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| The Productivity Commission |
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The Hon Joe Hockey MP

Treasurer

Parliament House

CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the Commission’s final inquiry report on *Childcare and Early Childhood Learning*.

Yours sincerely

|  |  |
| --- | --- |
| Signature | Signature |
| Wendy Craik  Presiding Commissioner | Jonathan Coppel  Commissioner |

# Terms of reference

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
* 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:
   1. increased participation in the workforce, particularly for women
   2. optimising children's learning and development.
2. The current and future need for child care in Australia, including consideration of the following:
   1. hours parents work or study, or wish to work or study
   2. the particular needs of rural, regional and remote parents, as well as shift workers
   3. accessibility of affordable care
   4. 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
   5. the role and potential for employer provided child care
   6. usual hours of operation of each type of care
   7. the out of pocket cost of child care to families
   8. rebates and subsidies available for each type of care
   9. 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
   10. opportunities to improve connections and transitions across early childhood services (including between child care and preschool/kindergarten services)
   11. the needs of vulnerable or at risk children
   12. interactions with relevant Australian Government policies and programmes.
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

[Received 22 November 2013]

Contents

The Commission’s report is in two volumes. Volume 1 contains the overview, recommendations, summary of the Commission’s main proposals and chapters 1 to 6. **This volume contains chapters 7 to 17, appendix A and references.** Below is the table of contents for both volumes. Appendixes B to J and a technical supplement on modelling are referred to in the chapters but are not included in the report. They are available from the Commission’s website (www.pc.gov.au).

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# Acknowledgments

The participation in this inquiry of families, ECEC workers, sector representatives and other stakeholders through submissions, online comments, visits and public hearings has been invaluable to the Commission and much appreciated.

The Commission is grateful for the assistance it received from the Australian Government Department of Education, the Australian Government Department of Social Services, Australian Government Department of Human Services, the Australian Children’s Education and Care Quality Authority, and State and Territory Governments, including through the provision of unpublished administration data and helpful responses to many questions about existing arrangements.

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The inquiry used data from a number of Australian Bureau of Statistics (ABS) collections and unit record data, customised population projections prepared for the Australian Government Department of Social Services (DSS) by the ABS, and from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA project was initiated and is funded by the DSS and is managed by the Melbourne Institute of Applied Economic and Social Research. The findings and views reported, however, are those of the Commission and should not be attributed to either DSS or the Melbourne Institute.

The Commissioners would like to express their appreciation to the staff who worked on the inquiry report and the underlying analysis. The staff team was led by Rosalyn Bell and included Joanna Abhayaratna, Steven Argy, Monika Binder, Mark Bryant, Bronwyn Fisher, Jenny Gordon, Bill Henderson, Nico Louw, Paulene McCalman, Troy Podbury, Ineke Redmond and other staff in the Canberra office. The Commissioners would also like to thank Phil Harslett, Patrick Jomini, Dan Marshall and Tim Murray in the Melbourne office for their modelling work for the inquiry.

# Abbreviations and explanations

Abbreviations

ABS Australian Bureau of Statistics

ACECQA Australian Children’s Education and Care Quality Authority

AEDC Australian Early Development Census

AEDI Australian Early Development Index

AIFS Australian Institute of Family Studies

AIHW Australian Institute of Health and Welfare

ANZSIC Australian and New Zealand Standard Industrial Classification

ARIA Accessibility/Remoteness Index of Australia

ASC after school care

ATO Australian Taxation Office

BBF Budget Based Funded

BSC before school care

CALD culturally and linguistically diverse

CBC centre‑based care

CBD central business district

CCB Child Care Benefit

CCR Child Care Rebate

CCTR Child Care Tax Rebate

CELP Community Early Learning Program

COAG Council of Australian Governments

CPI Consumer Price Index

CSP Community Support Programme

DEEWR (former) Department of Education, Employment and Workplace Relations

DHS Department of Human Services

DSS Department of Social Services

ECEC early childhood education and care

ECLS Early Care and Learning Subsidy

ECT early childhood teacher

EMTR effective marginal tax rate

EPPE Effective Provision of Preschool Education study

FAHCSIA (former) Department of Families, Housing, Community Services and Indigenous Affairs

FBT Fringe Benefits Tax

FDC family day care

FTB Family Tax Benefit

FTE full‑time equivalent

GCCB Grandparent Child Care Benefit

GDP gross domestic product

GST Goods and Services Tax

HBC home‑based care

HECS Higher Education Contribution Scheme

HELP Higher Education Loan Programme

HILDA Household, Income and Labour Dynamics in Australia

HIPPY Home Interaction Program for Parents and Youngsters

IHC In‑Home Care

IPSP Inclusion and Professional Support Program

IPSU Indigenous Professional Support Units

ISA Inclusion Support Agency

ISF Inclusion Support Facilitator

ISP Inclusion Support Program

ISS Inclusion Support Subsidy

JETCCFA Jobs, Education and Training Child Care Fee Assistance

LDC long day care

LSAC Longitudinal Study of Australian Children

MACS Multifunctional Aboriginal Children’s Services

NAPLAN National Assessment Program — Literacy and Numeracy

NATSEM National Centre for Social and Economic Modelling

NDIS National Disability Insurance Scheme

NICHD National Institute for Child Health and Human Development

NISSP National Inclusion Support Subsidy Provider

NPA National Partnership Agreement

NQF National Quality Framework

NQS National Quality Standard

OCC occasional childcare

OECD Organisation for Economic Co-operation and Development

OSHC outside school hours care

PC Productivity Commission

PSC Professional Support Coordinator

QIP Quality Improvement Plan

ROGS Report on Government Services

SCCB Special Child Care Benefit

SEIFA Socio‑Economic Index for Areas

VAC vacation care

Explanations

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | Billion | The convention used for a billion is a thousand million (109). | | Findings and recommendations | Findings and recommendations are listed thematically at the end of the report overview. The number of the finding or recommendation indicates its location in the body of the report. For example, ‘Recommendation 10.1’ and discussion relating to it would be found in chapter 10. | |