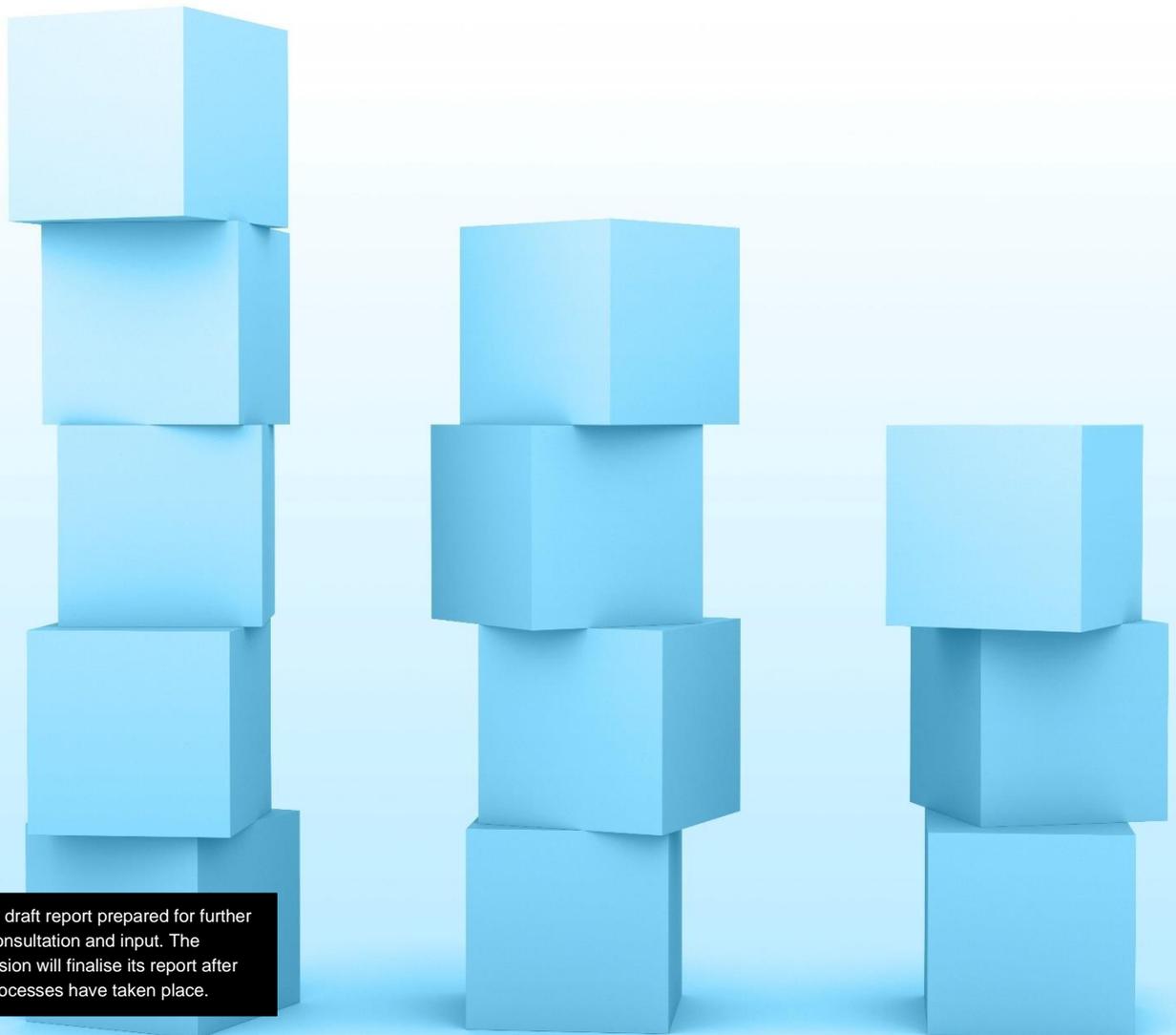




# A path to universal early childhood education and care

Draft report



This is a draft report prepared for further public consultation and input. The Commission will finalise its report after these processes have taken place.

**The Productivity Commission acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to their Cultures, Country and Elders past and present.**

## **The Productivity Commission**

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

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

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)).

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## Opportunity for comment

The Commission thanks all participants for their contribution to the inquiry and now seeks additional input for the final report.

You are invited to examine this draft report and comment on it by written submission/brief comment to the Productivity Commission, preferably in electronic format, by mid-February 2024.

Further information on how to provide a submission/brief comment is included on the inquiry website:

[www.pc.gov.au/inquiries/current/childhood/make-submission](http://www.pc.gov.au/inquiries/current/childhood/make-submission)

The Commission will prepare the final report after further submissions have been received and it will hold further discussions with participants. Public hearings will be held in late February 2024. Further details on registering for hearings and making submissions can be found on the inquiry website.

### Commissioners

For the purposes of this inquiry and draft report, in accordance with section 40 of the *Productivity Commission Act 1998* the powers of the Productivity Commission have been exercised by:

Lisa Gropp	Commissioner
Martin Stokie	Commissioner
Deborah Brennan	Associate Commissioner

# Terms of reference

## Review of early childhood education and care

I, Jim Chalmers, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (the Commission) undertake an inquiry into the early childhood education and care (ECEC) sector in Australia.

## Background

The Australian Government recognises that ECEC is an essential part of Australia's education system and is integral to Australia's economic prosperity as a powerful lever for increasing workforce participation. The Government is committed to identifying solutions that will chart the course for universal, affordable ECEC – in the great tradition of universal Medicare and universal superannuation.

Participation in quality ECEC has important developmental, social, and educational benefits for Australian children. It can assist with positive early childhood development and provides a foundation for our children's future well-being and success.

Cost and availability continue to be barriers to accessing ECEC, and for parents and carers achieving their preferred level of workforce participation. The Government believes more accessible ECEC is one of the most powerful initiatives it can pursue for increasing workforce participation, particularly for women.

Governments make significant investments in ECEC which must be targeted, complementary and cohesive to maximise the educational and economic benefit in the most efficient way possible.

Findings from the Australian Competition and Consumer Commission Child Care Price Inquiry will inform and support this Inquiry.

In addition, the Government has committed to developing a Commonwealth whole-of-government Early Years Strategy, focused on the wellbeing, education and development of Australia's children. Further, National Cabinet has asked Education and Early Years Ministers to develop a long-term vision for ECEC.

## Scope of the inquiry

The Commission will undertake an inquiry into the ECEC sector in Australia. The Commission should make recommendations that will support affordable, accessible, equitable and high-quality ECEC that reduces barriers to workforce participation and supports children's learning and development, including considering a universal 90 per cent child care subsidy rate. In doing so, the Commission should consider options that improve or support:

- affordability of, and access to, quality ECEC services that meet the needs of families and children
- developmental and educational outcomes for Australian children, including preparation for school
- economic growth, including through enabling workforce participation, particularly for women, and contributing to productivity
- outcomes for children and families experiencing vulnerability and/or disadvantage, First Nations children and families, and children and families experiencing disability
- the efficiency and effectiveness of government investment in the sector.

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Without limiting the matters on which the Commission may report, in making recommendations the Commission should consider:

- impacts on demand, supply, and fee growth.
- interactions with existing and planned Commonwealth, state and territory ECEC policy settings and funding, including recent commitments by the New South Wales and Victorian governments to expand access to 30 hours of preschool for children in the year before full time school and support more 3-year-old children to participate in preschool, and any commitments in response to the South Australian Royal Commission into Early Childhood Education and Care.
- interactions with other incentives and disincentives to join or increase participation in the workforce.
- ECEC sector workforce requirements and the capacity to meet these requirements within current Commonwealth, state and territory initiatives.
- required regulatory settings, including to manage compliance and integrity risks for Commonwealth programs.
- impact on access to quality ECEC, including by remoteness and access to flexible (non-standard hours) services.
- whether different settings are required based on the location of services or family circumstances.
- the operation and adequacy of the market, including types of care and the roles of for-profit and not-for-profit providers, and the appropriate role for government.
- activity requirements and other ECEC policy settings, including to reduce system complexity and debt for families.
- impacts on the economy, including workforce participation, productivity and budgetary implications.
- a pathway for implementation.

The Commission should have regard to any findings from the Australian Competition and Consumer Commission's Price Inquiry into child care prices, as well as any other relevant government reviews of ECEC programs.

## Process

The Commission should undertake a broad public consultation process, including by holding hearings, inviting public submissions and releasing a draft report to the public.

The Commission should consult with state and territory governments and the ECEC sector where required. The Commission should also consult with the Closing the Gap Early Childhood Care and Development Policy Partnership on matters relating to First Nations children, families, and services.

The Commission will commence this Inquiry on 1 March 2023 and provide a final report to the Government by 30 June 2024.

**The Hon Jim Chalmers MP**  
Treasurer

[Received 9 February 2023]

## **Disclosure of interests**

The Productivity Commission Act 1998 specifies that where Commissioners have or acquire interests, pecuniary or otherwise, that could conflict with the proper performance of their functions they must disclose those interests. The Commissioners working on this report have no interests requiring disclosure.

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Supplementary papers to this report are available from the Commission’s website: [www.pc.gov.au/childhood](http://www.pc.gov.au/childhood).

## **Acknowledgments**

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

This report uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Social Services (DSS) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the Commission and should not be attributed to either DSS or the Melbourne Institute.

This report also uses confidentialised administrative data provided by the Australian Government Department of Education, Services Australia, the Australian Children’s Education & Care Quality Authority (ACECQA) and state and territory governments. The Commission thanks participants who have provided data to the inquiry to date.

# Executive summary

## Key points

- \* **Early childhood education and care (ECEC) services play a major role in the lives of young children and their families. Nearly half of one-year-olds attend some form of ECEC, and about 90% of four-year-olds are enrolled in ECEC. For many children, attending ECEC can have positive effects on their achievements at school and later in life. But children experiencing disadvantage and vulnerability – who are likely to benefit most from ECEC services – are less likely to attend.**
- \* **A universal ECEC system means making quality services accessible to all children and families. Achieving it will require tackling availability, affordability and inclusion gaps.**
- \* **Up to 30 hours or three days a week of quality ECEC should be available to all children aged 0–5 years.**
  - Supply will respond in many areas to deliver this benchmark. But in persistent ‘thin’ markets or communities with complex needs, the Australian Government should provide additional funding to support the establishment of appropriate services and, where necessary, ensure their ongoing viability through block funding.
- \* **Expanding the availability of ECEC will require governments to prioritise the workforce challenges facing the sector. The pay and conditions offered to the ECEC workforce – which are critical for recruitment and retention – may be improved through processes arising out of recent changes to the Fair Work Act. But more work is required to improve career and qualification pathways within and into ECEC professions.**
  - ECEC educators who are studying to become teachers should be offered accelerated pathways and greater flexibility to complete their qualifications while working.
  - Early childhood teachers who hold degree-level qualifications approved by the Australian Children’s Education & Care Quality Authority should be eligible for teacher registration in all states and territories.
- \* **Affordability should not be a barrier to ECEC access. Lower income families spend a higher proportion of their income on ECEC compared with those who are better off. The Australian Government should raise the maximum rate of the Child Care Subsidy (CCS) to 100% of the hourly rate cap for families on incomes up to \$80,000 – about 30% of all families with young children.**
  - The CCS activity test should be relaxed so that it is not a barrier for any family wishing to access up to 30 hours or three days a week of ECEC services.
  - Preliminary modelling shows that increasing the top subsidy rate to 100% for lower income families and relaxing the activity test will lead to an estimated 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and mothers (or secondary income earners) in couple families with young children. Total hours of formal ECEC used are estimated to rise by about 12%, with about two-thirds of the increase attributed to families who were not previously using ECEC. The total cost of this policy is estimated to be about \$2.5 billion per year, equivalent to a 20% increase in the total estimated CCS outlay for 2023-24.
- \* **ECEC services should be inclusive of all children, including those with disability and those from diverse cultural backgrounds. But current government supports fail to reach many children who require them. The Australian Government should significantly increase funding for the Inclusion Support Program and streamline the requirements of the program to expand its reach.**

- \* Aboriginal and Torres Strait Islander children are under-represented in ECEC services because mainstream providers are not always available and affordable, or they may not offer culturally safe environments. Aboriginal Community Controlled Organisations (ACCOs) can struggle to source adequate funding to deliver tailored programs that meet community priorities.**

  - ACCOs require a sustainable funding model, which recognises their knowledges and expertise to deliver the ECEC priorities of their communities.
  - The cultural capability of all ECEC services should be improved through publicly funded professional development for staff and better support for services.
- \* ECEC services should be flexible and responsive to the needs of families. Governments should remove impediments to the provision of flexible services, such as wrap-around care in dedicated preschools, and improve incentives for services to operate during non-standard hours. The Australian Government should fund supports for families experiencing significant barriers to access, such as lack of transport.**
- \* Quality is paramount to achieving the benefits of ECEC – but the regulatory system that is part of the National Quality Framework is not always resourced to deliver timely assessments of service quality or take sufficient action to tackle persistently poor quality.**

  - The operation of state and territory regulatory authorities should be independently reviewed, and where necessary, the Australian Government should fund an increase in resourcing to enable regulatory authorities to deliver timely quality assessments and support continuous quality improvement.
- \* Australian, state and territory governments should sign a new National Partnership Agreement on Early Childhood Education and Care, which would outline their respective roles and responsibilities as stewards of the system, as well as the objectives all governments seek to achieve in ECEC.**

  - The Australian Government should retain its responsibility for funding, including subsidies for families and direct support to establish services in areas of low supply. State and territory governments should retain their responsibility for preschool.
  - State and territory governments should be responsible for ensuring the provision of outside school hours care in government primary schools, with ongoing financial support from the Australian Government.
- \* A new independent Early Childhood Education and Care Commission should be created to support, advise and monitor governments' progress towards universal access to ECEC.**

  - The Commission should evaluate the effects that policy changes have on children, families, educators, teachers and service providers – to ensure that services offer inclusive, quality ECEC in all communities.
  - The Early Childhood Education and Care Commission should implement a comprehensive research agenda to address some of the significant knowledge gaps around the factors that affect ECEC quality and their implications for children.
- \* The reform agenda outlined in this report sets out a pathway to a universal system of ECEC. Delivering it will require careful implementation and sequencing. Addressing workforce issues will be fundamental to achieving universal availability.**

**Other broader funding options canvassed in this report could be considered once the suite of proposed reforms have been implemented.**

## Executive summary

Early childhood education and care (ECEC) services are places where children play, form relationships, use their imagination and learn. For many young children and their families, ECEC is a part of everyday life. Nearly half of one-year-olds attend some form of ECEC, and about 90% of four-year-olds are enrolled in ECEC. For many children – especially those experiencing disadvantage and vulnerability – attending ECEC can have positive effects on their achievements at school and later in life. But children who would likely benefit the most from ECEC are attending less than average or not at all.

ECEC is critical to the wellbeing of families. Many families rely on ECEC services, or on a combination of formal and informal care, to participate in the labour force, access study and training opportunities, or volunteer. Over the years, governments have introduced many policies to support ECEC, in recognition of the vital importance of the early years (as articulated in the Alice Springs (Mparntwe) Education Declaration) as well as the role of ECEC in enabling labour force participation, particularly for women.

As a result of these policies and the expansion of largely for-profit provision, the number of ECEC services has increased over the decade to 2023 by 25% to 18,500 services; the number of places available to children has risen by nearly 50% over the same period, to more than one million places. Further expansion is expected with recent subsidy increases and state and territory governments' plans to expand their preschool offering. But ECEC availability varies across the country – some areas have many services, while others have very few. A higher proportion of services meet or exceed the National Quality Standard than ever before, but services in disadvantaged communities are often of poorer quality.

Without diminishing the importance of female labour force participation, this inquiry centres children in ECEC policy – understanding what aspects of ECEC make a difference to children, how services can be inclusive for all children, and how governments can ensure that their investments in ECEC support better outcomes for children. Families are a critical influence on children; parents and guardians will ultimately decide if and how much ECEC children attend. Policies to improve the accessibility and affordability of ECEC are about supporting children's development and family choices.

There are many reasons why children who stand to benefit significantly from ECEC attendance are missing out: there may be insufficient services in their local area; where services exist, they may have substantial waiting lists or limited places due to workforce constraints, or out-of-pocket fees may be unaffordable; services may not be inclusive or culturally safe for children to attend. Aboriginal and Torres Strait Islander children are more likely than their peers to miss out on ECEC.

The terms of reference for this inquiry require the Commission to consider a 'universal' ECEC system. Reflecting on those children who are unable to access ECEC, the Commission considers a universal system would enable all children to access services that support their development by addressing current availability gaps. In the Commission's assessment, such a system would enable all children to access three days, up to 30 hours, a week of affordable, high quality ECEC regardless of their parents' activity status. This would also continue to support mothers' (or secondary income earners' within a couple) choices about paid or unpaid work, study or volunteering. Children and families who require additional hours would continue to be able to access them.

Universal access will require further expansion of services, with a commensurate increase in the availability of a qualified, appropriately remunerated and supported educator and teacher workforce. Universal, however, does not mean uniform. In a universal system, some form of ECEC would be available to all children regardless of where they live, but the mode of provision could differ depending on location and the needs of children. Nor does universal access mean compulsory, full-time or fully subsidised access.

Achieving universal access will take time. As a priority, governments should address affordability and availability gaps for those least able to afford ECEC or who can only access few, if any, services. Governments should also improve support for services to ensure a system that is inclusive, flexible and well-coordinated. The draft recommendations in this report span:

- availability – considering ways to make services available in areas of low supply, while ensuring that services offered exceed or at least meet quality standards. Governments are already investing in boosting the supply of ECEC but need to do more to ensure universal access. The regulatory system needs sufficient resources to monitor and enhance quality across ECEC services
- affordability – addressing concerns about inequities and lack of flexibility in the current subsidy structure, relaxing the activity test embedded in the Child Care Subsidy (CCS) to support universal access to ECEC, and increasing subsidy rates to low income families, so that ECEC is free or very low cost for those eligible
- inclusivity – ensuring that services are truly inclusive for all children. The programs intended to support inclusion reach only a fraction of the children who need them, and this needs to be addressed
- flexibility – supporting services to be more responsive to the needs of families, including investigating ways to reduce the proportion of hours that families (and taxpayers) are required to pay for even if children do not attend; removing restrictions around the provision of extended care in preschool; and ensuring that primary schools enable the provision of outside school hours care, wherever this is necessary.

The Commission estimates that relaxing the activity test for all families and increasing subsidy rates for low income families will lead to an increase of 12% in the hours of ECEC children attend, with about two-thirds of the increase in hours attributed to families who were not previously using ECEC. These reforms are also estimated to lead to a 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and secondary earners in couple families with young children. The total cost of the policy is estimated to be about \$2.5 billion per year, about a 20% increase in the estimated CCS outlay for 2023-24.

Universal access to ECEC cannot be achieved without addressing the critical demand and need for educators, early childhood teachers, centre directors and other ECEC workers. Concerns about pay, conditions, career opportunities and qualification pathways for the ECEC workforce have been a major concern for the sector for many years. Processes to address pay and conditions in the sector are underway as a result of recent changes to the *Fair Work Act 2009* (Cth). In addition, ensuring career and qualification pathways needs are addressed must be a priority before other changes in the sector can be realised.

Achieving universal access to ECEC will require staged and coordinated implementation of reforms to maintain quality and avoid bottlenecks that exacerbate unmet demand. The planned expansion of preschool in a number of states and territories will also affect universal access and further increase the demand for staff.

Expanding access to ECEC and preschool would be well served by governments entering into a new National Partnership Agreement for Early Childhood Education and Care. This would help coordinate efforts towards better stewardship, governance and consistency of ECEC services. The implementation of this Agreement should be overseen by a new ECEC Commission, which would play a pivotal role in developing priorities for investment and planning so that expanded ECEC focuses on areas of greatest need and is achieved at a sustainable pace. The proposed ECEC Commission could also monitor and evaluate the costs and benefits of reforms implemented. Evaluations – and a clearly articulated research agenda – would inform further policies to deliver affordable ECEC.

As progress is made towards universal ECEC by addressing the immediate policy priorities, governments could consider the merits of undertaking comprehensive funding reform, such as offering a flat rate subsidy to all families or funding ECEC in the same way schools are funded. Some implications of these approaches are explored in this report. For example, preliminary modelling shows that moving to a 90% subsidy rate for all families would increase total hours of work by single parents and secondary earners in couple families

with young children by 2.8% (or the equivalent of 17,000 full-time workers). Hours of ECEC are estimated to increase by 7.4% and fiscal costs would rise by \$4.1 billion a year (or about one third). Income tax collections would grow by \$480 million.

The main beneficiaries from a 90% subsidy rate would be higher income families, as many low income families already receive subsidies at 90% or higher rates. The Commission will conduct further modelling and analysis of alternative funding options for the inquiry's final report.

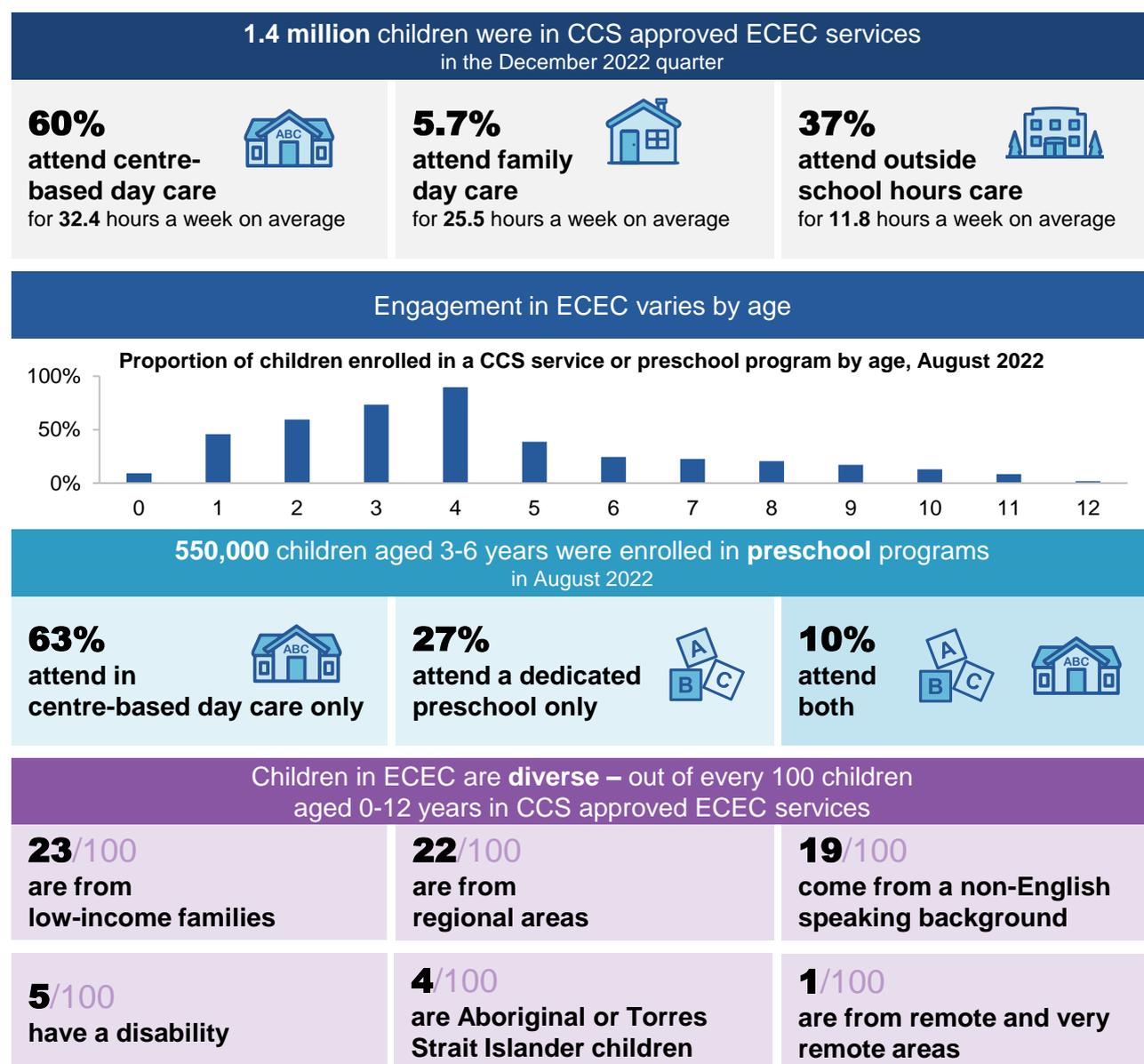
The Commission invites feedback from sector participants and the broader community on the policy options included in this draft report. We are also undertaking separate processes to hear directly from children about what they value in ECEC services and what changes they would like to see. Their views, alongside submissions and public hearings, will inform the Commission's final report, which will be handed to the Australian Government in June 2024.

