved for CCB and those funded under the BBF Program.

Inclusion Support Agencies (ISAs) — provide practical support and advice, via local Inclusion Support Facilitators (ISFs), to build the capacity of childcare services to provide a quality inclusive environment for children with additional needs.

Flexible support funding (FSF) — subsidy to assist services to be more responsive to families and children with additional needs. It can assist a service to employ an additional educator or carer on a short term basis (for example to allow release time for staff to attend training). It can also be used as a financial contribution to family day care educators and in-home carers to attend specialist training after hours.

Bicultural Support Program (BSP) — provides additional resources (for example off-site consultants or an on-site casual bilingual or bicultural worker) free of charge to eligible services to assist with the inclusion of children from culturally and linguistically diverse backgrounds, refugee children and indigenous children.

Professional Support Coordinators (PSCs) — advise services on access to professional development and support; provide the BSP, resource library and specialist equipment for loan; subcontract Professional Support Service Providers (PSSPs) to deliver support and facilitate customised professional development that is requested.

Indigenous Professional Support Units (IPSUs) — units in each state and territory are funded to provide Indigenous focused BBF childcare providers with professional development and management support. IPSUs also provide advice to the PSCs and ISAs on culturally appropriate professional development and support, to assist mainstream childcare services to become culturally inclusive and supportive.

Source: DEEWR (2012a).

Support provided by state, territory and local governments

State, territory and local governments also have important roles in supporting ECEC services. While the nature and level of support varies across jurisdictions, state and territory governments:

- are responsible for funding and/or providing preschool services
- provide direct financial assistance to some childcare providers — the ‘Remote Area Aboriginal and Torres Strait Islander Childcare’ program is one example of state government childcare specific funding (DETE 2011)
- provide a range of exemptions for fees and charges to ECEC providers — for example, in New South Wales, childcare centres and schools are exempt from land tax — a concession valued at \$4 million a year (New South Wales Government 2013, p. D–15)

Consistency in approach across jurisdictions is promoted through four national partnership agreements between the Australian, state and territory governments:

- the national partnership agreement on universal access to early childhood education was endorsed in 2013
- the agreement to implement the National Quality Agenda for Early Childhood Education and Care
- an agreement on Indigenous early childhood development was signed in 2009
- an agreement to waive TAFE fees for those training to be childcare workers was established in 2009.

The role of local governments varies considerably from jurisdiction to jurisdiction, but support for ECEC includes:

- subsidised or free access to buildings for childcare services (either on a casual or permanent basis)
- direct provision of childcare services — particularly the operation of occasional care and mobile care services
- special services for children with additional needs — for example Central Desert Shire Council in the Northern Territory manages several early childhood services in Indigenous communities
- support to childcare including toy and resource libraries and advice.

In addition, some governments offer special allowances and other incentives to attract or retain workers in some rural and remote areas.

Some general questions about government support:

- *How does government support to families and childcare providers impact on accessibility, flexibility and affordability of childcare?*
- *Is the level of overall government support for ECEC appropriate?*

Some specific questions for families claiming government support:

- *Is it difficult to apply for or receive financial assistance for childcare?*
- *Is it straightforward to determine how much financial assistance you will receive?*
- *What effect have government support for childcare and other family income support arrangements, such as paid parental leave and family tax benefits, had on demand for ECEC?*
- *Have increases in support reduced the out of pocket cost of childcare for parents, or have fees just risen in response?*

Some questions specifically for service providers:

- *Is it confusing and/or costly to deal with the large number of programs and agencies administering ECEC support? Is there overlap, duplication, inconsistency or other inefficiencies created by the interaction of programs?*
- *Do existing arrangements for delivering support present any difficulties for ECEC providers in assisting families with resolving eligibility or payment issues?*
- *Which government support schemes do you consider are warranted, well designed, and efficiently implemented and administered and which are not? Which schemes do you consider offer the most assistance to your operations?*

Options for reform of childcare funding and support

The TOR for the Inquiry ask the Commission to consider different options for providing ECEC support to families. This includes consideration of subsidies, rebates and tax deductions. Importantly, recommended support options must collectively remain broadly within the Government's existing budgetary commitments to the sector.

How could government support programs be reformed to better meet government objectives for ECEC?

What financial contribution should parents be expected to make to the care and education of their children? To what extent should governments subsidise use of

childcare and early learning? Should families reasonably expect to receive childcare support in addition to paid parental leave and family tax benefits?

Is there scope to simplify childcare support? What changes could be made to the way childcare support is administered to make the process easier for parents or providers? Is the distinction between approved care and registered care necessary?

Should support be paid directly to parents, direct to ECEC services or some combination of these?