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

## 1. ECEC services support many children and parents, but some families find them difficult to access

Many children attend early childhood education and care services – whether in centre-based day care, preschool, family day care, outside school hours care or other types of services (figure 1). Families rely on ECEC services, or on a combination of formal and informal care, in order to balance caring for children with other activities, including paid work, studying, training or volunteering. ECEC is also an entry point that enables families to access many other support services, from maternal and child health services to food banks.

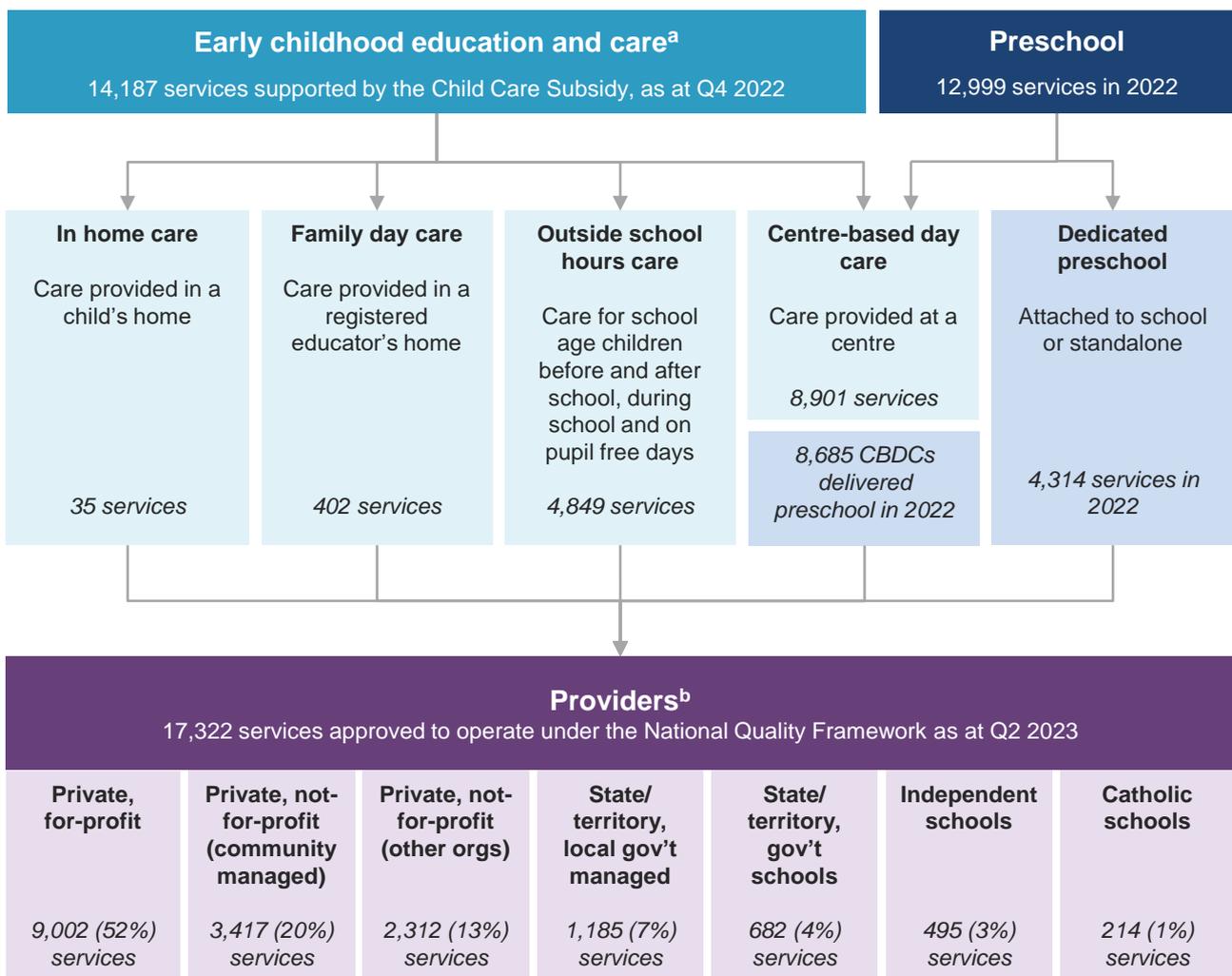
**Figure 1 – More than 1.4 million children attend ECEC services**



The experiences of children and their families in accessing ECEC vary substantially, reflecting the evolution of the ECEC sector and the policies that affect it. Most four-year-old children, for example, attend a ‘preschool program’ – but depending on where they live, they may do so in centre-based day care, which may be run by a private provider and operate for 12 hours a day, 48 weeks of the year. Or they may attend a dedicated program in a standalone service or on school grounds, which is open during school terms and is limited in its hours of operation. One in ten children aged 3–6 years will attend both types of programs – and many more will experience both formal and informal care, which is usually provided primarily by grandparents.

Over the past decade, ECEC services have expanded rapidly although growth has not been uniform across the country. In December 2022, there were over 18,500 ECEC services (including 8,900 centre-based day care services) and 13,000 preschool programs (in dedicated preschools and centre-based day care) operating across Australia (figure 2). The number of ECEC services grew by about 25% between 2013 and 2023, as large for-profit operators responded to increased demand and opened new services, particularly in major cities and inner regional areas (figure 3). The number of approved places that can be offered to children grew even more rapidly, by nearly 50% in the decade to 2023.

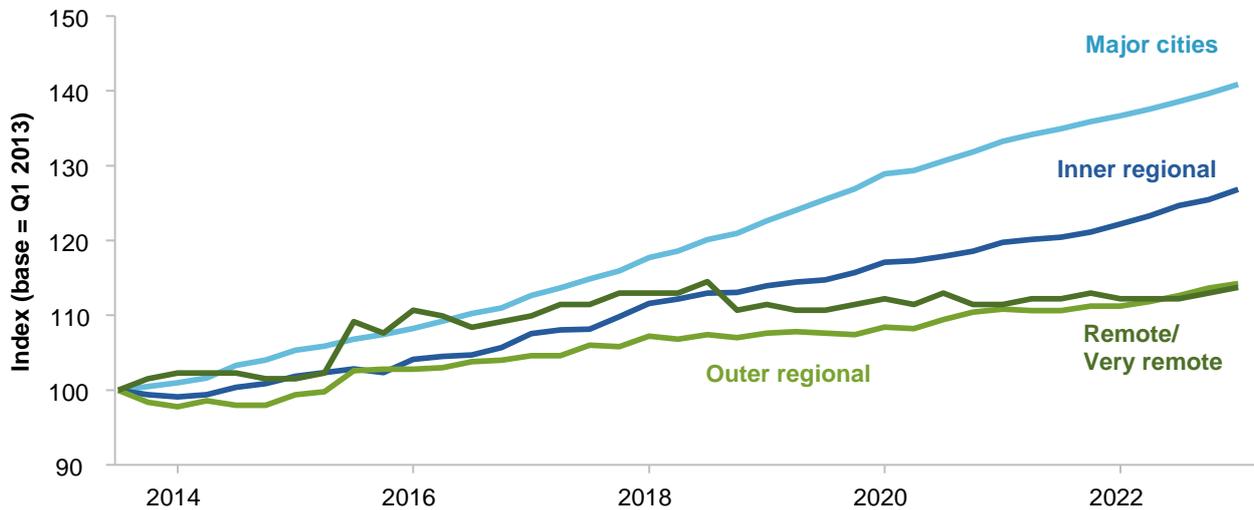
**Figure 2 – ECEC services and providers are diverse**



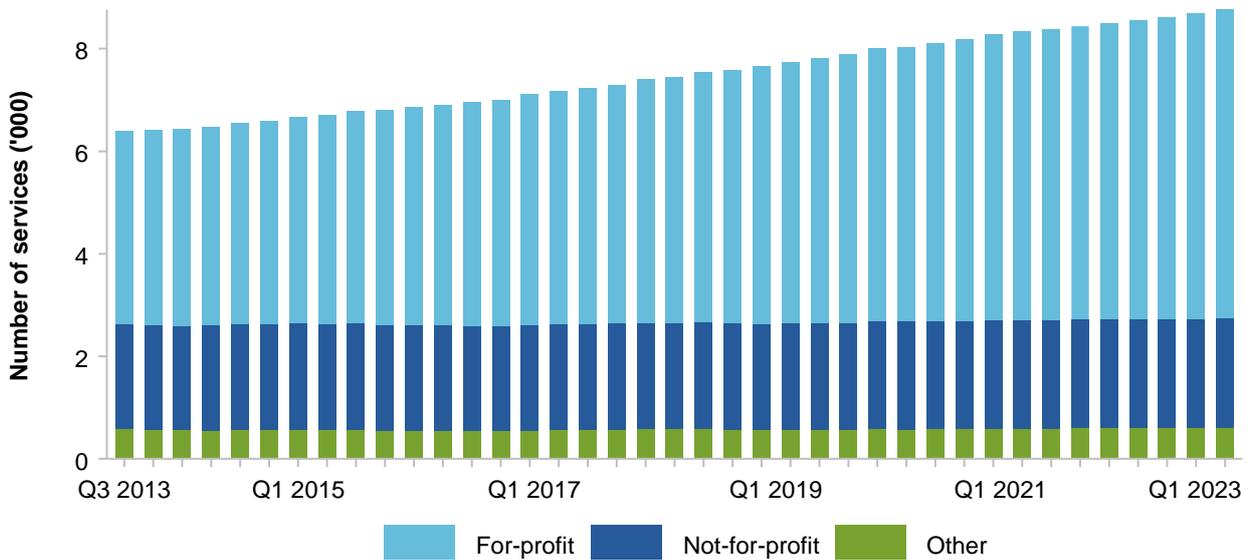
**a.** State and territory funded ECEC services are excluded (166 services in 2022). **b.** The majority of providers operate one service. The difference between the 18,501 services enumerated in the top panel and the 17,322 enumerated in the bottom panel is due to the services not captured in the ACECQA data (including most WA dedicated preschools, all Tasmanian dedicated preschools and all in-home care services).

**Figure 3 – Supply of CBDC has grown particularly rapidly in urban areas and through for-profit provision<sup>a,b</sup>**

**a) Index for the number of services by remoteness, Q3 2013–Q1 2023**



**b) Number of services by provider type, Q3 2013–Q1 2023**



a. The index can be interpreted as the percentage change in the number of services since the base year (2013).

b. Government, catholic and independent schools, and other unclassified provider types are included as 'other'.

Over time, the sector has become more concentrated, with the largest 1% of providers managing 35% of services. However, most providers are small businesses, operating only one service. For-profit providers account for about half the market, and almost 70% of centre-based day care (CBDC). For-profit provision is also the most common model for outside school hours care (OSHC).

Not-for-profit providers range from preschools that are managed by volunteer committees to the largest operator in the market, Goodstart Early Learning, which is owned by a consortium of community sector organisations. The number of not-for-profit providers has remained largely unchanged and their share of ECEC services has declined over the past decade (figure 3); sector participants argue that this is due to

limited access to capital to enable expansion. Some not-for-profit providers choose to keep fees low, reinvest surplus funds into existing services or pay higher wages to staff rather than expand.

In some jurisdictions, the state government is the largest provider of dedicated preschool. Access to preschool (either in dedicated settings or through CBDC) is set to grow significantly, as New South Wales and Victoria have begun a substantial expansion of their preschool offering, Queensland, South Australia and the Australian Capital Territory are investing in preschool, and Tasmania and the Northern Territory are considering changes to preschool provision, with the view to expand existing offerings.

## **Participation in ECEC can make a marked lifelong difference to children**

Many children have positive experiences in ECEC. The challenge, however, is that the effects of attending ECEC services can be difficult to measure, as any benefits will be observed over many years, even decades later. ECEC is a critical but only one important factor influencing lifelong learning and success.

There is a vast international literature that considers the impact of ECEC on children. The complex and interrelated factors that shape children's development make it difficult to isolate the effects of a single factor such as participation in ECEC. Some of the seminal studies of intensive interventions showing high net social payoffs were conducted decades ago in the US and involved children experiencing significant disadvantage. Extrapolating from such studies to Australia is not always feasible or advisable.

Nonetheless, there is more recent evidence from Australia and overseas that shows that most ECEC programs (in CBDC or preschool) have positive effects on children's early academic, cognitive, or non-cognitive skills. Such benefits are more likely for preschool attendance and for older children. These benefits can last well into adulthood – a smaller number of studies find that an expansion of ECEC can have a positive effect on adult outcomes, such as income, completing school, getting a job and avoiding contact with the justice system. The extent to which – and whether – an ECEC program promotes better outcomes for children will depend on the quality of that program (although available measures of ECEC quality are imperfect).

Children experiencing disadvantage tend to experience greater improvements in educational outcomes as a result of attending quality ECEC. Most studies in Australia and overseas find that ECEC benefits for children – and in some cases, their families – are greater when parental income or education is lower. Disadvantage can affect children's development in their early years and their opportunities later in life; quality ECEC can ameliorate some of these effects.

## **Not all children attend ECEC services – because of family choice or a lack of suitable, affordable services**

After increasing slowly over the past decade, ECEC attendance rates (excluding dedicated preschool) of children aged 0–5 years reached 57% in 2021. Of those who do not attend, many are very young and are cared for by their families at home, supported by policies such as paid parental leave and Parenting Payment. Among older children, one in four 3-year-olds and one in ten 4-year-olds are not enrolled in any ECEC.

In some cases, older children do not attend ECEC (CBDC or preschool) because of their parents' personal choices and preference to care for their own children or use informal care. In other cases, a lack of suitable options limit or discourage families from enrolling their children in ECEC services. These children are more likely to live in regional or remote areas, where ECEC availability can be patchy at best. There are also many families who find that services are unaffordable or cannot cater to their children's needs. Children with additional needs can experience exclusion and a lack appropriate support in ECEC.

The ECEC system can be confusing for families to navigate, with multiple funding sources, programs and governments involved. For some families, this difficulty is compounded by a range of factors, including low English proficiency, lack of digital access or access to government services and fear or mistrust in governments. Aboriginal and Torres Strait Islander and culturally and linguistically diverse children and families can also encounter difficulties in finding services that offer culturally safe ECEC.

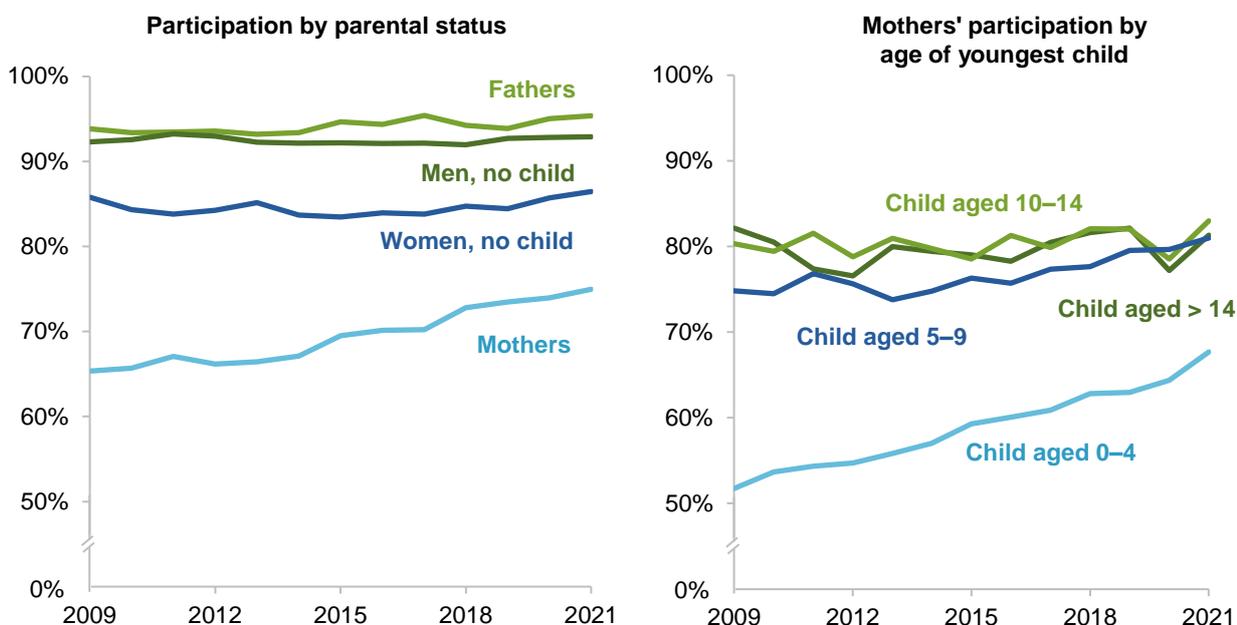
## ECEC enables families to balance caring for children with other activities

Alongside the benefits it can offer children, ECEC enables families to make choices about their preferred balance of caring for children and spending time working, volunteering, training or studying. This can contribute to greater wellbeing for parents and families; working increases family income, which in turn is beneficial for children and parents.

ECEC enables mothers in particular to maintain a connection to the labour force when children are very young, and allows for increasing hours of work as children grow. This has positive effects on their lifetime earnings and enables them to use and continue to develop their skills (which can offer benefits to the broader community as well as individuals). The labour force participation rate of mothers increased from 65% to 75% between 2009 and 2021, mostly due to an increase in the participation of mothers with children aged 0–4 years, while participation rates seem to have plateaued for mothers of older children. The participation rate of fathers was consistently high (over 90%) and higher than for men without children (figure 4).

**Figure 4 – Mothers with younger children have lower labour force participation rates than mothers with older children, but the gap is narrowing<sup>a</sup>**

**Participation rates, 2009–2021**



a. Participation rates are for persons aged 25–54 years, with or without a dependent child aged under 15 years.

About one in three families with children under five use informal care, primarily provided by grandparents (and one in five families use both formal and informal care). Grandparents typically provide fewer than 10 hours of care per week, but about 6% of children are cared for by grandparents for 30 hours or more.

Providing care to grandchildren may affect the labour force participation decisions of grandparents, who are increasingly likely to be juggling work and care responsibilities – just like younger generations.

There may be scope for further increases in the labour force participation of parents for whom ECEC access and affordability are a barrier to work. In 2020-21, about 4% of fathers (95,000 people) and nearly 20% of mothers (507,000 people) stated that they would like to find a job or work more hours. About 15% of these parents (about 85,000) – predominantly mothers – nominated ECEC-related reasons as their main barriers to work. A further 190,000 parents did not want to work or work more hours but pointed to ECEC-related issues as their main barrier for labour force participation. Affordability was the most frequently cited concern, but parents tended to report multiple ECEC-related barriers, such as a lack of availability and flexibility.

Recent increases in ECEC subsidies will have improved affordability for some of these parents, and some might have sought work as a result. Some will also face non-ECEC barriers to their labour force participation – for example, a lack of jobs available, offering suitable hours, or matching their skills and experience. Some might also be deterred by the high effective marginal tax rates that they would face as their transfer payments would be withdrawn and income tax payments would rise with higher earned income.

Ignoring these caveats, assuming all parents would choose to work if ECEC-related barriers were removed, and making assumptions about their desired hours, the equivalent of an additional 118,000 workers could be added to labour supply. This is an upper bound estimate; estimates that take the caveats into account are reported later in the paper.

## **2. Governments spend billions on ECEC – with little coordination**

Governments play a major role in the ECEC system – as policy makers, funders and regulators (figure 5). Overall, governments spend nearly \$13 billion each year on ECEC, including subsidies, grants and service delivery. The policy landscape is complex, and contains multiple laws, regulations and programs.

The Australian Government is responsible for most of the funding to the sector, amounting to \$10.3 billion in 2021-22, through the Child Care Subsidy (CCS, box 2), and a host of much smaller programs focusing on children with additional needs and capital investment. Eligibility for Australian Government funding differs by the type of ECEC service; dedicated preschools are not eligible to administer the Child Care Subsidy and families sending their children to dedicated preschool do not receive the subsidy for any preschool fees.

State and territory governments fund the delivery of preschool in dedicated services and contribute to the funding of CBDC services that cater for children in the year before full-time school. In 2021-22, state and territory governments spent \$2.2 billion on preschool services. Unlike the CCS, which depends on family income and parents' activity, preschool funding is provided directly to eligible services (similarly to school funding). State funding is set to increase substantially in coming years, with New South Wales and Victoria committing over \$9 billion in the next decade to enable ECEC expansion, primarily through preschool.

This division of responsibility is a product of history. Since 1972, the Australian Government has been subsidising ECEC fees for families to support their labour force participation. State and territory governments, on the other hand, fund preschool as part of their education budgets; some have also been delivering preschool as part of their school system for many years.

Governments collaborate in setting some aspects of ECEC policy. Since 2008, governments have signed national agreements that have introduced universal access to 600 hours of preschool for children in the year before full-time school. Nearly 90% of eligible children are enrolled in a preschool program, but only 70% attend

for the full 600 hours. Under the current Preschool Reform Agreement, the Australian Government contributes about \$500 million of the annual cost of preschool, and all governments have agreed to implement better data collection, including a preschool outcome measure, to assess the effects of attendance on child development. At the moment, it is not possible to compare the effects of the different models of funding and delivery on children’s educational outcomes and draw conclusions about their efficiency and effectiveness.

**Figure 5 – Governments are involved in all aspects of ECEC**

	 <b>Centre-based day care</b>	 <b>Family day care</b>	 <b>Preschool</b>	 <b>Outside school hours care</b>
<b>Policy settings</b>	 Australian Government	 Australian Government	  Australian Government and state and territory governments	  Australian Government and state and territory governments
<b>Funding</b>	   Mostly demand-side subsidies from the Australian Government, small contributions from state and territory governments and out-of-pocket fees	   Mostly demand-side subsidies from the Australian Government, small contributions from state and territory governments and out-of-pocket fees	   Mainly supply-side funding from the state and territory governments, with Australian Government contributions and low out-of-pocket fees	  Mostly demand-side subsidies from the Australian Government and out-of-pocket fees
<b>Regulation</b>	  State and territory governments (using a national framework) and local government	  State and territory governments (using a national framework) and local government	  State and territory governments (using a national framework or state requirements) and local government	 State and territory governments (using a national framework alongside state requirements)

Overall, there is little coordination in the setting of ECEC policy, and a multitude of different programs with overlapping objectives have emerged over the years. Integrated services (that combine ECEC with other services) are a case in point. Such services can make a real difference, in particular for Aboriginal and Torres Strait Islander children and families. There are a range of integrated models in operation, such as Aboriginal Child and Family Centres, Early Years Places in Queensland and the Child and Family Learning Centres in Tasmania. Some of these are funded by state and territory governments, while the Australian Government invests in integrated services through the Connected Beginnings program for Aboriginal and Torres Strait Islander children and families. But some services juggle multiple funding streams to continue operating and their integration function – a key support for children and families – is often unfunded.

Governments make limited investment in the establishment of new ECEC services. The Australian Government allocates about \$140 million each year to the Community Child Care Fund (CCCF); in the past, it offered support for capital investment to not-for-profit ECEC services. Over the years, state and territory governments

have invested in preschools and integrated services (some of which offer ECEC), and more recently Victoria and New South Wales announced plans to support ECEC services being constructed in areas of need.

In recognition of their evolving role in ECEC, the Australian, state and territory governments are developing a joint national vision for Early Childhood Education and Care. A draft of the vision positions governments as 'stewards of the system' – a different role to the one they have carried out so far.

## The ECEC regulatory system can do more to support quality and inform families' choices

Apart from funding and policy setting, governments' other major role in ECEC is regulation. While the regulation of most ECEC services is the responsibility of state and territory governments, the regulatory standards are included in the National Quality Framework, which is overseen by a national body – the Australian Children's Education and Care Quality Authority (box 1).

### Box 1 – The National Quality Framework

The National Quality Framework for Early Childhood Education and Care (NQF) is a framework of agencies, laws, regulations and standards, which provide a national approach to the regulation and quality assessment of ECEC services. The introduction of the NQF in 2012 was a major change, as regulation previously varied by jurisdiction. Requirements such as those relating to the safety of a service's physical environment were often duplicated in state/territory licensing and Australian Government quality assurance processes.

The National Law and National Regulations, which are part of the NQF, set out:

- approval processes for the operation of education and care services (although eligible services must also be approved under Family Assistance Law to enable families to receive the Child Care Subsidy)
- the assessment and rating system
- staff qualifications and staff-to-child ratios requirements for ECEC services
- compliance, monitoring and enforcement powers
- the functions and powers of the education ministers, the Australian Children's Education and Care Quality Authority (ACECQA) and the regulatory authorities in each jurisdiction.

ACECQA is an independent national authority that oversees the administration of the NQF, but the assessment and rating of services against the quality standards is carried out by state regulators. Services are rated against seven quality areas that comprise the National Quality Standard (NQS): educational program and practice; children's health and safety; physical environment; staffing arrangements; relationships with children; collaborative partnerships with families and communities; and governance and leadership.

The NQF covers most centre-based day care (CBDC), family day care (FDC), outside school hours care (OSHC) services and preschool (or kindergarten) services. Excluded from the NQF are preschools (kindergartens) that are part of the school system in Tasmania and Western Australia and other small groups of services providing ECEC in specific circumstances.

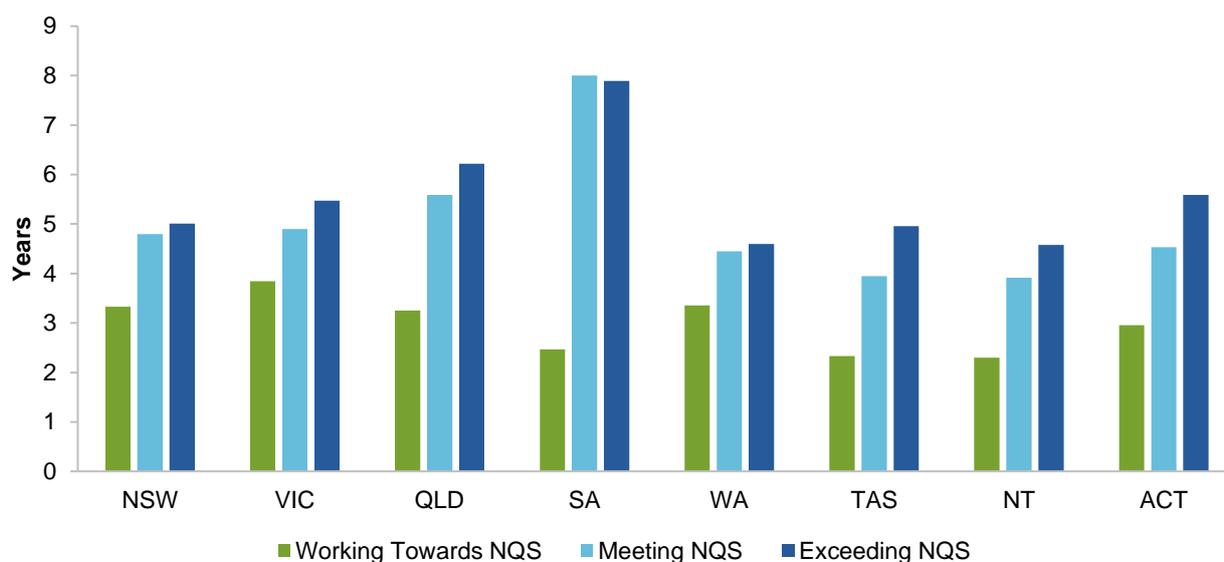
Since the implementation of the National Quality Framework, the ECEC quality standard in Australia seems comparable, if not superior, to many of the interventions found in the international research to support improved outcomes for children. Quality ratings have improved over time; one year after assessment and

rating under the NQF commenced in 2012, only 56% of rated services met the National Quality Standard (NQS). This figure reached 90% in 2023. But quality is not uniform across the sector. For example, services run by not-for-profit providers, governments and schools have better NQS ratings, with 34% exceeding the standard, compared with 13% of services run by for-profit providers. This may reflect the differing operating models or cost structures of services, with some not-for-profit services using surplus funds to offer higher staff wages, which may affect the quality of ECEC offered.

Sector participants – including the regulators themselves – have raised concerns about the way the quality regulation system operates, and in particular the lack of timely quality assessments. For those services assessed as ‘Meeting the NQS’, which comprise the bulk of the sector, more than four years pass between assessments (figure 6). This means that some children may start attending ECEC and eventually move on to school without the quality of the service they attend being confirmed by a regulator. This raises questions about the integrity of the information available to parents and policy makers and the extent to which it provides an accurate reflection of quality.

**Figure 6 – A long time between visits**

**Average years between ratings, by state and territory and previous rating**



Service providers can apply for temporary or permanent waivers if they are unable to comply with the NQS requirements for staff qualifications and/or physical amenity. About 12% of services hold such waivers. A further 10% of services are assessed to be ‘Working Towards the NQS’ (in both cases, these are more likely to be for-profit providers) – though most services that are working towards the NQS meet or exceed the standard in their subsequent assessment. The extent to which regulators support such services to improve their quality is unclear.

Families put a significant emphasis on quality as a characteristic of ECEC and the ratings published by regulators can help them be better informed about the services they choose for their children. But survey data shows that nearly half of families are not aware of the NQF – more than a decade after it was introduced. And those who are aware seldom use the ratings to make choices about ECEC, preferring instead to rely on reputation and recommendations from family and friends.

ECEC services must also comply with state and local regulations, which sometimes can result in unreasonable outcomes. The Commission has heard anecdotal evidence about applications to approve FDC

services being rejected by councils because the educators' homes, where the service is provided, did not have commercial kitchens or dedicated parking areas.

## **Governments collect vast amounts of data – but there are still many gaps in knowledge**

There is a lot of data collected in ECEC – through the administration of the CCS, preschool and other government programs, surveys with broad coverage, such as the Australian Early Development Census, and information submitted by service providers to regulators.

Despite these substantial collections, there are many important questions unable to be answered. For example, how many hours of preschool education children receive when they are attending CDBC in the year before full-time school is not known, and the measures being developed as part of the Preschool Reform Agreement will not be able to fully address this gap. Not enough is known about the ECEC experiences that make a difference to children, including, for example, the influence of staff qualifications or ratios on children's outcomes. Governments have not set a clear agenda for research into ECEC to address these and other knowledge gaps.

The data that is collected or generated by governments is not always used to improve decision making. For example, quality ratings are not considered when providers request regulatory approvals to expand and open a new service. As highlighted by the South Australian Royal Commission into Early Childhood Education and Care, data collected by the Australian Government is not routinely shared with states and territories.

### **3. Does the ECEC sector deliver the outcomes that matter to children and families?**

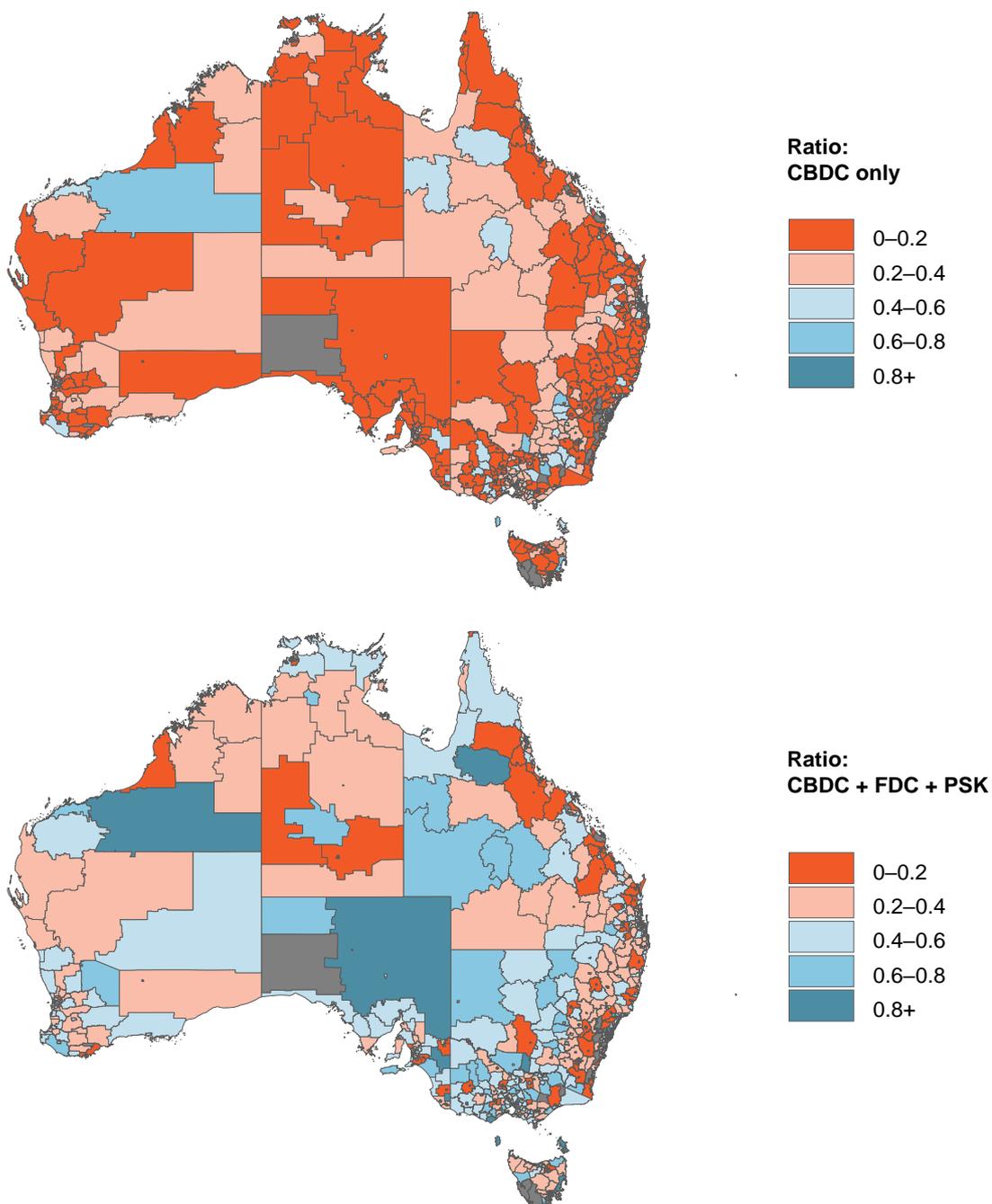
Over time, the proportion of children attending ECEC has increased, as more families have chosen to use formal care and more services have opened. But merely expanding ECEC does not necessarily deliver the outcomes that are important to children and families. The Commission has focused on four aspects of ECEC to assess the extent to which the ECEC system – including government policies – meets the needs and the expectations of the community. These include:

- **availability** – the ability of families to find a quality ECEC service in a reasonably convenient location
- **affordability** – the extent to which government subsidies reduce out-of-pocket expenses to families and support ECEC access, in particular for families experiencing disadvantage
- **inclusivity** – whether the needs of all children are accommodated in ECEC, including through the operation of government programs intended to support inclusion
- **flexibility** – the degree to which services respond to families' needs.

#### **The availability of quality ECEC can depend on where children live**

As a result of the uneven patterns of expansion in the ECEC sector, availability of services varies markedly in different parts of the country (figure 7).

**Figure 7 – ECEC availability varies widely across Australia<sup>a,b</sup>**  
**Ratio of number of approved ECEC places to population of children aged 0–5 years**



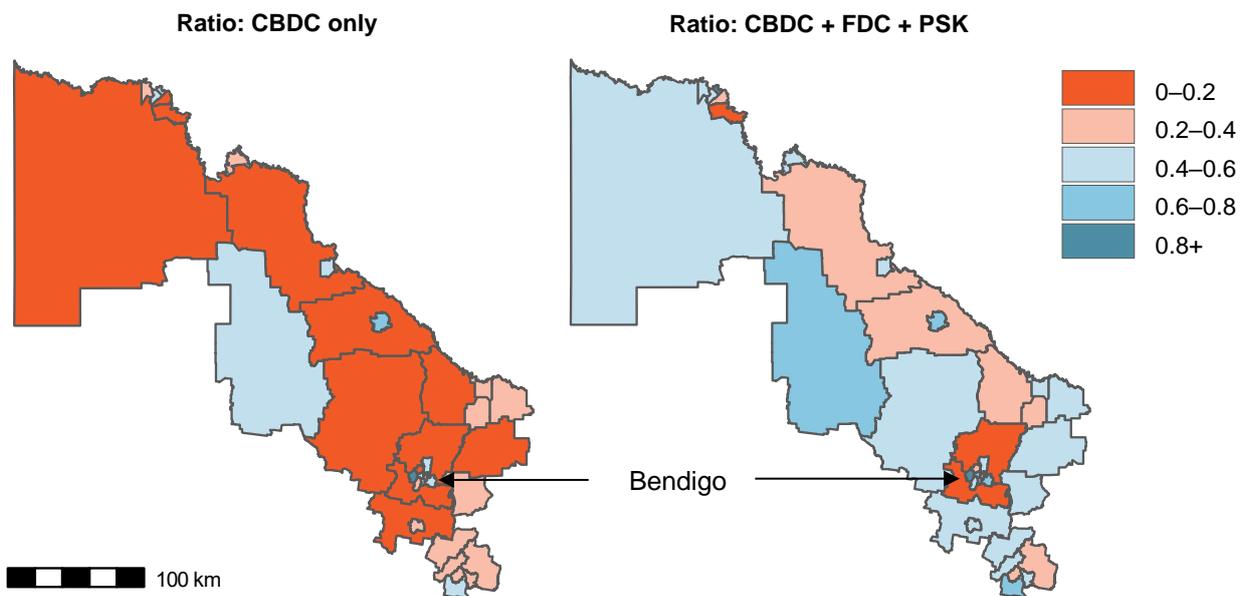
**a.** CBDC – centre-based day care; FDC – family day care; PSK – dedicated preschool. **b.** The first map shows the ratio of the number of CBDC approved places to the population of children aged 0–5 years. The second map shows the number of CBDC, family day care and dedicated preschool places to the population of children aged 0–5 years. Grey areas have no child population. These are typically national parks.

Even in markets where many services have been established, not all families find services that they consider suitable to their needs, either in terms of the days available, service quality or cultural safety. Places available for children may still be limited due to long waiting lists or workforce constraints, but there is limited data to assess the extent to which these issues restrict supply. In a survey of services by the Australian Childcare Alliance (ACA) undertaken in February 2023, more than two-thirds of respondents indicated that they were capping enrolment numbers, which was estimated to amount to over 16,000 unavailable ECEC places. In a second survey, undertaken in May 2023, more than half of services indicated that they were capping enrolments.

In regional and remote Australia, there are many communities with limited or no local services. The number of approved places in ECEC services can be substantially smaller than the number of young children. For example, inquiry participants have noted poor ECEC access in the Loddon Mallee region in Victoria. The Commission found that in the Loddon Mallee region, there are three children aged 0–5 years for every CBDC place. Availability worsens with distance from the regional centre (figure 8).

**Figure 8 – Access to CBDC is poor in the Loddon Mallee region, but FDC and preschool improves access<sup>a</sup>**

**Number of places per child in the Loddon Mallee region for CBDC only and CBDC, FDC and standalone preschool**

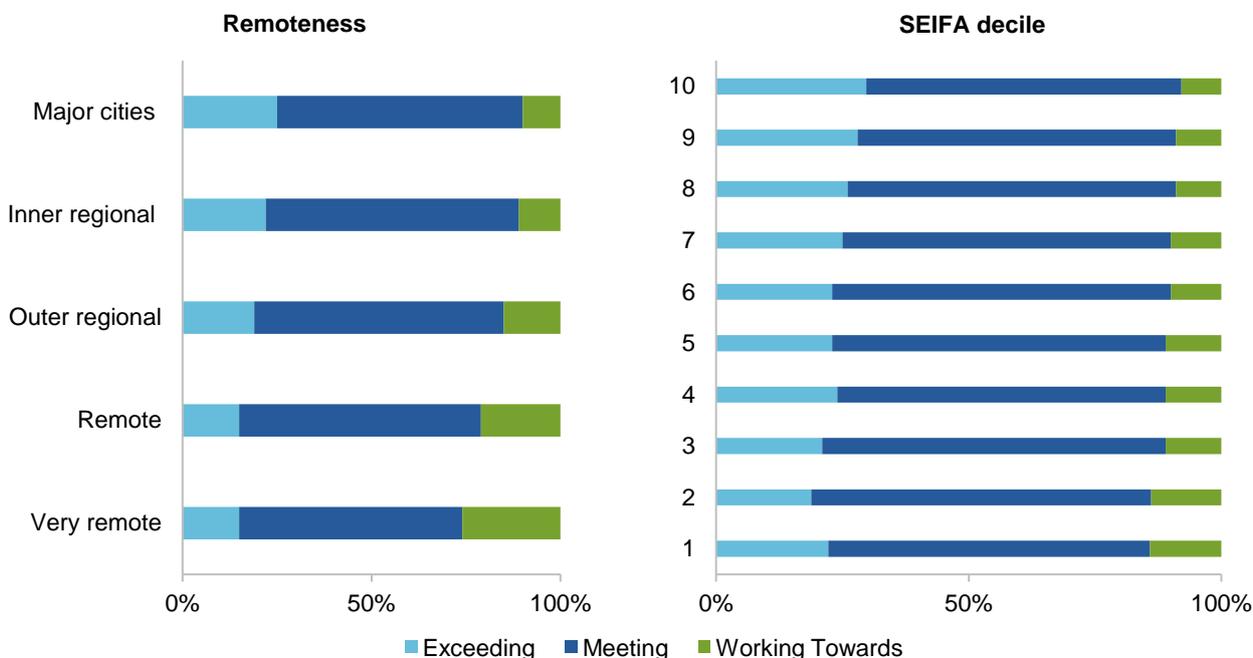


a. Loddon Mallee region is defined as in Regional Development Australia Loddon Mallee, sub. 15, attachment 1, p. 12.

In areas where services do operate, children experiencing disadvantage are more likely to experience ECEC of poorer quality. Services operating in remote parts of Australia and in areas where socio-economic disadvantage is common are *less likely* to meet the quality standards (figure 9). These are the services attended by children who are most likely to benefit from quality ECEC.

**Figure 9 – Services in more remote and lower socio-economic areas are less likely to meet the NQS<sup>a</sup>**

**Overall quality ratings of assessed services by remoteness and SEIFA decile, July 2023**



a. Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged and 10 being the most advantaged).

Many factors affect the level of ECEC supply. There are some communities where supply may be low but so is the demand for ECEC, due to demographic trends or cultural preferences. In most cases, however, the high costs of providing ECEC, coupled with families' unwillingness or inability to pay high prices, would deter providers from setting up a service in a particular community. This can be the case, for example, in regional areas, where the challenges of attracting and retaining staff may be particularly significant, or in areas where many families experience disadvantage and would not be able to meet activity test requirements or afford out-of-pocket fees.

Governments have different ways of addressing supply issues. For example, community groups have access to grants – albeit small in total – that assist with the cost of setting up services. Such grants are also available to service providers looking to expand into areas experiencing supply shortages through the Australian Government's Community Child Care Fund (CCCF). The CCCF runs alongside the CCS where the subsidy to families would be insufficient to sustain a service, but the overall amount of funding available is limited and eligibility conditions can be overly restrictive. State governments have also stepped in, to fund the establishment – and in some cases, the operations – of ECEC services in areas where supply was insufficient.

In addition to grant programs, governments support different models of ECEC in 'thin markets', where demand is insufficient to sustain a service. In remote and very remote regions, families can apply for In Home Care, where the CCS subsidises the employment of an educator who works in the child's home. In some remote Aboriginal and Torres Strait Islander communities, governments fund Aboriginal Community Controlled Organisations (ACCOs) to offer ECEC, as well as a range of additional services to children and families. Mobile services, including preschool and playgroups, support children in some regional areas. And in many regional areas, FDC providers, which are funded through the CCS, can offer flexible solutions to their communities. Despite these options, there are many communities where there is insufficient availability of ECEC. While governments may choose to invest in some locations, there is little coordination of this effort

and in some cases, communities need to have a capacity to apply for funding and establish their own service, a process which may take years.