- *Where funding is paid directly to operators of ECEC services, what conditions should apply?*
- *What would be the advantages and disadvantages of different payment models?*
- *Should childcare assistance be subject to testing of family/parent income levels, or to other requirements such as a necessity to be participating in work, study or training? If so, what income thresholds or activity levels should determine eligibility? To what extent are such requirements currently abused? What are the advantages and disadvantages of such requirements?*
- *Should childcare expenses be tax deductible for families?*

Is support appropriately targeted? If not how could it be better targeted (including less targeted)?

- *Should a greater (or smaller) proportion of the assistance be directed to: particular regions; particular types of ECEC; ECEC used for particular purposes — parents working, studying or undertaking other activities; or to support additional needs children or lower socioeconomic groups?*
- *Is there scope to streamline and simplify access of providers to support arrangements for children with additional needs?*

Should support be extended to cover certain types of childcare not currently funded or to increase funding for specific types of childcare — for example nannies providing in-home care? If so what kind of support should be offered? What conditions, for instance accreditation requirements, should apply to such funding or funding increases?

What measures, if any, should governments consider to encourage employer provided childcare services?

Is there scope to rationalise and streamline the many types of funding provided by the Commonwealth or state/local governments?

6 How you can contribute to this study

The Commission is seeking feedback from a wide and representative range of stakeholders. It has commenced a formal consultation process and is inviting submissions from organisations and individuals with an interest in childcare and early learning. (Attachment A outlines how you can make a submission.)

What evidence is the Commission seeking?

The purpose of the Commission's inquiry is to make recommendations for improving the regulation and funding of ECEC services in Australia. As such, we are interested in your views about what aspects of ECEC are working well and what aspects are problematic. In order for the Commission to recommend changes, we need to understand why any problems or concerns have arisen — as such, we need evidence as well as views.

At the most basic level, evidence can simply be an outline of the circumstances around a problem you have experienced and what impact those problems are having on you. For example, your childcare service provider may not allow you to temporarily switch childcare days, which may restrict your ability to work fulltime or overtime. More detailed evidence could include outlining parts of regulations that are unnecessary, ineffective or impose undue compliance burdens, as well as evidence from any surveys that provide a comprehensive view of the performance of the ECEC sector.

How the Commission will use the data

Drawing on the input it receives, and on its own analysis, the Commission will produce a draft report detailing its preliminary conclusions and draft recommendations. There will be a further opportunity for participants to express their views before a final report is submitted to Government.

What the Commission cannot do

The role of the Commission is to recommend reforms to the existing ECEC arrangements. The Commission cannot mediate or make rulings about past or current actions or resolve disputes. However, your evidence may be invaluable in reforming the future childcare system — potentially allowing others to avoid the circumstances you have experienced. If you wish to share the details of your experience, we request that you do not name individuals that have been involved — such detail is generally unnecessary for the Commission's deliberations. The Commission will seek clarification or further information from you, if required.

Attachment A

HOW TO MAKE A SUBMISSION

This is a public inquiry and the Commission invites interested individuals, organisations and government agencies to make a written submission.

How to prepare a submission

Submissions may range from a short letter outlining your views on a particular topic to a much more substantial document covering a range of issues. Where possible, you should provide evidence, such as relevant data and documentation, to support your views.

This is a public inquiry and all submissions should be provided as public documents that can be placed on the Commission's website for others to read and comment on. However, under certain circumstances the Commission can accept sensitive material in confidence, for example, if it was of a personal or commercial nature, and publishing the material would be potentially damaging. You are encouraged to contact the Commission for further information and advice before submitting such material. Material supplied in confidence should be provided under separate cover and clearly marked 'IN CONFIDENCE'.

The Commission prefers to receive submissions attached to an email as a text document (.txt, .rtf), a Microsoft Word document (.docx) or similar format. Please remove any internal links and large logos or graphics, to keep file sizes down. Track changes, editing marks, hidden text and internal links should be removed from submissions before sending to the Commission. To ensure hyperlinks work in your submission, the Commission recommends that you type the full web address (eg. <http://www.referred-website.com/folder/file-name.html>).

How to lodge a submission

Each submission should be accompanied by a submission cover sheet. The submission cover sheet is available on the inquiry webpage. For submissions received from individuals, all personal details (eg home and email address, phone and fax number) will be removed before it is published on the website for privacy reasons.

All submissions received — apart from any information supplied in confidence or considered by the Commission to potentially be damaging to the personal or commercial interests of a third party — will be published on the Commission's website shortly after receipt. Submissions will remain on the website indefinitely as a public document. Copyright in submissions sent to the Commission resides with the author(s), not with the Commission.

Submissions can also be accepted by post or fax (see address below).

By email*: childcare@pc.gov.au

By fax: (02) 6240 3377

By post: Childcare Inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2600

* If you do not receive notification of receipt of an email message you have sent to the Commission within two working days of sending, please contact the Administrative Officer.

Due date for submissions

Please send submissions to the Commission by **Monday 3 February 2014**

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