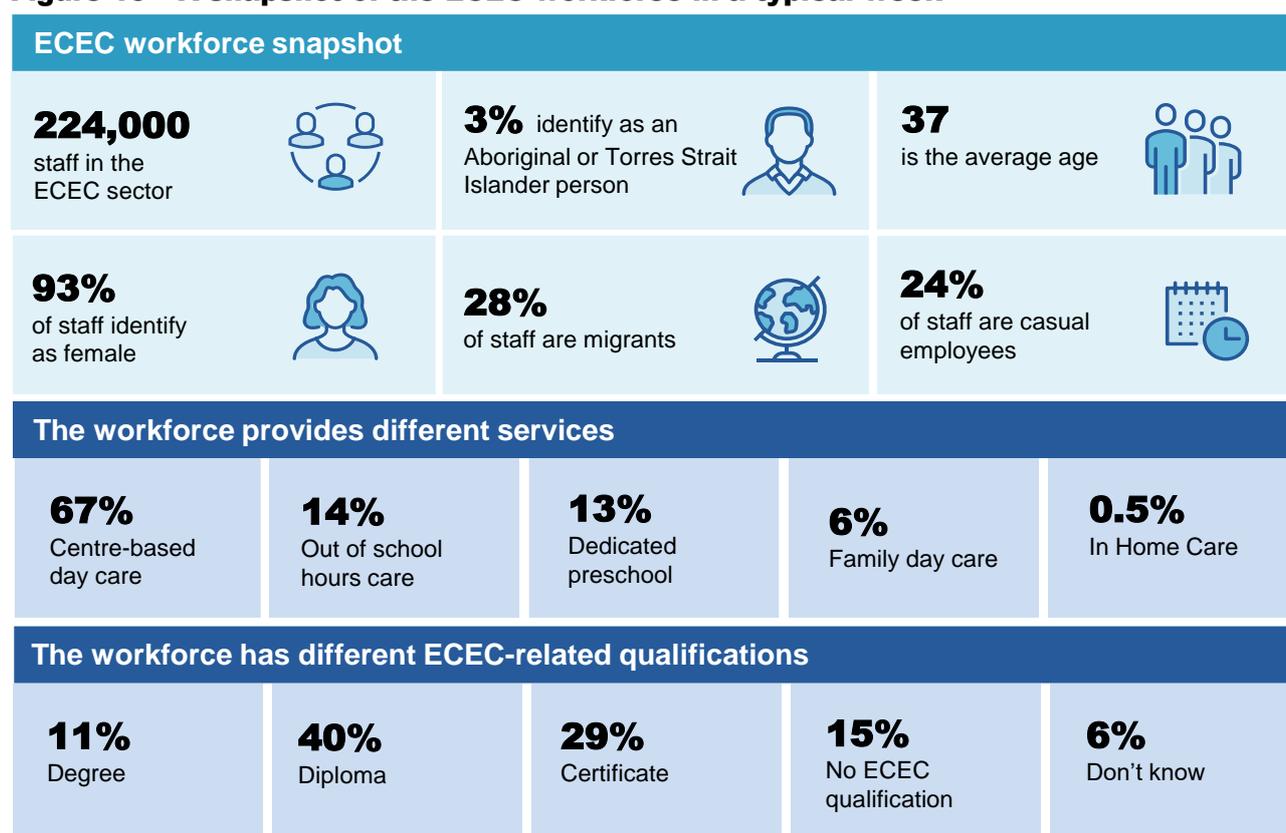
## Workforce challenges constrain the availability of ECEC

Many inquiry participants described the lack of staff as the biggest challenge facing the sector, some referring to it as a 'workforce crisis'. Issues pertaining to the workforce have been affecting the sector for many years but were exacerbated during the COVID-19 pandemic; and more recently, ECEC services have been delaying expansion plans, closing rooms and limiting enrolments as they are unable to find qualified staff.

The ECEC sector employs staff with a variety of skills, experiences and qualifications, but the two most significant occupations are early childhood teachers (ECTs) and educators (figure 10):

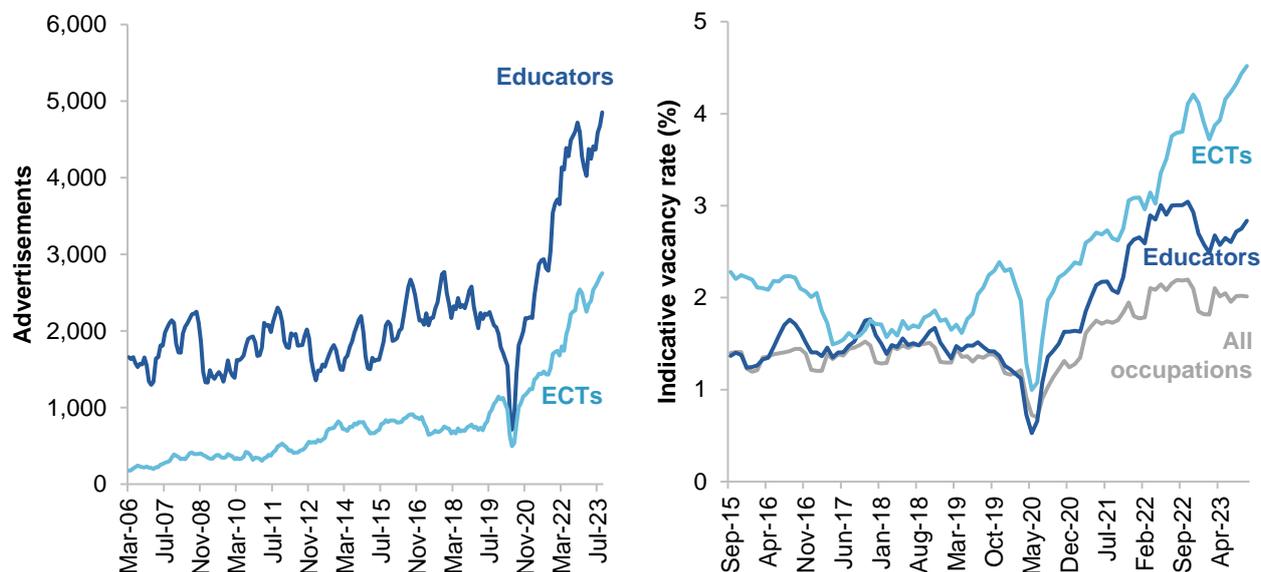
- ECTs are typically degree-qualified, with key roles including: planning program activities; leading and supporting children's learning development; and coaching, mentoring and supervising other staff
- educators are typically certificate III/IV or diploma-qualified, with key roles including: providing education and care to children and (under the supervision of ECTs) assisting with developing and delivering educational programs.

**Figure 10 – A snapshot of the ECEC workforce in a typical week**



Vacancies for ECEC positions are at record highs and vacancy rates are above those of the wider workforce (figure 11). While vacancy rates change in response to economic conditions, as well as the demand for workers in similar industries, demand for educators and ECTs is set to remain strong, particularly as preschool offerings expand and with the recent changes to CCS under the Cheaper Child Care reforms (box 2).

**Figure 11 – Vacancies in the sector have climbed<sup>a,b</sup>**  
**Advertised vacancies and indicative vacancy rates**



a. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies. b. Vacancies are on a 3-month moving average basis and is not trended or seasonally adjusted. The indicative vacancy rate is the number of vacancies for each occupation divided by the sum of the number of people working in the occupation and the number of vacancies, then multiplied by 100.

The outlook for future workforce growth is mixed. Data on VET enrolments show that there has been an uptick in enrolments in Certificate III ECEC qualifications since 2018, although enrolments in diploma qualifications have been falling over the same period, and the number of completions of both diploma and Certificate III level qualifications has remained relatively flat. Data on enrolments and completions for university-level early childhood teaching courses points to a relatively significant increase in enrolments in early childhood teaching courses between 2012 and 2021, predominantly due to enrolments in postgraduate courses. Completion rates, however, have been declining. In 2006, 67% of domestic students who commenced an early childhood teaching degree had completed it in within 6 years, but in 2016, this was down to just 48%.

Structural and cyclical economic factors are contributing to services' difficulties in finding and retaining staff. Demand for staff across some industries, particularly those that provide care and human services, has been increasing after the sharp drop during the COVID-19 pandemic. But many inquiry participants have pointed to the relatively low pay and unattractive working conditions offered by the sector as a major factor that impedes the attraction and retention of staff. For educators, lower skilled, lower stress jobs offer similar – or sometimes higher – wages.

As educators we study to get qualified. We have a very important role educating and caring for children under 5 years which according to studies this is the most important 5 years of early childhood. We have to document, analyse and reflect, we are confidants, counsellors and support people for not just our children but our families too, we go over and beyond teaching and involving children and families in experiences. We make reports to professional services ... Often advising for speech pathologists, psychologists, hearing tests, delays in children that clearly need professional assistance So why are we not recognised for what we do?? We teach every day in the most important years of a child's life. Why can I earn more money making coffee? Why are we not supported for doing these important roles and documenting such important services?? (Brief comment no. 76)

ECTs working in ECEC settings and teachers working in schools often hold equivalent degrees – but Australia-wide, median wages for ECTs working in ECEC settings are about 20% lower than those of primary school teachers. These disparities appear to be biting – there is evidence to suggest up to two-thirds of graduates of early childhood education degrees choose employment in primary schools. The expansion of preschool in many jurisdictions is set to increase demand for ECTs in dedicated preschools. This will put further pressure on CBDCs, which are already struggling to comply with the NQF-mandated qualification and staff ratio requirements.

## Despite government subsidies, cost can be a barrier to ECEC access for low income families

Many families – particularly low income families – find cost a barrier to ECEC use. The CCS (box 2) is intended to lower ECEC costs and has a significant effect on what families pay – the average fee for CBDC is \$124 a day while the average out-of-pocket expense is \$46.

Nonetheless, OECD data suggests that Australian families where both parents are working and earning 67% of the average wage, who have two children attending ECEC full-time, would have net out-of-pocket ECEC expenses of 17% of income. This compares with 11% of income on average for similar families across the OECD. While this comparison relates to a specific set of family circumstances (and pre-dates the introduction of the Cheaper Child Care reforms), it does illustrate the situation some families face in relation to ECEC affordability.

ACCC analysis has shown that average fees charged by CBDC, FDC and OSHC providers increased by about 20% between September 2018 to December 2022, rising faster than inflation and wages. However, as a result of the CCS, out-of-pocket expenses rose at a much slower rate than ECEC fees between 2018 and 2022, increasing by 7% for families using CBDC services and 15.8% for households using FDC. In real terms, the average out-of-pocket expense decreased for CBDC and OSHC, and remained stable for FDC services. In other words, families were spending less on ECEC in real terms in 2022 than they did four years earlier, and government subsidies seem to have achieved their goal of reducing expenses.

However, the CCS does not appear to be well targeted to lower income families, who spend more on ECEC than other families as a share of their income (figure 12). Some lower income families are eligible for the Additional Child Care Subsidy (ACCS), which offers higher subsidy rates and longer hours of subsidised care. Only about 40,450 children (3% of the children using ECEC) were eligible for the ACCS in December 2022.

### Box 2 – The Child Care Subsidy

The Child Care Subsidy (CCS) assists families with their out-of-pocket ECEC costs. Families using CBDC, FDC, OSHC or in home care are eligible for the CCS, which is usually paid directly to their chosen service, so that families are only charged an out-of-pocket gap fee. The amount of CCS payable depends on:

- the number of subsidised hours of care the family is eligible for, which is determined by the number of hours the parent or guardian is engaged in recognised activities – working, training, study and volunteering (the ‘activity test’). In a couple family, the number of subsidised hours will be determined based on the eligibility of the parent or guardian with the lower activity level
- the percentage of subsidy payable per hour, which depends on family income and the number of children in care. From 10 July 2023, under the Cheaper Child Care reform, families with an income up to

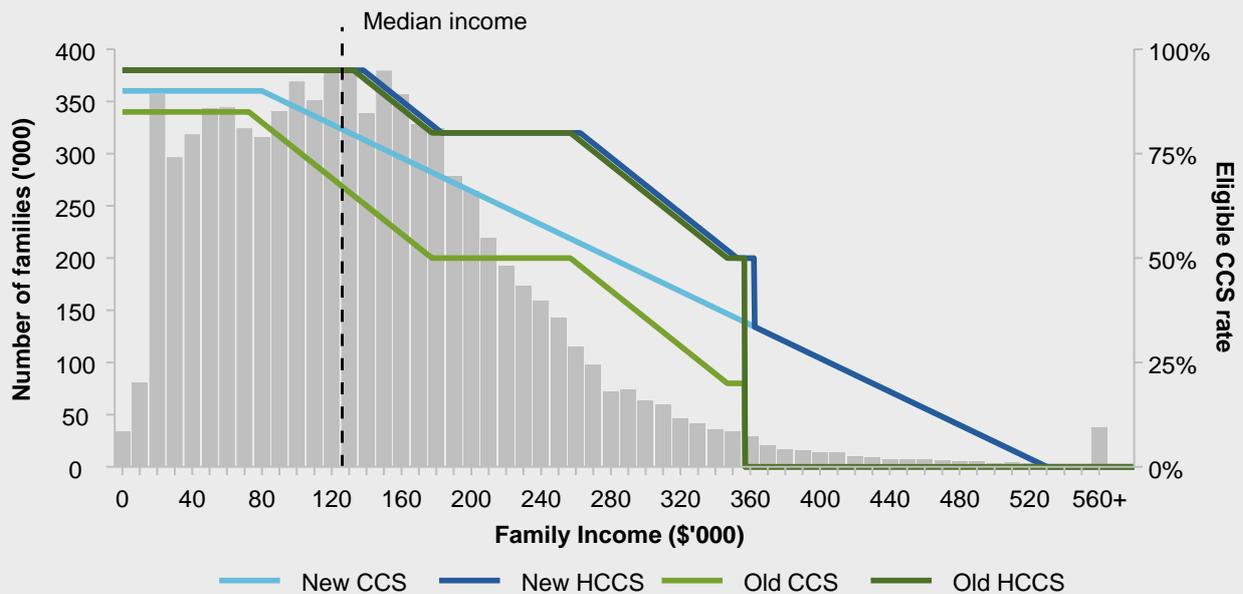
**Box 2 – The Child Care Subsidy**

\$80,000 are eligible for a 90% CCS rate, with the CCS rate tapering by 1% for every \$5,000 a family earns above \$80,000. Families with multiple children in care are eligible for a higher rate of subsidy.

Activity hours per fortnight	Hours of subsidised care per fortnight
<8	24 hours if earning \$80,000 or below; 0 hours if earning more than \$80,000
8–16	36 hours
16–48	72 hours
>48	100 hours

The subsidy paid is calculated as a percentage of the hourly fee, up to an hourly cap set by the Australian Government. According to the ACCC, *on average*, hourly fees charged by providers are close to or below the cap. However, 22% of CBDC services and 45% of FDC services charge fees that are above the cap. Any fees that services choose to charge beyond the hourly cap are unsubsidised.

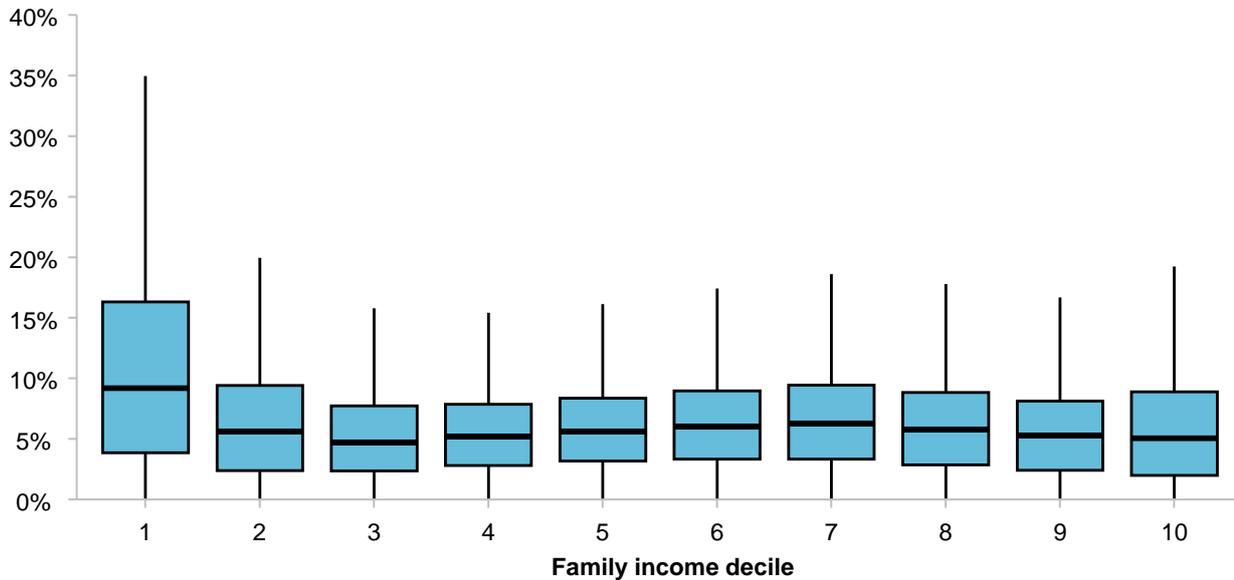
**From 10 July 2023, about 70% of families receive a subsidy rate of at least 70%<sup>a</sup>**



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

**Figure 12 – Lower income families spend a larger share of their disposable income on ECEC<sup>a,b</sup>**

**Out-of-pocket expenses as a share of family after-tax income, by family income decile, fortnight to 27 Nov 2022**



**a.** Subsidies for the out-of-pocket expense calculation are calculated as the CCS plus the ACCS. The out-of-pocket expense accounts for fees that might be paid above the hourly rate cap. After tax household income is calculated by applying tax rates to customer and partner reported incomes. Excludes In Home Care services. **b.** These box and whisker plots show the median (black horizontal line), two hinges at the 25<sup>th</sup> and 75<sup>th</sup> percentiles (top and bottom box edges), and two whiskers extending to the values no further than 1.5 times the interquartile range from the hinges. Outliers are omitted.

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

The CCS includes an activity test – as parents increase their activity (including work, study or volunteering), the number of subsidised care hours also increases (box 2). Some groups are eligible for exemptions from the activity test and are guaranteed a certain number of hours of subsidised care a fortnight, including families earning below \$80,000 per year (24 hours), families whose children are attending a preschool program in the year before full-time schooling (36 hours), and Aboriginal and Torres Strait Islander families (36 hours).

As a result of the restrictions imposed by the activity test – in conjunction with session lengths determined by ECEC providers – families can be required to pay for a significant number of unsubsidised hours. A secondary earner in a family might be working four short days (20 hours) a week, which would make the family eligible for 72 hours of subsidised care a fortnight (36 hours per week). But if they enrol their child for four days in a service that bills for 10 hour sessions, as many services do, the family will have to pay for four unsubsidised hours a week.

Overall, about 2% of hours in ECEC services are unsubsidised. But families eligible for fewer subsidised hours are much more likely to accrue unsubsidised hours (figure 13) and some of these families are on particularly low incomes, leading to substantial ECEC bills, and in some cases, debts to service providers (figure 14).

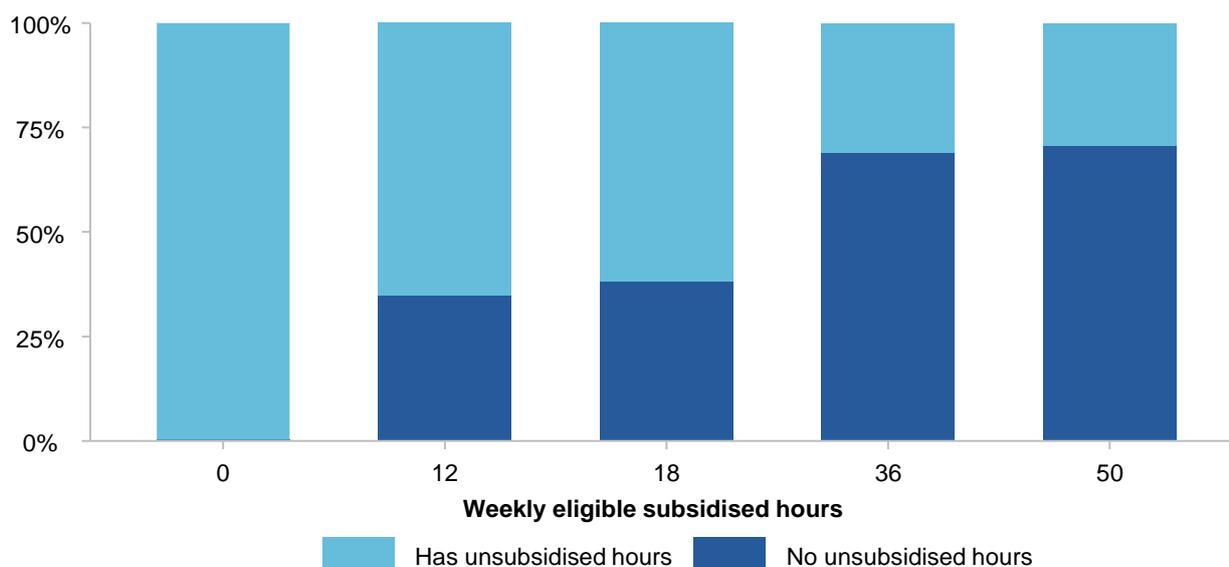
Many inquiry participants pointed out that the activity test can discourage ECEC use, particularly for families experiencing vulnerability or disadvantage. Families may misunderstand the activity test requirements or may be concerned about a potential CCS debt if they misreport their activity hours. As a result, these families may choose not to send their children to ECEC. A survey conducted as part of the Child Care Package

Evaluation (which examined the effects of changes to the subsidy regime introduced in 2018) found that half of the parents surveyed reported being worried that they would end up with a debt if they did not get their activity details right. This evaluation also noted that services and stakeholders expressed concern about parents’ understanding of the activity test, especially for those engaged in casual work or undertaking non-paid work activity that would meet the activity test.

The activity test was introduced to encourage labour force participation. Inquiry participants told us that the activity test cemented a view among some families experiencing disadvantage that that ‘ECEC is only for people who have jobs’, keeping them away from services. The test was tightened in 2018 to reduce the number of subsidised hours lower income families could access without needing to meet the activity test. The Child Care Package Evaluation, undertaken after this tightening, showed that it is not clear that labour force participation goals have been achieved. Changes in employment and other activities were small and not necessarily attributable to the activity test.

**Figure 13 – A large proportion of families with 12–18 eligible subsidised hours a week accrue some unsubsidised hours each year<sup>a</sup>**

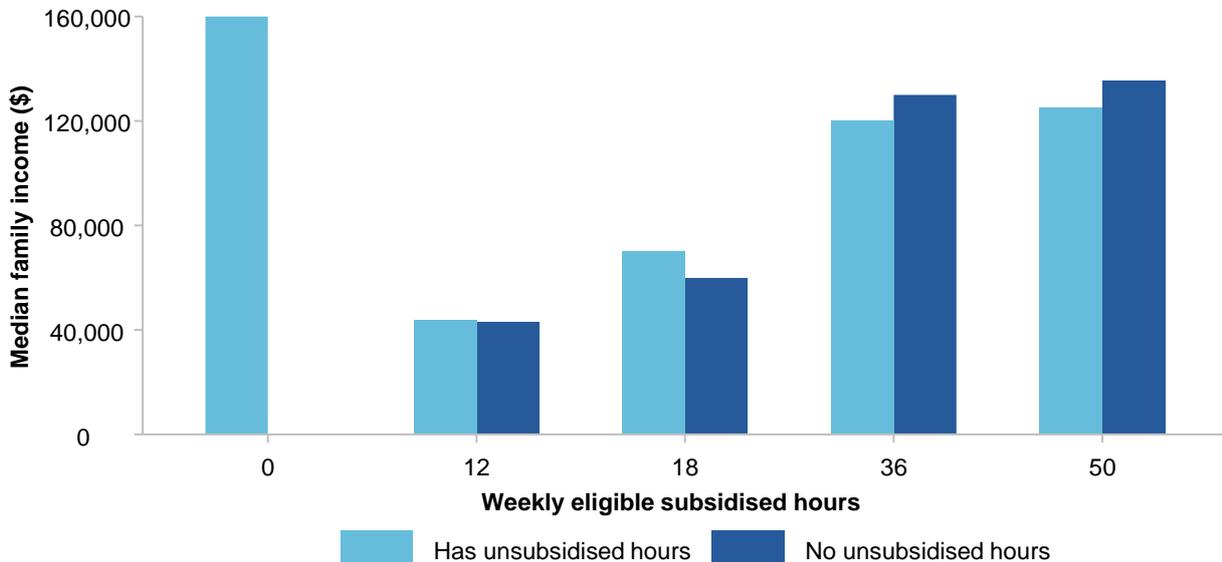
**Percentage of families accruing unsubsidised hours by eligible subsidised weekly hours, 2021-22**



a. Based on families who accessed CCS-approved services in 2021-22. A family’s maximum subsidised hours can change through the year. Weekly eligible subsidised hours for a family are based on half of the family’s median fortnightly eligible subsidised hours, as reported in weekly-level data for the financial year. Weekly hours are used, rather than fortnightly hours as defined in CCS policy, to allow a simpler comparison with data provided at the weekly level, but could overstate unsubsidised hours if families use substantially different hours of ECEC across each week of a fortnight.

**Figure 14 – Families with 12–18 eligible subsidised weekly hours tend to have lower incomes<sup>a,b,c</sup>**

**Median family income by eligible subsidised weekly hours and whether accrued unsubsidised hours, 2021-22**



**a.** Based on families who accessed CCS-approved services in 2021-22. A family’s maximum subsidised hours can change through the year. Weekly eligible subsidised hours for a family are based on half of the family’s median fortnightly eligible subsidised hours, as reported in weekly-level data for the financial year. Weekly hours are used, rather than fortnightly hours as defined in CCS policy, to allow a simpler comparison with data provided at the weekly level, but could overstate unsubsidised hours if families use substantially different hours of ECEC across each week of a fortnight. **b.** Median family income for each group is the median of incomes across families, where the income for each family is the median of their reported incomes in the financial year. **c.** Families with a median of no eligible subsidised hours and no unsubsidised hours represent less than 0.01% of families and are excluded from this figure.

Overall, while the CCS succeeds in lowering out-of-pocket ECEC expenses for many, its settings are overly complex and this complexity does not result in greater efficiency and effectiveness. Families find it difficult to understand their entitlements, which in some cases leads families on low incomes to pay for unsubsidised hours or to not use ECEC. Furthermore, these complex settings do not encourage greater labour force participation or keep a lid on government expenditure.

### **ECEC access is impeded by inclusion challenges and a lack of flexible solutions**

Even where services exist and families are able to meet the out-of-pocket expenses, services may not be able to cater for the needs of children and their families.

Inquiry participants have told the Commission that children with disability, developmental delay or other specific needs are often excluded from ECEC services. The Association for Children with Disability (sub. 78, p. 5) noted that:

many families report they haven’t been able to access the early learning services they need due to gatekeeping. Families report the use of a range of tactics to prevent or discourage their child from enrolling or attending a service. Tactics can range from making it clear their child is not welcome, telling families the service can’t support their child’s needs or don’t have the funding to support their

child, or limiting the hours a child is able to attend ... Families also spoke about difficulties accessing outside school hours care, which added further barriers to workforce participation.

Some services are unable to support Aboriginal and Torres Strait Islander children in a culturally safe way. Similar concerns were raised by families from cultural and linguistically diverse (CALD) backgrounds. A NSW Productivity Commission survey found that a lack of access to culturally appropriate care was a barrier to ECEC attendance.

A lack of flexible ECEC options (where the operating hours are incompatible with families' work schedules or preferences and/or services cannot accommodate flexibility in required days) is also a major barrier to access. Some families require non-standard hours ECEC, shorter session lengths or access on a casual basis but may struggle to find a service that meets these needs. Many dedicated preschools are only available during school terms, and for a limited number of hours each week – which means families need to vary their working hours, use a combination of services, or rely on informal care.

## 4. Charting the way to 'universal' ECEC reform

There is clear rationale for ECEC reform, and the overarching policy architecture could be improved to deliver better outcomes for children and families. The ongoing challenge for policymakers is to support the ECEC sector in ways that increase net public benefit – including benefits to the children attending, their parents and carers and the broader community (box 3). There is no clear answer on an 'optimal' rate of attendance or model of ECEC delivery that would ensure children and families get the most benefit out of ECEC. Attending ECEC is a family decision, that takes into account many factors, including views on early education and the roles of mothers and fathers, the preferred balance between caring for young children and other activities, the cost of ECEC and how suitable services are to family circumstances.

### **Box 3 – Assessing the community-wide costs and benefits of ECEC subsidies**

There are many costs and benefits arising from subsidised ECEC.

On the benefits side, increasing ECEC subsidies is likely to enable more parents and grandparents to work or undertake other activities during the time they now spend providing care. This increases families' income, as well as national income and may increase taxation income to some extent. There may be other social benefits from increasing labour force participation, including maintaining or promoting attachment to the labour force, increasing gender equality, making more effective use of people's skills and education, and disrupting intergenerational disadvantage. Such benefits could be important but are difficult to quantify. Productivity impacts of increased labour force participation will depend on the specific skills and jobs of those people who start work or increase their working hours.

Children can also benefit from ECEC attendance but potentially enduring life-long impacts are difficult to quantify. While research shows that ECEC attendance is beneficial, these positive outcomes may take years to be realised. The influence of ECEC on children's outcomes also depends on their family circumstances (including parents' income and work choices).

Children experiencing disadvantage are likely to benefit more from increased ECEC access. If policies to facilitate greater ECEC access (including through higher subsidies) prioritise the children most likely to benefit, it is likely that overall benefits will outweigh the costs created by higher subsidies.

**Box 3 – Assessing the community-wide costs and benefits of ECEC subsidies**

On the cost side, ECEC subsidies must be paid for by taxation – from higher or new taxes or diverting tax income from other government programs. Additional taxation redistributes income from those paying taxes to those who receive subsidies but higher taxes also create additional economic costs by reducing taxed activities. These can be significant: the marginal excess burden of the income tax system has been estimated to be about 30%. If additional taxes are not raised, the funds required for ECEC subsidies have to be redirected from other government programs, whose budgets will be cut. In this case, the cost will be the benefits forgone from cutting those programs.

Increased labour force participation increases income but people who work more hours give up other activities that they value (representing an opportunity cost). Notwithstanding possible benefits, this reduces the net economic gain from additional hours worked. The resource costs of providing additional ECEC must also be accounted for.

Against this backdrop, the terms of reference direct us to consider a universal ECEC system, but do not define what that means. Inquiry participants have suggested different ways to think about universality, from ECEC that starts at birth for all children to ‘proportionate’ universality, comprising a baseline level of provision for all but with higher levels of support for some, for example, children from age three or those experiencing disadvantage.

In some respects, the ECEC system is already universal. Policy supports access to preschool for all children in the year before full-time school. All families (except those on temporary protection visas) are eligible for CCS. Almost all services are regulated under a universal quality framework. In other words, there is a solid foundation in the ECEC sector from which to explore the concept of universality.

In designing the inquiry’s draft recommendations, we consider a universal system is one that focuses on the needs of children, and enables all children to access services that would support their development – while also considering the preferences and needs of their families. An ECEC system that enables universal access is consistent with the draft national vision for ECEC that National Cabinet is considering.

Universal, however, should not mean uniform. In the Commission’s view, some form of ECEC would be available to all children regardless of where they live, but the mode of provision could differ depending on location and the needs of children. Nor does universal access have to mean compulsory, full time or fully subsidised access. However, affordability and quality of services would have to be considered to avoid scenarios in which expanding services to address availability gaps leads to lower quality or higher costs, which turn families away or diminish benefits for children.

A policy that aims to deliver universal access would have to respond to the needs of children and their families. There is little benefit for working parents in an ECEC entitlement that does not correspond with the most common hours of work. Similarly, a system cannot be considered universal if it is low quality, not inclusive or not culturally safe. Universal access would require government stewardship to ensure services are available where needed, and that they are age- and culture-appropriate – not ‘one size fits all’.

In effect, addressing availability and affordability gaps, as well as ensuring that the system is inclusive, flexible and well-coordinated, is likely to achieve the policy goal of ‘universal ECEC’. Therefore, in line with the key aspects of ECEC assessed above, the recommendations in this draft report span:

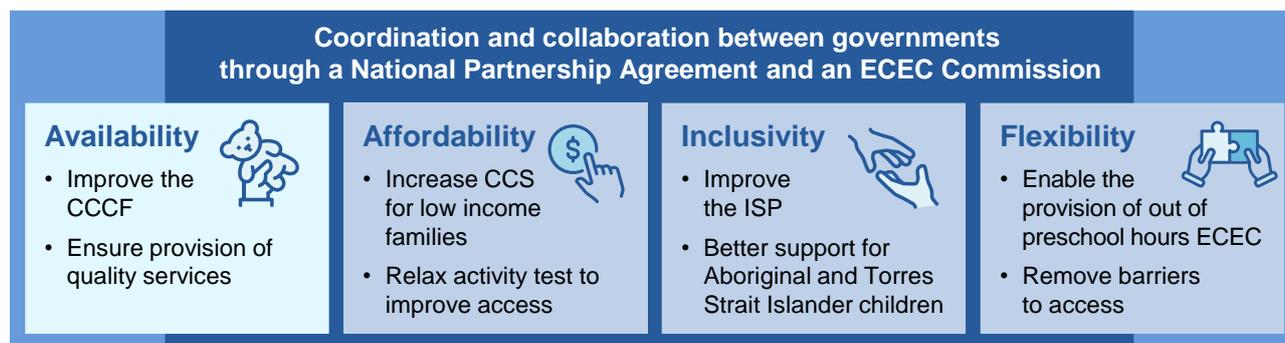
- availability – considering ways to make services available in areas of low supply, while ensuring that all services offered meet quality standards
- affordability – addressing concerns about inequities and lack of flexibility in the current subsidy structure
- inclusivity – ensuring that services are truly inclusive for all children
- flexibility – supporting services to operate in ways that are responsive to the needs of families.

These domains are closely interlinked. For example, changing the structure of subsidies in ways that increase government support for low income families should encourage providers to offer more places in disadvantaged communities.

The balance between supporting availability and affordability will become clearer over time and governments should implement reforms in stages (discussed further below) to give the market time to respond and adjust.

In each of these domains, governments have put in place policies to improve the way the ECEC sector operates. These policies need to be augmented – by improving the way they operate and, in some cases, increasing their budgets – but they create a foundation that can support universal access to quality ECEC. Government actions across these domains should also be better coordinated, which is likely to require jurisdictions to develop a National Partnership Agreement on ECEC and give consideration to the establishment of a dedicated ECEC Commission.

## Ensuring availability for three days (up to 30 hours) of ECEC a week for all children



A key question for this inquiry is how to increase availability in places where the market-based model has resulted in undersupply – and also consider what level of availability is sufficient to constitute ‘universal access’ and support net community benefits. This is a complex question, given that there is no clear answer in the academic research as to the intensity of attendance that can maximise the benefits of ECEC for children.

Many inquiry participants have advocated for an entitlement of up to 30 hours or three days of ECEC a week at no or low cost for all children, with additional days for children experiencing vulnerability and disadvantage. This number of hours aligns with some states’ plans for the delivery of preschool to children in the year before they start school. The South Australia Royal Commission into Early Childhood Education and Care called for 30 hours of preschool per week to be available in the two years before school to 1,000 children who are identified as being at greatest risk of developmental vulnerability – with the view to expanding eligibility over time.

About two-thirds of children who already attend ECEC services do so for up to three days a week, which most likely reflects their parents' working hours. This is not surprising – many families also use some informal care (because ECEC is too costly or inflexible or because of the desire for children to be cared for by family), some parents have a preference for part-time work to allow them to also care for their children and others may find that the incentives inherent in the tax and transfer system, alongside ECEC fees, mean that the additional income beyond three working days per week tends to be small for a secondary income earner.

Ensuring that all children aged 0–5 years have access to some form of affordable ECEC for three days a week (up to 30 hours) strikes a balance between the preferences of families and the incentives they face, and the benefits for children from ECEC participation. This is not to say that families should not be able to choose the number of days that is most appropriate for their child or their labour force participation choices. Places will need to be available for families who choose to use more than three days, so that they will not have to change current attendance patterns. But a policy setting of at least three days sets a benchmark that governments can consider as a long-term policy goal for universal access to ECEC – ensuring that each child can access three days of quality, age-appropriate ECEC. The specific services available will take different forms depending on their location. Major urban centres already have many CBDC services in operation, but in regional and remote areas an expansion of family day care or mobile services might be more in line with local needs. Such a shift will also rely on expanding the ECEC workforce.

### **Lifting availability will require some additional investment**

To consider the challenges involved in moving towards universal access to ECEC, the Commission has assessed the extent to which ECEC places are currently available for children aged 0–5 years. Our analysis considers 1,091 geographic areas (or local markets) and calculates ratios of:

- potential supply – the total number of places that CBDC, FDC and dedicated preschool services are *approved* to offer children aged 0–5 years
- potential demand – the population of children aged 0–5 years within each local market.

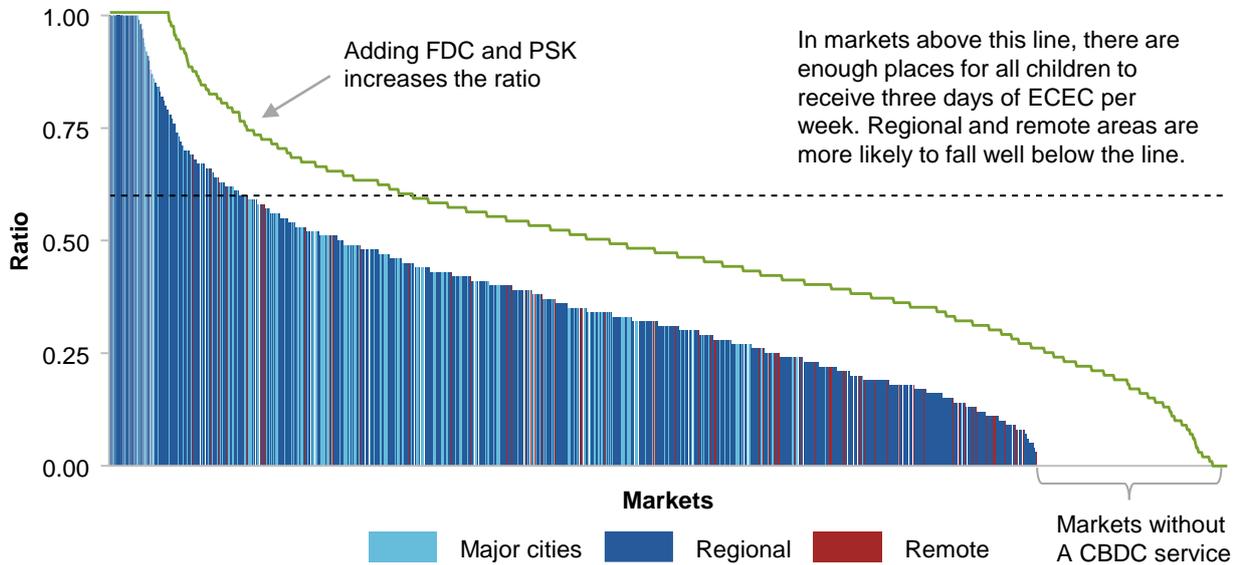
A ratio of 0.5 for example, or 0.5 approved places per child, means an area has 100 approved places for every 200 children aged 0–5 years. In other words, the area would have enough approved places for each local child to attend for half the week. A ratio of 0.6 means enough places for all children to attend three days a week.

Many communities do not have enough ECEC to support three days a week for all children (figure 15). And availability of places outside of dedicated preschools (which primarily support children aged 4–5 years and sometimes 3-year-olds, and then for only part of the week and 40 weeks of the year) is worse in regional and remote areas (figure 16).

The analysis does not reflect available places, which are likely to be limited by difficulties in finding educators and teachers. Nor does it reflect the fact that some families enrol their children for fewer than three days (for example, those with younger children), or use only informal or parental care.

While governments invest in improving ECEC availability in different ways, there is no clear accountability for addressing supply gaps – let alone achieving universal access. A policy aim of an entitlement to three days a week for all children aged 0–5 years would require substantial expansion in services, and better coordination of governments' efforts.

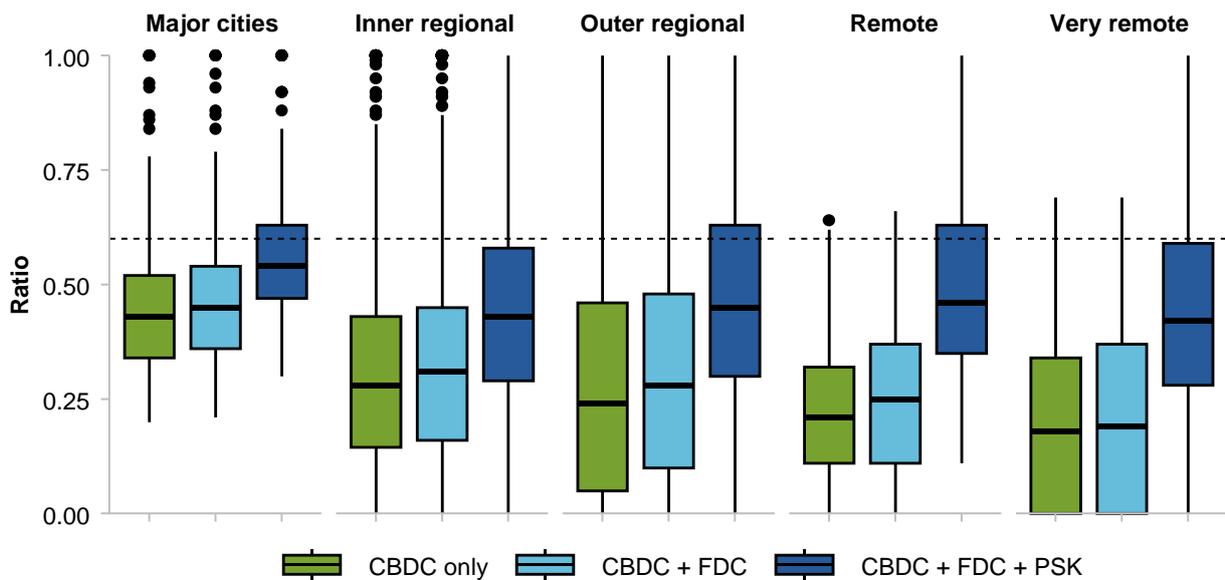
**Figure 15 – The ratio of approved places to children varies widely across markets<sup>a,b</sup>**  
**Distribution of ratios CBDC, FDC and dedicated preschools places by geographic area**



a. Ratio is calculated as the number of approved places per child in a local area. The number of approved places is as at Q4 2022 and population is as at the 2021 ABS Census. The ratio has been restricted to 1. The 54 local areas with a ratio greater than 1 have been accorded a ratio of 1. b. When adding FDC and dedicated preschools to the ratio the order of the markets changes. The green line only depicts the new distribution.

**Figure 16 – Preschool markedly improves availability of ECEC in regional and remote areas<sup>a,b,c,d</sup>**

**Distribution of availability ratios for different regions and types of services**



a. 'Boxes' capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution – ratios fall below this value in 50% of areas. The 'whiskers', or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers represented as dots. b. The ratio has been restricted to 1. The 54 local areas with a ratio greater than 1 have been accorded a ratio of 1. c. The horizontal dashed line represents a ratio of 0.6, the benchmark where every child in a local area would have access to three days of ECEC a week. d. The boxes for 'CBDC only' and 'CBDC + FDC' in very remote areas touches the horizontal axis due to a large number of areas with no CBDC or FDC services.

## **Governments will need to underwrite expanded supply**

Governments can affect the supply of ECEC in different ways, either by changing the incentives faced by providers, to encourage them to set up new services, or by intervening more directly in the market. Policy changes that relax the activity test and improve affordability for lower income families (discussed below) will likely see more providers setting up services, particularly in disadvantaged areas, as families seek to increase their participation in ECEC. In short, we would expect future investment in regions where there are children and not just in areas convenient for working parents who satisfy the activity test.

Some 'thin' markets will persist, however, and further government support will be necessary. Some support is already offered through the Australian Government's Community Child Care Fund (CCCF). The CCCF provides grant funding, totalling about \$140 million a year, and is intended to reduce barriers to accessing ECEC. Funding can support service provision, upskilling staff and offering transport to children. Like many grant programs, CCCF funding is time limited – meaning that services need to consider other sources of funding (mainly the CCS) and plan their transition to an ongoing source of income.

Given the gap in many areas between current provision and the number of places needed to support an entitlement of up to three days of ECEC a week for all 0–5 year olds, the Australian Government will need to change the way the CCCF operates and substantially increase the amount of grant funding. Any expansion of the CCCF will also need to take into account state initiatives that are expanding access to preschool and their effect on overall ECEC availability.

Grants available through the CCCF should recognise the needs of different communities. In some cases, community representatives will be able to establish ECEC services that fit local needs and an advisory program could facilitate their access to existing funding programs. Some of these communities will require access to capital investment, to establish suitable premises, but will then be able to sustain operation through family fees, the CCS and preschool funding. Others will need ongoing support to cover the costs of operating services once established.

Some communities will not have local representatives to manage the development of ECEC capacity and will need more support. In these communities, the Australian Government should tender out the building and operation of services.

A recommendation of this draft report is the establishment of an independent ECEC Commission, which will provide advice to governments and monitor progress towards universal access (discussed in more detail below). Once established, the Commission would be able to coordinate investments and provide advice on the type of assistance necessary. It would also be able to identify communities where services will require block (or flexible grant) funding to enable the establishment of an integrated service or a service dedicated to Aboriginal and Torres Strait Islander children. And it would be able to monitor trends in the availability of ECEC and advise governments on their investment priorities and the outcomes that the CCCF funding is achieving for children and families.

## **Improving quality while expanding access**

Over a decade since the introduction of the NQF, 10% of services are working towards the agreed quality standards. While this number has declined over time as services gained a better understanding of the standards and adapted to their requirements, in July 2023, 79 services had not met the NQS for 10 or more years. And 9% of services had not been rated at all, mostly because they are new, but some have been in operation for a number of years.

Some services face structural challenges that would be difficult to overcome without a comprehensive government response. For example, one in three services in remote Western Australia operate under a

staffing waiver given the significant challenges they face in attracting and retaining suitably qualified staff. In other cases, however, services may find aspects of the standards difficult to implement. There are more than 40 standards in the NQS, and if a service is found to be working towards in one of them – their overall rating would be ‘Working Towards the NQS’.

The state and territory authorities that oversee the ECEC regulations operate in different ways with various levels of resourcing, giving rise to significant differences in the timeliness of assessment. This casts doubts over the integrity of the data on ECEC quality and creates situations where even services that are working towards the NQS can go years without regulatory assessments. State and territory authorities also take different approaches to supporting quality improvement – some have the resourcing and capacity to be proactive, and support services to improve their ratings, but this is not always the case. An independent review should examine the resourcing available to regulatory authorities; they should be resourced sufficiently to enable assessments in a timely manner and work with services to lift quality.

An effective quality regulation system will be particularly important as the ECEC sector expands to enable universal access. Examples from overseas show the risk of rapid ECEC expansion without appropriate regulation. In Quebec, for example, a program to offer ECEC to all families at a flat low fee, led to a substantial increase in ECEC availability but many of the services were of poor quality – which led to detrimental outcomes for many children. The expansion of access to ECEC will only yield net community benefit if the services offered are of high quality, with close monitoring and support from regulatory authorities. As a first step, ECEC providers should have to demonstrate that they are meeting or exceeding the NQS before being able to expand their operations.

Some CCS-approved services are not covered by the NQF and are regulated separately by state and territory governments or the Australian Government. These arrangements should be reviewed to ensure they meet the needs of children. In expanding access to ECEC, the Australian Government should ensure there are appropriate mechanisms to ensure the quality of non-NQF regulated services receiving direct Australian Government funding. For Aboriginal and Torres Strait Islander services out-of-scope of the NQF, governments should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities, and peak bodies to design an appropriate regulatory framework.

### **The ECEC workforce is fundamental to any changes in availability**

Progressing towards universal access to ECEC hinges on the availability of skilled staff: educators who can work in CBDC, FDC, OSHC or in home care (IHC), early childhood teachers (ECTs), directors and other members of the ECEC workforce. The sector is already facing substantial challenges in recruiting and retaining staff to respond to current demand – and these challenges have been present for many years. The expected expansion of preschool, as well as further increases in availability to enable universal access, will increase workforce pressures significantly.

Some of the concerns raised about pay and conditions in the sector are likely to be addressed in coming months through processes arising out of recent changes to the Fair Work Act, including approval from the Fair Work Commission for a significant number of employers in the sector to commence supported multi-employer bargaining (box 4). But without additional government subsidy, higher wages would increase costs for providers and fees for parents. The Australian Government recently funded a wage increase for aged care workers. There will be considerable pressure on governments to fund any increase to limit the impact on fees and out-of-pocket expenses.

**Box 4 – Industrial relations processes that will affect wages for the ECEC workforce**

It is likely the pay of many in the sector will increase in the future as a result of recent changes to the Fair Work Act. In particular, three developments are highly consequential for the sector. These are:

- changes to facilitate multi-employer bargaining. Unions in the sector were the first to lodge an application to engage in (supported) multi-employer bargaining (covering 62 employers and 12,000 employees) and in September, authorisation to commence bargaining was granted by the Fair Work Commission. New ‘rope in’ provisions may mean any agreement struck through this process is likely to reach far beyond those involved in the initial bargaining
- a review by the Fair Work Commission to ‘identify occupations and industries in which there is gender pay inequality and potential undervaluation of work and qualifications’. The outcomes from this review are expected to feed into future award wage reviews
- changes to arrangements regarding equal remuneration orders, including clarification that the Fair Work Commission does not require evidence of a reliable male comparator industry in order to find that work has been undervalued on the basis of gender. An inability to establish a valid male comparator was a major contributor to previous applications for equal remuneration orders for the ECEC sector being dismissed by the Fair Work Commission.

Higher wages and better conditions are likely to reduce attrition rates and attract more staff to ECEC – but other constraints on workforce supply remain. Staff must also hold specific qualifications, and the number of people commencing and completing qualifications is lower than is likely needed to satisfy demand. While migration may help to address some of this gap, changes to key policy settings means it will be harder for the sector to draw on migrants, and further highlights the importance of ensuring there is a strong and stable pipeline of educators and teachers being trained locally.

To address workforce challenges, governments should also improve career pathways in ECEC as well as training pathways and supports available to the ECEC workforce. Better mentoring would be particularly important for new ECTs, whether they work in dedicated preschools or CBDC. Unlike school teachers, ECTs are often required to shoulder great responsibility early in their careers and with few formal structures in place to support them. ECTs who hold a degree-level qualification approved by ACECQA should be eligible for teacher registration in all states and territories.

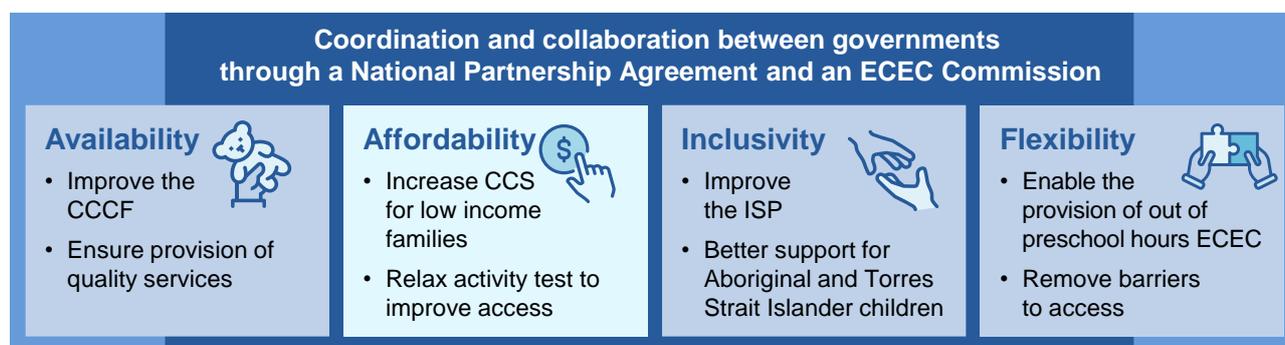
Barriers to obtaining initial or further qualifications can be removed through accelerated degrees, better recognition of prior learning, considering greater use of in-situ teaching and support for students to undertake practicums while working. There are benefits in encouraging more supported entry pathways for some cohorts of workers who may face additional barriers when engaging with the VET or higher education system. This is particularly the case for Aboriginal and Torres Strait Islander people, who bring a wealth of cultural knowledge to ECEC. Cultural safety, flexible learning options and practical supports are important in encouraging more Aboriginal and Torres Strait Islander people to gain a qualification and work in ECEC.

For educators and teachers already working in the sector, there is merit in a degree of public support for ongoing coaching and professional development – recognising the costs it imposes on the individual educator and the service they work at and the benefits that are shared between the educator, the service and the community. This is especially the case if professional development is targeted at areas where there is clear community benefit in improving workforce capability, such as trauma-informed practice, meeting the cultural and educational priorities of Aboriginal and Torres Strait Islander children and families, building better linkages between services and communities and expanding the inclusion of children with disability.

There are also trials of programs that give ECEC educators the skills to deliver early intervention for children who are at developmental risk, but these are not consistently offered. As the sector considers the need to support children in non-clinical settings and help families to access and implement early intervention strategies, there will be an increasing need for professional development.

These issues are well known and have been the topic of multiple government processes (most recently, Jobs and Skills Australia commenced a study of the ECEC workforce). Governments have produced a workforce strategy for the ECEC sector that seeks to ensure the future workforce needs of the sector are met. Some features of the strategy are commendable, but it has no clear and measurable objective that it is trying to achieve or any clarity around funding for the actions included in the strategy. Governments largely continue to pursue their workforce goals independently, seeking to staff additional preschool services, without considering the overall needs of the sector. A coordinated approach to workforce planning, including clear objectives and monitoring, could be one of the responsibilities of a future ECEC Commission.

## Addressing affordability barriers to ECEC access



Many changes could be made to subsidy arrangements to improve affordability for families. The Commission has considered a suite of options. Most build on each other, providing higher levels of support at each step (table 1). The first option relaxes the activity test and the second couples that change with a lift in the subsidy rate for lower income families (those earning up to \$80,000 a year) to 100% of the hourly fee, up to the hourly rate cap. Subsequent options add highly subsidised ECEC for all other families (those earning more than \$80,000 a year) to the policy mix. These changes will primarily affect families with children aged 0–5 years, and the preliminary modelling focuses on this cohort.

In line with the terms of reference request to consider a universal 90% subsidy, a policy option where the only change to current settings is an increase in the CCS rate to 90% of the hourly fee, up to the hourly rate cap, for all families (option six) is also modelled.

The Commission has undertaken preliminary work to estimate the changes in labour force participation, demand for ECEC and net costs to government that might stem from each option (box 5). As levels of support to families rise, so too do each of these outcomes (figure 17).

While all these options come at a cost to taxpayers, some changes are necessary to enable universal access and address shortcomings in the CCS.

Implementing option two – relaxing the activity test and lifting subsidies for lower income families – would target the increase in support to the children and families who would benefit the most. Alongside improving availability (including an entitlement of up to 30 hours or three days of ECEC per week), inclusion and flexibility, such changes to the CCS would enable universal access to ECEC.

**Table 1 – Modelled Child Care Subsidy policy options**

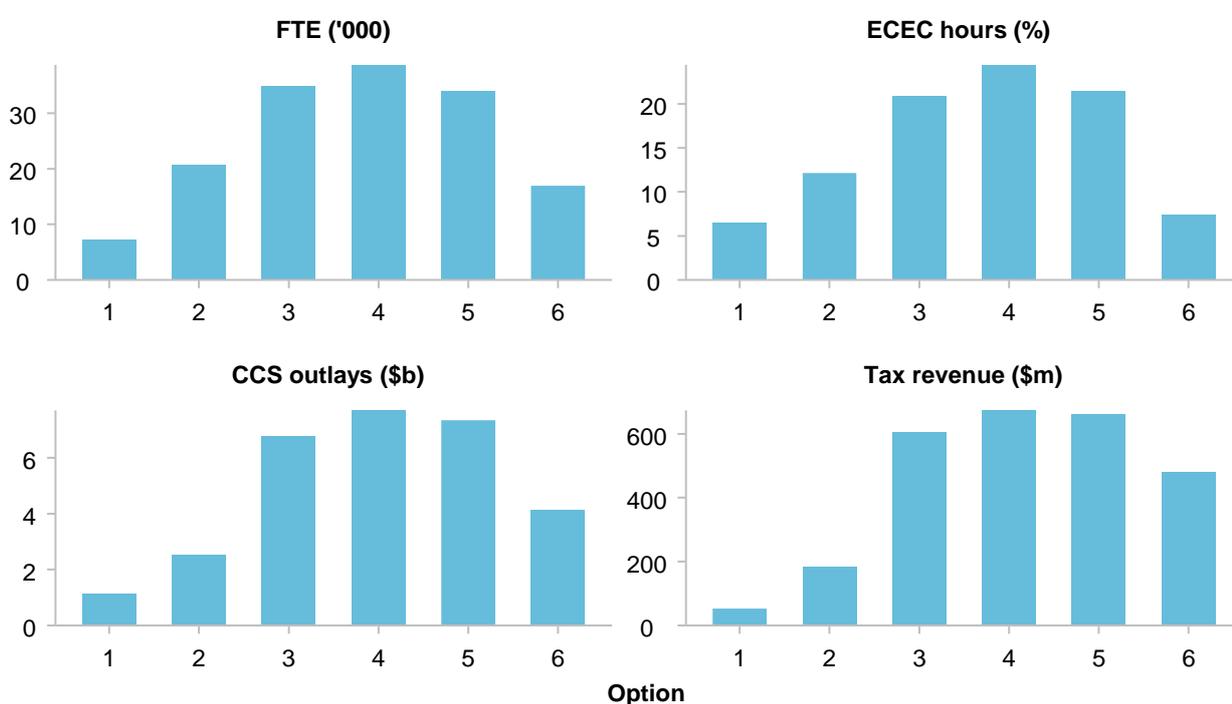
Option	CCS rate	Higher CCS rate	Activity test	CCS hourly rate cap
<b>1: Relax the activity test for all families and retain income testing</b>	No change – based on current income test for all days of ECEC	No change	None for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
<b>2: Relax the activity test for all families, and increase subsidy for low income families</b>	100% for families with incomes under \$80,000 No change for other families	100% for families with incomes under \$80,000 No change for other families	For all families, none for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
<b>3: 90% subsidy for three days for all families, relax the activity test, and increase subsidy for low income families</b>	100% for families with incomes under \$80,000 For other families, 90% for three days of ECEC (72 hours per fortnight) and current income test for days four and five	100% for families with incomes under \$80,000 For other families, at least 90%, and highest rates above 90% remain as they are for three days, and current income test for days four and five	For all families, none for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
<b>4: 90% subsidy for all, remove the activity test, and increase subsidy for low income families</b>	100% for families with incomes under \$80,000 For other families, 90% with no income test	100% for families with incomes under \$80,000 For other families, at least 90%, and highest rates above 90% remain as they are	None	No change
<b>5: Free ECEC for low income families, flat fee ECEC expense per day of \$10 for other families, no income test or activity test</b>	None – free for families with incomes under \$80,000, and flat fee for other families	None	None	None
<b>6: 90% subsidy for all</b>	90% for all families	No change	No change	No change

Higher levels of support (options three, four and five) would generate a somewhat stronger labour market response from parents but come at a much higher additional cost to taxpayers. A disproportionate share of the increased government support (35% under option three, for example) would go to the families whose incomes are in the top 20% of the income distribution (those earning about \$200,000 and above) and there would be more children from higher income families increasing their participation in ECEC relative to option

two. As described above, children experiencing disadvantage tend to experience greater improvements in educational outcomes as a result of attending quality ECEC, so increasing participation in ECEC for children from higher income families may have more muted longer term benefits relative to the increase in costs.

The Commission recommends that the Australian Government implements the two policy changes underpinning option two, discussed in more detail below, as this will most likely deliver benefits to Australian children, families and the broader community that exceed the economic costs of policy change.

**Figure 17 – Changing CCS settings results in an increase in ECEC use – but comes at a cost<sup>a</sup>**  
**Results of preliminary modelling of different options for changes to the CCS**



a. Results based on preliminary modelling of changes to the CCS, as outlined in table 1. Box 5 details the method and assumptions behind these results.

### A modified activity test would enable more families experiencing disadvantage to access ECEC

Under existing CCS settings, families’ eligibility for subsidised care depends on their level of activity (box 2). This limits access to ECEC, in particular for families experiencing disadvantage, but evidence suggests it does not lead to substantially greater labour force participation.

Modifying the activity test, such that all families can access at least three days (up to 30 hours) of subsidised ECEC a week, would relax the requirement that ties children’s participation in ECEC to their parents’ activity. It would also mean that fewer families are charged for unsubsidised hours and more families are able to access subsidised ECEC.

Activity testing should remain for families who wish to use more than 30 hours of ECEC per week. Although three days of care has earlier been characterised as 30 hours, in practice 30 hours could be spread across more or fewer than three days depending on daily session lengths. The Commission will further consider the levels of activity that should be required for subsidised hours above this level.

Relaxing the activity test allows more families to use more subsidised ECEC and supports labour force participation. The preliminary modelling finds that this change leads to an estimated 1.2% increase in total hours worked by single parents and secondary workers in couple families with young children – the equivalent of 7,300 full-time employees. A larger increase of 6.5% is estimated in the total hours of formal ECEC attended by children. Most of this increase in hours is estimated to come from families who were not using ECEC prior to the policy change. There is a slight increase in estimated ECEC hours by families who were already using ECEC, who experience a fall in out-of-pocket expenses due to having fewer unsubsidised hours.

Beyond increasing subsidised hours, modifying the activity test would have benefits that are not captured by the modelling. It would reduce some of the administrative complexity of the CCS, making it easier for families to understand their eligibility for subsidised ECEC. This is particularly important for families with variable patterns of work (such as people in casual jobs). The policy change would also lessen families' concerns about incurring CCS debt if their hours of activity change and give people who are looking for work greater certainty in their access to a number of hours of subsidised ECEC while they are searching for a job. Increased attendance at ECEC will also improve educational outcomes for children, particularly those from families experiencing disadvantage who are more often affected by the activity test.

At the same time, activity testing for parents seeking more than 30 hours of ECEC would retain some of the labour force participation incentives that underpin the activity test, by offering a larger number of subsidised hours to families with higher activity levels, including time spent working.

Overall, the increase in costs to government associated with this policy change are estimated to amount to \$1.1 billion per year, or about 9% of the estimated CCS outlay for 2023-24. Lower income families benefit most from the change; families within the lowest 20% of the income distribution account for about half of the increased costs to government. Relaxing the activity test will also affect higher income families who are not eligible for subsidised hours under current arrangements because they do not meet the activity test. About one fifth of the estimated increase in total hours of care is taken up by children from families who do not currently meet the activity test. However, because these families have higher incomes, and therefore lower subsidy rates, the costs to government of their increase in ECEC participation are relatively low.

A range of costs and benefits are involved in increasing ECEC subsidies (box 3). To a small extent, the increased costs to government will be offset through a rise in tax revenue as parents work more. Income tax revenues from increased labour force participation are estimated to be about \$53 million per year. Associated falls in transfer payments were not estimated as part of the preliminary modelling but are also expected to occur because income testing means that families' entitlements to transfer payments taper down as their incomes increase.

### **Making ECEC free or low cost for low income families encourages new enrolments**

As noted above, the CCS results in relatively high out-of-pocket expenses for the lowest income families. Out-of-pocket expenses equal to 10% of income can represent a larger financial burden for a family earning \$80,000 per year for example, than one with an income of \$200,000 per year. In other words, ECEC is relatively more expensive for those who can least afford it. This is likely contributing to lower participation rates in ECEC for lower income families.

An increase in the top subsidy rate to 100% of the hourly rate cap for lower income families will reduce their out-of-pocket expenses and mean these families face very low out-of-pocket expenses; in some cases, where charged hourly rates are below or equal to the hourly rate cap, ECEC use will be free. In implementing this policy change, all families who hold a Health Care Card should automatically receive the 100% subsidy rate, reducing administrative complexity.

The experience of the COVID-19 pandemic – when ECEC was free for all families – showed that a reduction in out-of-pocket expenses and in administrative complexity is likely to encourage more families experiencing disadvantage to enrol their children in ECEC. Similar to the changes in the activity test, this is likely to support better educational outcomes for children, and may also have benefits for their families, as using ECEC may enable them to find work or link them to additional support services.

Preliminary modelling suggests that increasing the top subsidy rate to 100% for lower income families in addition to relaxing the activity test will lead to an estimated 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and secondary workers in couple families with young children. Hours of formal ECEC are estimated to rise by about 12%, with about two-thirds of the increase attributed to families who were not previously using ECEC. The fiscal cost of relaxing the activity test and lifting the CCS rate for lower income families is estimated to be about \$2.5 billion per year or a 20% increase in the estimated CCS outlay for 2023-24, partly offset by increased income tax collections of \$180 million. If eligibility for a subsidy rate of 100% applied to family income of up to \$80,000 per year, this change would affect about 30% of all families with young children.

Under the current CCS system, affordability for families becomes more challenging when fee rises outstrip increases in the hourly rate cap. Resetting of the hourly rate cap to better reflect efficient costs of provision and a change in indexation approach to prevent the cap rising more slowly than average provider costs (and, therefore, fees) will help to sustain affordability.

In reducing out-of-pocket expenses for some families, the higher subsidy rate could also reduce their sensitivity to fee increases. Some providers might take the opportunity to raise fees more rapidly than they might otherwise have done, particularly in areas where many lower income families live (or where there are few higher income families who may change services if fee rises are excessive). The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify areas where movements are out-of-step with the sector norm. Increases that vary markedly from the norm should prompt closer investigation, and a regulatory response should be considered if they are not reasonable. To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every three years, along the lines of the work that the Australian Competition and Consumer Commission has been undertaking. This work will also signal if the hourly rate cap needs to be reset.

### **Other options for CCS reform**

Lifting subsidies for all families to at least 90% of the fee, up to the hourly rate cap for three days of ECEC per week in addition to relaxing the activity test and a higher subsidy for lower income families (option three), is estimated to increase total hours worked by single parents and secondary earners in couple families with young children by 5.7% – the equivalent of 34,900 full-time workers. Total hours of formal ECEC are estimated to rise by 21% and government outlays on the CCS by \$6.8 billion per year, or 53%. Income tax collections are estimated to increase by \$600 million per year.

Further extending the 90% subsidy regime to five days, along with complete removal of the activity test (option four), is estimated to increase total hours worked by 6.3% (or 38,700 full-time equivalent workers), hours of ECEC by 24% and CCS outlays by \$7.7 billion per year, or 61%. Income tax collections are estimated to increase by \$670 million per year.

The fifth option considered, a flat daily fee, is used in parts of Canada and has the advantage of giving families certainty over ECEC expenses. The option modelled of a daily flat fee of no more than \$10 is estimated to increase total work hours by 5.5% (34,100 full-time equivalent workers) and total ECEC hours

by 21%. CCS outlays are estimated to increase by \$7.3 billion per year, or 58%, and income tax collections by \$660 million.

If the only policy change were to extend a CCS rate of 90% to all families (option six), it is estimated that total hours of work by single parents and secondary workers in couple families with young children would rise by 2.8% (or the equivalent of 17,000 full-time workers). Hours of ECEC are estimated to increase by 7.4% and fiscal costs would rise by \$4.1 billion a year (or about one third), partly offset by higher income tax collections of \$480 million.

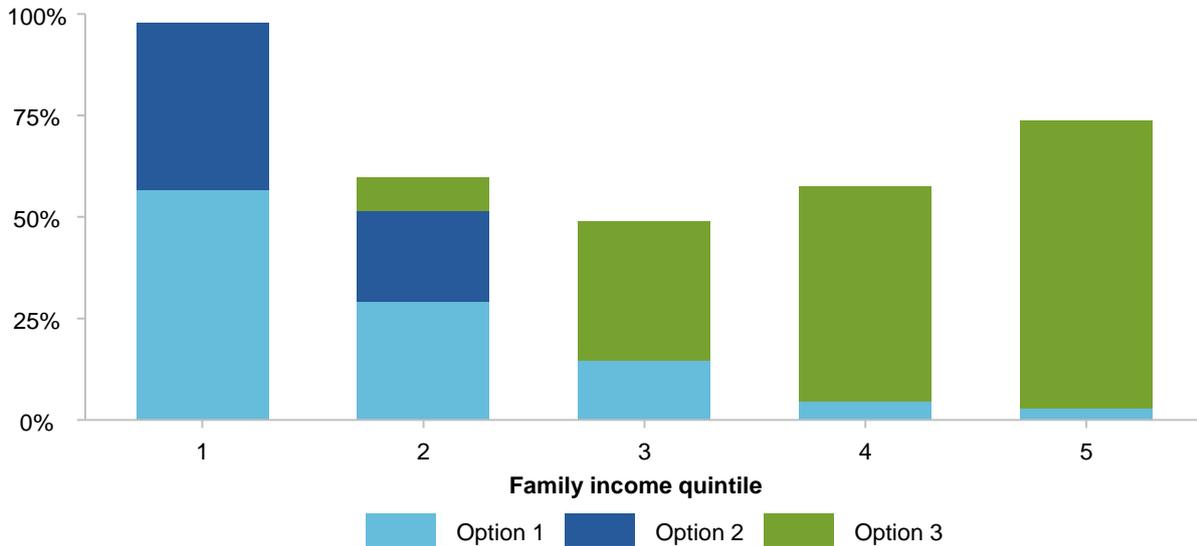
The estimates presented here of the increases in labour force participation that might flow from significantly reducing ECEC-related barriers are considerably lower than the upper bound estimates presented earlier in the paper from analysis of families' stated preferences for work. This reflects the effects of the caveats mentioned in the context of those earlier estimates. Many factors in addition to ECEC cost and availability affect parents' decisions around work. The use of evidence on parents' likely changes in labour force participation in the face of ECEC policy shifts in this section explains the lower estimates presented here.

If the only reform implemented was either a 90% subsidy rate or a flat fee (without change to the activity test or further increases to the subsidy rate for lower income families), the main beneficiaries would be higher income families. This is because lower income families are already eligible for a 90% subsidy rate for their allowed hours under the activity test, and would have similar out-of-pocket expenses under the option of a flat fee. In the absence of any other policy changes, moving to a 90% subsidy rate for all families would have no benefit for lower income families. Nearly 60% of the estimated increase in government outlays of \$4.1 billion a year would accrue to the 20% of families on the highest incomes (those earning \$200,000 and above per year) and nearly 30% to the second highest 20% (those earning between about \$150,000 and \$200,000 per year).

Combining a 90% subsidy rate or flat fee system with more targeted assistance aimed at lower income families and relaxation or removal of the activity test (options three, four and five), would enable the benefits to be more evenly spread across different income groups.

Under option three, the families whose incomes are in the bottom 20% of the income distribution and those whose incomes are in the top 20% of the income distribution (the lowest and highest income quintiles) experience the largest estimated falls in out-of-pocket expenses (figure 18). The highest income families would benefit considerably more from the rise in CCS expenditure, accounting for 35% of the increase compared with 23% for the lowest income families, because they use a larger number of hours of ECEC (figure 19). The estimated percentage increase in hours worked is highest for the lowest income parents under this option, as they have more scope to increase their work hours than the highest income families (figure 20).

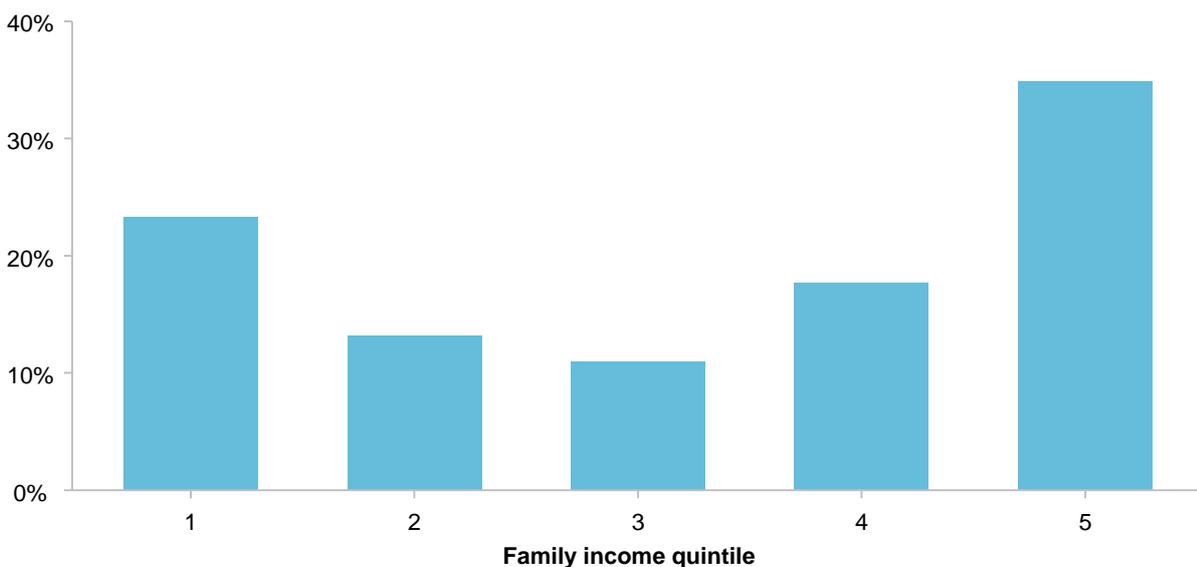
**Figure 18 – A 90% subsidy would benefit higher income families most while lower income families benefit from relaxing the activity test and targeted subsidies<sup>a,b</sup>**  
**Incremental fall in weekly out-of-pocket ECEC costs based on baseline ECEC usage, under modelling of policy options one to three (%)**



**a.** This policy change involves removing the first three tiers of the activity test (option one), raising subsidies for lower income families to 100% (added as part of option two), setting the subsidy for all other families at 90% for up to 72 hours of ECEC per fortnight for the first child and up to 95% for subsequent children, and the current subsidy regime for any hours over 72 per fortnight (added as part of option three). **b.** Family incomes are up to about \$60,000 for the first quintile, \$100,000 for the second quintile, \$150,000 for the third quintile, \$200,000 for the fourth quintile and over about \$200,000 for the fifth quintile.

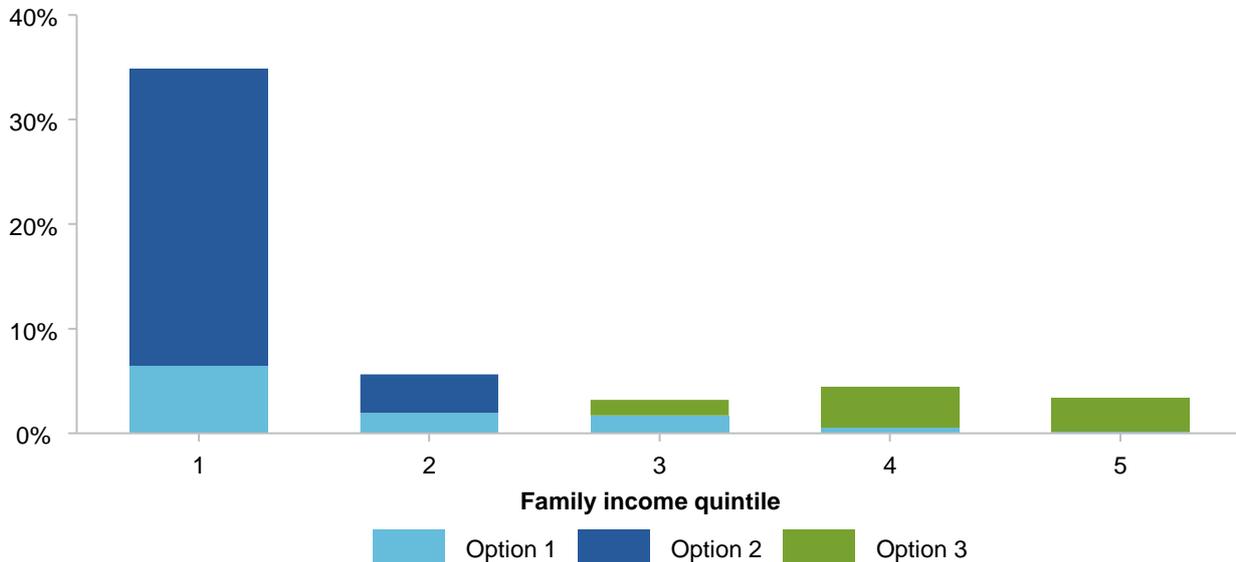
**Figure 19 – High income families would receive the largest share of increased CCS expenditure under option three<sup>a,b</sup>**

**Share of increased CCS expenditure attributed to families by income quintile (%)**



**a.** This policy change (option three) involves removing the first three tiers of the activity test (option one), raising subsidies for lower income families to 100%, setting the subsidy for all other families at 90% for up to 72 hours of ECEC per fortnight for the first child and up to 95% for subsequent children, and the current subsidy regime for any hours over 72 per fortnight. **b.** Family incomes are up to about \$60,000 for the first quintile, \$100,000 for the second quintile, \$150,000 for the third quintile, \$200,000 for the fourth quintile and over about \$200,000 for the fifth quintile.

**Figure 20 – Parents in the lowest income quintile would have the largest increase in their hours of work as a result of relaxing the activity test and targeted subsidies<sup>a,b,c</sup>**  
**Incremental increase in hours worked under modelling of options one to three (%)**



**a.** This policy change involves removing the first three tiers of the activity test (option one), raising subsidies for lower income families to 100% (added as part of option two), setting the subsidy for all other families at 90% for up to 72 hours of ECEC per fortnight for the first child and up to 95% for subsequent children, and the current subsidy regime for any hours over 72 per fortnight (added as part of option three). **b.** Incremental results in this chart are adjusted to sum to the overall change in hours worked for option three. Unadjusted results may not sum to the total for option three because of probabilities that were applied to determine which families begin working, that can lead to different families entering work under different modelling simulations. **c.** Family incomes are up to about \$60,000 for the first quintile, \$100,000 for the second quintile, \$150,000 for the third quintile, \$200,000 for the fourth quintile and over about \$200,000 for the fifth quintile.

Overall, increasing the CCS rate to a universal 90% or introducing a flat fee for ECEC is likely to disproportionately assist high income families, who already spend a lower proportion of their income on out-of-pocket ECEC expenses when compared to families in the lowest income decile. These options are costly but do not lead to significant increases in labour force participation, address the inequity created by the current CCS settings, nor support greater ECEC access for children and families experiencing disadvantage. As noted above, these policy goals would be more effectively achieved through relaxing the activity test and increasing the subsidy rate for lower income families. These two changes should therefore be a priority for policy action.

### **Box 5 – Preliminary modelling of changes to the CCS**

The Commission has undertaken preliminary modelling of changes to the CCS to estimate the effects of potential policy changes on labour supply, ECEC demand and fiscal costs. This involved estimating changes in out-of-pocket expenses that would arise from policy changes, for families with children aged 0–5 years in the ABS 2019-20 Survey of Income and Housing data. Then elasticities were applied to estimate how families might respond by changing hours of work and hours of ECEC. It is assumed that those who are not working or not using ECEC make decisions about work and ECEC in an increment of three days, while those who are already working or using ECEC consider the change in out-of-pocket expenses over up to two days if they are using one day of ECEC, and one day if they are using two to four days of ECEC.

Elasticities were drawn from Gong and Breunig (2017, p 32), which estimated that a 1% fall in out-of-pocket expenses increases:

- hours of ECEC by 0.203% and ECEC participation by 0.125%
- hours of work by 0.081% and labour force participation by 0.055%.

These elasticities indicate that families' decisions about hours of ECEC are more responsive than hours of work to changes in out-of-pocket expenses. This is because some families who are already working replace informal care with formal ECEC after ECEC becomes cheaper. And some families use ECEC for reasons other than work (such as for study, volunteering, housework or social activities). Further, hours of ECEC are typically lower than hours of work, which means that the same hours increase can appear as a larger percentage increase for hours of ECEC due to its lower base.

Fiscal costs were estimated by applying proportional increases in aggregate CCS outlays, as estimated using the survey data, to CCS outlays estimated by the Department of Education for 2023-24. These costs were adjusted based on the Productivity Commission's analysis of the Department's administrative data, to account for the observation that assumptions made using the survey data tended to overstate the number of unsubsidised hours of care that families have under the activity test.

The results are sensitive to a range of assumptions, such as the elasticities used and the number of extra days of work and care over which families consider their change in out-of-pocket expenses. A wide range of elasticities have been estimated and used in the literature – a doubling of elasticities implies a response in hours of ECEC or hours of work that is double the size for every 1% fall in ECEC expenses.

The model has a number of limitations. It is assumed that increases in ECEC demand and in labour supply are fully accommodated by the ECEC and labour markets, without any changes in ECEC fees or wages. The model is also not able to take into account broader benefits – such as benefits of reducing system complexity, educational benefits to children, benefits that easier access to ECEC may have in searching for a job, and longer term benefits of increased labour force participation including on skill development, productivity and reduced reliance on welfare payments.

While this technique improves on some past analysis of CCS policy changes that only examine the effects of some components of the CCS regime, or that are estimated for much broader groups of families, more sophisticated modelling options exist. The Commission's final report will include updated estimates of the effects of CCS policy changes by using a behavioural microsimulation model. This models individual families' decisions to choose work and care hours through preferences that are unique to the family's characteristics, rather than by applying broad-based elasticities.

## Reducing administrative complexity can make ECEC subsidies more accessible

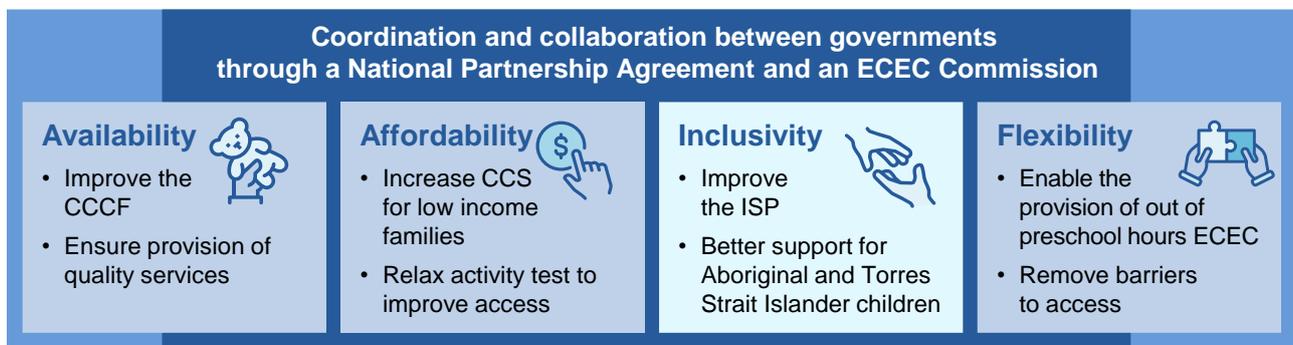
Applying for ECEC subsidies is complex. Surveys show that about half of families found the application process challenging, noting issues such as clunky initial enrolment processes and difficulty understanding the CCS. Major ECEC providers such as Goodstart Early Learning employ staff dedicated to supporting families applying for the CCS. Applications for additional payments or programs, such as the ACCS and the ISP, may impose further burden on families.

There are steps the Australian Government should take to simplify access to ECEC subsidies, as well as recognise the sometimes complicated and unexpected circumstances that families may face. These include:

- extending the interval of time before services, on behalf of families, are required to reapply for the ACCS (Child Wellbeing) to a minimum of 26 weeks (currently, it is up to 13 weeks)
- maintaining a child's eligibility for subsidised ECEC when their guardian changes, whether it be permanently or temporarily, for example through family separation or when a parent dies. For Aboriginal and Torres Strait Islander children, informal kinship carers should be recognised carers under the ACCS (Grandparent).

Improving the information available to families would assist them to understand their CCS eligibility. This could be achieved by ensuring that all information provided on government websites about CCS eligibility is up to date, easy to find and easy to understand, for example, by improving the functionality of the CCS calculator on the Starting Blocks website. For families who may find it challenging to access ECEC, support in navigating the system can be helpful to make the ECEC sector more inclusive – discussed further below.

## Supporting an inclusive ECEC sector



Children in ECEC come from families with different incomes and different educational backgrounds; some are from non-English speaking homes while for others English is their first language; each child develops in a unique way, and some may have a disability or developmental delay.

ECEC services must accommodate children and create environments where they all thrive. Community controlled organisations, such as Aboriginal Community Controlled Health Organisations and Aboriginal Community Controlled Organisations (ACCOs) can help promote access to culturally safe ECEC that reflects the priorities of Aboriginal and Torres Strait Islander families and offer better outcomes for Aboriginal and Torres Strait Islander people. Submissions have called for greater investment in community controlled organisations, including a new funding model, which reflects the integrated and tailored services ACCOs provide, the limited economies of scale, rural and remote servicing, the priorities of Aboriginal and Torres Strait Islander families, and support for the Aboriginal and Torres Strait Islander workforce.

The Early Childhood Care and Development Policy Partnership (ECPP), established as part of the commitment of Australian governments to the National Agreement on Closing the Gap, provides a forum

where Aboriginal and Torres Strait Islander representatives work in partnership with governments to improve early childhood care and development outcomes. The ECPP has commissioned a research project to develop funding model options for ACCO-delivered ECEC, including integrated early years services, and the Commission will consider this in its final report.

Cultural safety should also be a priority across the system as Aboriginal and Torres Strait children and children from CALD backgrounds also attend mainstream ECEC services. It is challenging to assess the extent to which individual services create culturally safe environments. But inquiry participants have raised concerns that cultural competence and safety is not adequately reflected in the NQF. These issues should be considered by the Australian Government, in conjunction with Aboriginal and Torres Strait Islander community organisations.

### **Improvements to the Inclusion Support Program are critical to enable children with additional needs to attend ECEC**

ECEC services (aside from preschools) are not covered by the Disability Standards for Education 2005, which clarify the obligations of providers to ensure that students with disability can access and participate in education on the same basis as students without disability. As a matter of priority, the Standards should be amended to include ECEC, as has been recommended by numerous past reviews.

There are limited funding options for services seeking to improve inclusion, including of children with disability and those from diverse backgrounds. The most prominent funding mechanism is the Inclusion Support Program (ISP), which provides funding and other supports (such as an equipment library) for ECEC services that are approved for the CCS. The Australian Government provided a budget of \$133 million in 2020-21 to the ISP. More than 17,600 children were supported by the ISP in 2021-22, and demand has been increasing rapidly. In addition to the ISP, state governments also offer small programs intended to support inclusion.

Only 1% of children in ECEC services (excluding dedicated preschools and In Home Care) are supported by funding from the ISP<sup>1</sup> – which is meant to assist services to remove barriers to inclusion. According to the national approved learning frameworks, inclusion involves taking into account all children’s ‘social, cultural and linguistic diversity (including learning styles, abilities, disabilities, gender, family circumstances and geographic location) in curriculum decision making processes’. It is difficult to see how a program with such limited reach can achieve this intended outcome.

In practice, ISP is largely limited to supporting children with disability. Families and service providers have told the Commission about lengthy application processes; in some cases, children start school before their ISP application is decided. Funding from the ISP can be used to employ an additional educator, but the service may not always be approved to employ the educator for the full hours the child attends.

Several changes to the ISP will improve the ability of services to support children.

- Increasing the current hourly subsidy rate for additional educators up to the median wage of a Certificate III qualified educator and ensuring it is indexed to the Wage Price Index.
- Removing limits on the weekly hours the additional educator subsidies can be approved for and ensuring they align with a child’s enrolled hours.
- Allowing other human-services staff and inclusion professionals, such as allied health, or other relevant professionals to be employed as an additional educator, where appropriate.

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<sup>1</sup> This figure represents children for whom a service was in receipt of ISP funding – it does not capture children who may have been assisted by ISP but for whom a payment was not made.

- Expanding the ability of services to provide evidence a child has additional needs other than disability when seeking to access the longer-term additional educator subsidy or the Family Day Care Top Up.
- Assessing the application processes to receive funding, with a view to reducing the administrative burden on services.

These changes will require greater resourcing for the ISP across the board. Inclusion agencies and the Inclusion Development Fund Manager play a central role in the delivery of the ISP but feedback from inquiry participants suggests they are struggling to deal with a backlog of applications and that agencies may only have limited contact with some services. Increasing the resourcing levels of inclusion agencies and the fund manager can allow them to better support inclusion.

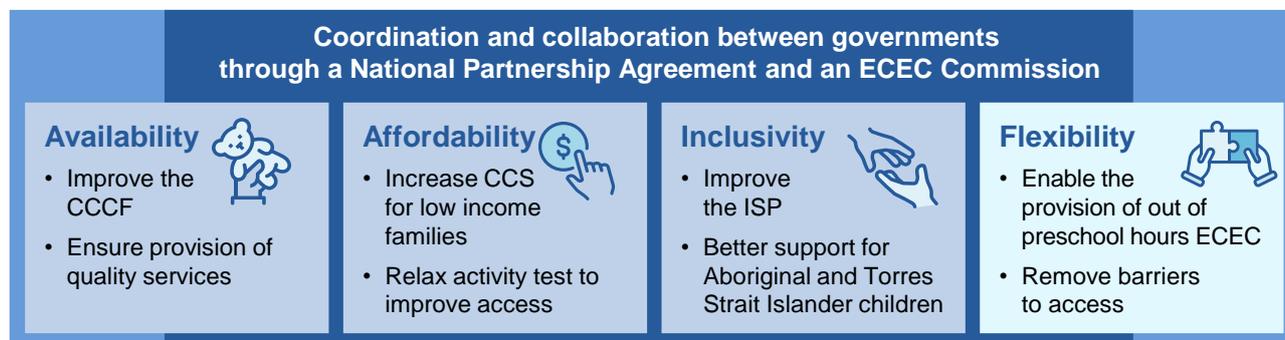
Many ECEC teachers and educators have skills and experiences that enable them to identify developmental concerns and can refer children and families to suitable services. There are also trials of programs that give ECEC educators the skills to deliver early intervention for children who are at developmental risk. But these are not consistently offered, and the Australian Government should implement a better approach to professional development that focuses on inclusion support.

ECEC services interact not only with disability services; they have connections with schools, social services such as family support, health services, including maternal and child health services and allied health, and many others. These connections reflect the multitude of services all families interact with, as well as the role of ECEC services in bringing together their community. Some of these connections are organic – such as when preschools operate on school sites, and school staff play a part in the delivery of school programs. Others are managed through policy interventions, such as the policies of some states and territories that mandate exchanges of information between ECEC and schools as children start their formal education.

But in many cases, connections with services outside of the education sector – what the South Australia Royal Commission into ECEC referred to as ‘the glue’ – are ad hoc and unfunded. The Royal Commission considered the state government should fund these connections and enable their creation, recognising that these can look different depending on community need. As part of its role in assessing access to ECEC in different communities, the ECEC Commission could also explore the connections between existing services, before considering the most suitable ways to address these gaps.

One way to improve connections is establishing integrated services. These can take many forms, ranging from partnerships between services to fully integrated hubs offering a range of services to children and families. Some inquiry participants have suggested ECEC services should be part of a broader, integrated early childhood development system. There are a range of integrated models across Australia, including government and community funded services, but these services are funded in different ways and some do not include ECEC. Others, such as those for Aboriginal and Torres Strait Islander children, may have to manage multiple funding streams. An ECEC Commission should be responsible for advising governments on the communities in which integrated services involving ECEC are needed.

## Flexible ECEC services that align with the needs of families



Despite the many types of service that comprise the ECEC sector, its main mode of operation remains relatively inflexible. CBDC offers limited flexibility in session lengths while dedicated preschools have restricted hours and weeks of operation, creating significant challenges for families. OSHC services only operate in some primary schools and are not usually available for preschool children. For some families, the difficulty of accessing ECEC can be compounded by a range of factors. For example, one inquiry participant noted the need for birth certificates can be a barrier for some families.

To facilitate universal access to ECEC, governments need to remove any real or perceived barriers to access and make the ECEC sector more flexible and responsive to family needs. This is likely to require some policy and regulatory changes, as well as modest additional funding.

### Overcoming practical barriers to access and supporting flexible entry points

Many inquiry participants described the practical barriers that families experience when trying to access ECEC for their children.

Factors impacting access to ECEC services include families' ability to provide transportation to and from kinder, provide adequate food for their child while at kinder, an ability to navigate the sometimes complex education system.

It is also our experience that for families experiencing disadvantage, ECEC is often a low priority as many are also faced with challenges relating to mental ill health and financial stressors including housing and food insecurity, which are taking up priority in their lives. (Meli, sub. 139, p. 7).

While it is outside the scope of this inquiry to address the broader causes of disadvantage, there are ways to address some of the barriers faced by families experiencing disadvantage. For example, the CCCF offers grant funding to enable services to offer transport assistance, but the eligibility for these grants is restricted. Transport assistance may also be just one area that ECEC services may need to address; research undertaken for the South Australian Royal Commission showed that one in five services offer a foodbank and nearly one in ten offer families assistance from social workers and child and family practitioners. The Australian Government could establish a modest pool of flexible funding which services can apply to use when families face substantial barriers to access that cannot be addressed through other government services.

Flexible options to access ECEC are important, in particular for families experiencing disadvantage or social exclusion. For example, playgroups are funded separately to ECEC and sit outside the formal ECEC system, but also play a valuable role in supporting families and children in their early years. These services allow parents or carers to participate in activities with their children and can be run by families themselves or a trained facilitator.

Occasional care offers flexible support to families – but changes to funding structures appear to have led to a significant reduction in services. Neighbourhood Houses Victoria (sub. 124, p. 3) explained that neighbourhood houses offer occasional care:

to enable vulnerable women acquiring foundational skills to improve inclusion and participation, and in many cases to advance to more vocational training. In many cases, women who need it most would not be able to access these services due to care responsibilities. This is particularly true for women with language or technology barriers.

In addition, many neighbourhood houses have used sessional care as a way of supporting women in cases of domestic and family violence or family breakdown. Sessional places allow women to attend court dates, meet with social workers or parole supervisors or undertake family mediation.

An ECEC Commission should have responsibility for advising on the need for occasional care services and where to target investment. Where the Commission identifies a need, funding should be available through a redesigned CCCF. As they only cater to a small number of children, the amount of funding required is unlikely to be large in comparison to overall government expenditure on ECEC. Neighbourhood Houses Victoria estimated that in Victoria, \$5 million a year would be required to sustain sufficient services.

Some families may require access to ECEC during non-standard hours to support their workforce participation, but access is limited. This appears to be the result of high costs of provision and, in some cases, regulatory restrictions on operating hours. Addressing the barriers, including through a higher hourly rate cap for non-standard hours for eligible families, could help.

Some families may need additional support, including outreach or system navigation. There are successful examples of this approach: the Victorian Government funds 22 local councils to employ a CALD outreach worker to address barriers to preschool access, while in Queensland, the Institute for Urban Indigenous Health (IUIH) runs a Deadly Kindies Program, funded by the state government, which encourages families to complete a health check at a IUIH clinic and enrol in preschool. IUIH staff follow up with families to support preschool attendance. In New South Wales, a research project supported by the state government has shown that ECEC attendance among children experiencing disadvantage improved when ECEC educators had better tools to support families to maintain their children's enrolment, coupled with access to flexible funding to address specific barriers to access in local communities. These models could be explored on a more systematic basis, whether through ECEC services themselves, community organisations or local councils or through a central point such as the inclusion agencies funded under the ISP – provided their resourcing increases.

### **Making preschool hours more family friendly**

While CBDC is usually open for 10 to 12 hours a day, to allow families flexibility around their drop off and pick up times, dedicated preschool hours generally do not align with a work week. In dedicated preschools, programs are usually delivered as 15 hours per week over 40 weeks – which does not align with most families' working hours.

Preschools established and run by state governments as part of their education systems operate in a similar way to schools, as do many community kindergartens. But while schools have recognised to some extent that their hours of operations do not align with parents' needs – giving rise to the creation of OSHC – 'extended hours' or 'wrap-around care' models are rare in dedicated preschools.

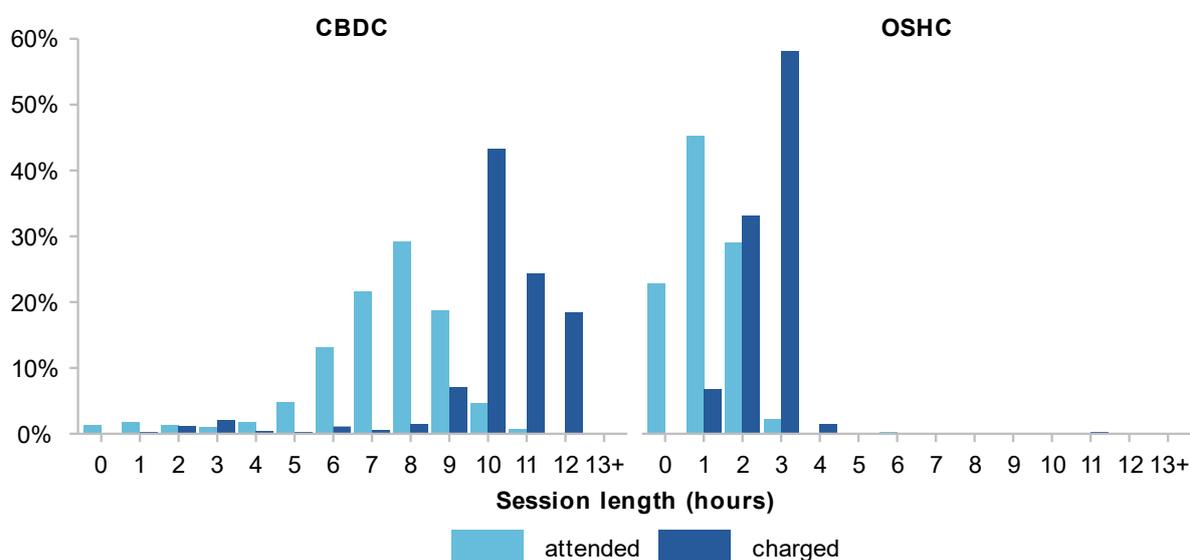
Even when there is demand from families for longer hours, Family Assistance Law makes it difficult to access the CCS for 'extended hours' services on dedicated preschool sites. Changing the Family Assistance Law will enable dedicated preschools to provide outside preschool hours care (either directly or through outsourcing to an approved provider). Given that in all jurisdictions, except Western Australia and Tasmania,

dedicated preschools are covered by the NQF, direct provision should not affect the quality of service. Should the Western Australian and Tasmanian governments wish to seek CCS-approval to directly offer additional ‘non-preschool’ hours in their dedicated preschools, the Australian Government should seek commitments these additional hours would be regulated in a way that is consistent with the NQF.

### Creating incentives for session lengths that better match children’s attendance

One of the challenges in the current system is the difference between the hours children attend ECEC – and the hours that families pay for (figure 21).

**Figure 21 – Session lengths charged and attended, by service type, 2022<sup>a,b</sup>**



a. Session lengths rounded down to the nearest hour. Based on a select week ending 20 November 2022. b. Excludes sessions where a child did not attend, or where there is insufficient information available to determine attendance.

Service providers have the ability to vary session lengths to suit the needs of individual children and families. For example, the Child Care Provider Handbook, published by the Australian Government, states:

Child care providers should consider changes that deliver flexible, cost-effective care and learning services for families. For example, providers could choose to offer parents receiving 36 hours of subsidy under the preschool category six sessions of six hours or four sessions of nine hours per fortnight. (p. 66)

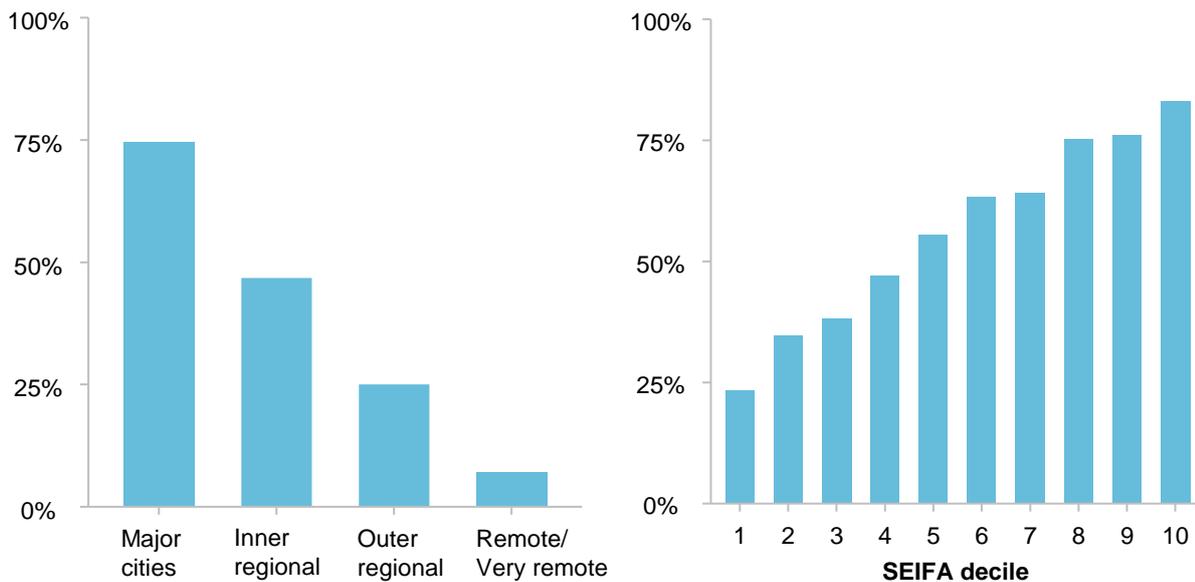
Some providers offer multiple session lengths, but most sessions in CBDC are charged for at least 10 hours and many families pay for hours they do not use. While some parents might value the flexibility and convenience provided by longer sessions, others may not. Unused charged hours also impose costs on taxpayers, as the CCS is paid based on the length of the session, not the hours attended. It is reasonable for providers to charge higher hourly fees for shorter session lengths, reflecting the need to cover fixed costs, or in some cases to impose a minimum session length to enable them to plan their staff rostering. But the gap between session lengths and hours of attendance is substantial. The Commission is considering ways to encourage services to offer greater flexibility of session lengths to better align with family needs.

## Increasing the availability of OSHC can help many families

OSHC services offer greater flexibility for families with older children to make choices about balancing work and care for children. However, the availability of OSHC is far from universal – only half of primary schools have an OSHC service on site (figure 22).

**Figure 22 – OSHC is more likely to be provided at schools located in major cities or high-SES areas<sup>a,b,c</sup>**

**Proportion of schools for which there is an OSHC service by remoteness and SEIFA, 2023**



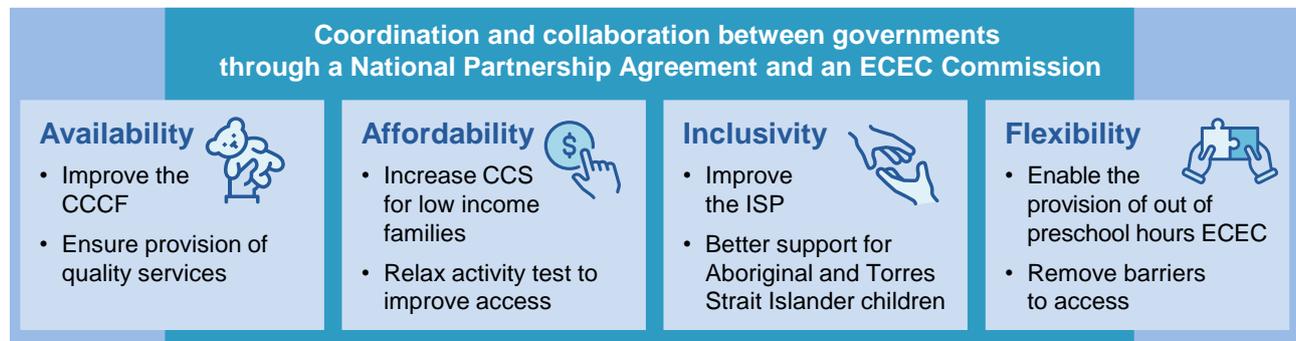
**a.** Schools are not directly linked to an OSHC service, as linkage keys in each dataset are not provided. Supplementary analysis, using reported latitude and longitude of schools and OSHC services to try and match schools to OSHC services, found about 13% of OSHC services do not have a school site within 500 meters of its geolocation. **b.** Analysis is restricted to primary, combined and special–secondary schools are excluded. **c.** Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged and 10 being the most advantaged).

In some cases, this is because there is insufficient demand for OSHC, if the school is small or where there is a significant increase in the number of parents working from home following the changes observed in the labour market during and after the COVID-19 pandemic. But in other cases, demand may exist but school principals or boards may be reluctant to facilitate the establishment of a service, given the regulatory requirements. Delivery models for OSHC differ between jurisdictions, but in all cases there is no requirement for schools to consider and respond to the need for OSHC in their community.

To address this, and enable greater flexibility for parents with school-aged children, state and territory governments should task education departments with assessing the need for OSHC in each government primary school and developing solutions where a service should be established.

Although catering to an older age group of children, OSHC services are regulated in a similar way to services for younger children. There are instances where this may lead to children being treated differently in OSHC to how they would be treated in school, such as being prohibited from using a school playground while at OSHC. And while the national approved learning framework for school-age care highlights the role of leisure in OSHC, it is not reflected in the quality standards. There may be scope for a review of the NQF requirements for OSHC, which could consider whether a tailored set of requirements is needed for OSHC and whether further guidance is required for services and assessing officers.

## New coordination mechanisms to achieve better outcomes and universal access to ECEC



Achieving universal access to quality ECEC that is affordable, inclusive and flexible is a major challenge that will require governments to work together. Current ECEC policy settings comprise many regulations, programs and initiatives, often introduced with little coordination and evaluation of outcomes. But governments have succeeded in the past in negotiating and implementing the NQF and universal access to preschool, and they can build on these past successes.

Governments have multiple levers they use to influence ECEC – funding, regulation, policy and at the state and territory level, direct service provision – but the way these operate can have shortcomings. The funding system does not create incentives for services to cater to the needs of all children and has led to substantial gaps in availability. Aspects of the regulatory system are inconsistent between jurisdictions and there is no effective mechanism to support quality improvement. Additional policies and programs often create overlap and lack coordination. And state and territory proposed preschool changes have direct implications for CBDCs and the ECEC sector more broadly.

As governments consider the shift towards universal access to three days (up to 30 hours) per week of ECEC, it is appropriate to ask whether existing regulatory and funding systems are fit-for-purpose. Overall, the Commission considers that universal access to ECEC can be achieved through improvements to existing systems and policy settings. More comprehensive change risks imposing high costs without obvious additional community benefits at this point in time.

### The components of ECEC funding should be improved

Over time, a mix of funding instruments has emerged to support the broad objectives of ECEC – improving child outcomes and labour force participation. Many funding initiatives target different aspects of the system, including affordability, accessibility, quality, and inclusion. These fall into three categories:

- a broad baseline funding instrument, primarily targeted at affordability and accessibility goals. The CCS falls into this category, offering means-tested subsidies to families, as does the preschool funding provided by state governments, which allocate a set amount of funding per child for eligible services
- an additional component or series of programs, primarily aimed at reducing barriers to ECEC that are higher for some families due to location, disadvantage, or for children who have additional needs. Examples of such programs include the ISP, which supports the inclusion of children, and the CCCF, which provides funding to increase the supply of ECEC in eligible communities
- highly targeted interventions for children who would significantly benefit from access to high quality ECEC. This could also include integrated services, including those delivered by ACCOs and those funded through the CCCF.

Each of these components can be improved – and when taken together, establish an architecture that can be used to achieve universal access to ECEC.

- The CCS can be improved, through modifications to the activity test and the subsidy rate, to support low income families to enrol their children in ECEC. Supply-side funding can continue to facilitate universal access to preschool. Alongside improving affordability, this is also expected to create incentives for providers to establish ECEC services in areas of low supply.
- Both the ISP and the CCCF need to receive larger, more flexible funding allocations. The CCCF can be used more proactively by the Australian Government to address availability gaps, which mostly affect families experiencing disadvantage. The ISP offers an opportunity to better deliver inclusion goals.
- In some cases, children and families can benefit from integrated or intensive services. Where there is an identified need for integrated services, a coordinated approach between governments, combined with cost-based funding, can enable the establishment of more integrated services.

Some inquiry participants have suggested that ECEC funding should shift to a new model. Options raised included a model that combines the CCS with a direct payment to service providers; supply-side, needs-based funding, with loadings where costs of service provision vary by cohort; funding services based on enrolment or attendance patterns; or a model that includes service provision by government. Such models have the benefit of simplicity for families. However, they also bring challenges, including that, with less scope for means testing, taxpayers must take on more of the funding task, along with the potential for significant funding gaps if the amounts allocated fall short of the costs of delivering a quality ECEC service.

Broad based changes to ECEC subsidies that in effect remove the scope for price competition – such as introducing a flat fee for all families – would strengthen the case for a predominantly supply-side funding model. The Commission will conduct further modelling and analysis of these subsidy options for its final report. However, such options would impose substantial costs on the community and there are other pressing priorities for reform that can achieve better access to ECEC, particularly for children and families experiencing disadvantage, at a lower cost.

## **A new national agreement to improve policy coordination and implementation**

Meaningful coordination and collaboration between jurisdictions and levels of government is missing from the current ECEC policy landscape. At the end of 2025, the current Preschool Reform Agreement will expire – and the negotiations for the next agreement create an opportunity to shift the governance arrangements for ECEC. From 2026, the scope of this agreement should be broadened, so that it is replaced by National Partnership Agreement for Early Childhood Education and Care (NPA ECEC).

The NPA should adopt the national vision for ECEC as its foundation. The vision, which is being developed by education and early years ministers for consideration by National Cabinet, recognises the benefits of ECEC for children and families and is based on principles of equity, affordability, quality and accessibility.

The NPA ECEC should also clarify the roles and responsibilities of governments, with the Australian Government remaining as the main funder through subsidies to families, and state and territory governments retaining responsibility for preschool, transition support and enabling the provision of OSHC. Governments could consider greater cooperation in the funding of inclusion programs and integrated services.

The NPA ECEC should also create two new mechanisms of policy development and evaluation: a system stewardship model and an ECEC Commission.

## System stewardship – a missing part of the policy puzzle

A stewardship model – where the Australian, state and territory governments better coordinate their roles in the ECEC system and share accountability for sector outcomes – can address some of the challenges observed in the market, support a more cohesive policy response, and steer the sector towards universal access (figure 23).

**Figure 23 – A model of effective stewardship**



The way governments intervene in ECEC already applies some elements of stewardship, such as national agreements, minimum quality standards, and the ongoing development of a national vision for ECEC. However, more should be done to improve coordination and accountability in the ECEC system to achieve a more effective model of stewardship.

The Australian, state and territory governments should continue to act as the system’s stewards as they hold the key policy, regulatory and funding levers. After agreeing on a collective vision for the sector, stewards should establish a plan that divides and coordinates individual responsibilities within the system. A new National Partnership Agreement presents an opportunity to articulate the respective policy and funding levers that each steward plans to use and which outcomes these levers are responding to.

Ongoing mechanisms for coordination will also be required. While there is some ability for the stewards to collaborate through existing forums, such as the Education Ministers Meeting, it is unlikely that such forums have the capacity to consider all matters to the extent that a true stewardship model requires. System stewards are likely to benefit from having a dedicated body to guide decision making and support a consistent and coordinated policy response across the system.

## A proposed ECEC Commission underpins the creation of a stewardship model

The topics that governments, as ECEC system stewards, must tackle will require a central point of coordination and monitoring. While government departments have the authority and capacity to implement ECEC policies, they are also affected by political and other external processes that influence how decisions are made. There is also no dedicated body that monitors the system’s performance against its objectives and this reduces the extent to which these departments can be held to account for outcomes. In this environment, a new independent authority could have the capacity to champion longer term, national objectives, as well as strengthen accountability for the stewards, without being subject to the same external influences.

An ECEC Commission should be established to fulfill two main functions. The first would be to support the Australian, state and territory governments to better coordinate and deliver ECEC policies, by providing information and advice. The second would be to provide a mechanism to hold the system stewards publicly accountable for achieving the objectives of ECEC policy. An ECEC Commission would publish regular

reports on performance against the commitments made under the NPA ECEC, as well as on the performance of the sector more broadly. In practice, it could report across a range of areas:

- **Universal access and planning:** monitoring the ECEC market to identify availability gaps and highlight where investment is required. This could extend to advising on what service delivery models may be most appropriate in different communities by consulting with local governments and other organisations, and identifying where there is a need for more tailored solutions, such as integrated services. This may be particularly relevant for remote areas where the number of potential ECEC users is small, the infrastructure and workforce needed to deliver a service do not exist, and incentives from the current funding model are inadequate to encourage the establishment of a service.
- **Reform commitments made under the NPA and other reform initiatives:** tracking and reporting on progress against key milestones, such as the preschool outcomes measure and the National Children's Education and Care Workforce Strategy. The ECEC Commission could also provide advice on where priorities may need to be adjusted.
- **Other reform initiatives and potential for national consistency:** reporting and providing advice on where overlapping policies could be rectified through nationally consistent arrangements across a range of domains, including but not limited to inclusion support, workforce, regulatory approaches and OSHC contracting.

The ECEC Commission would require high quality data to execute its advisory and reporting functions effectively. This would require the authority to collect data from the Australian, state and territory governments, as well as mechanisms to safely store and share data between jurisdictions.

## Progress towards universal ECEC will require gradual and careful implementation

Change has been the reality of the ECEC sector for many decades. The CCS was rolled out in 2018, redefining the way services are funded, while the sector is currently contending with substantial expansions of preschool. Implementing these changes and observing their effects takes a long time – further reform must be staged, to allow educators and service providers to respond and adapt.

The ECEC Commission can play a pivotal role in developing priorities for investment and planning reform implementation so that expansion of ECEC starts in the areas of greatest need and is done at a sustainable pace. It will monitor and evaluate the costs and benefits of reforms implemented. Evaluations should inform the next steps taken to achieve universal access to ECEC.

Where policies are implemented without appropriate preparation and planning, they are unlikely to fully deliver on their expected benefits and worse, they could contribute to adverse outcomes and crowding out of those children who need access to ECEC the most. Some in the ECEC sector have reflected on the implications of announcements regarding 'free preschool', which raise parents' expectations but only act to increase service waiting lists. Similar cautionary lessons emerge from ECEC reform in Quebec and Ireland.

In designing the implementation of reform, policy makers need to recognise that all parts of the ECEC sector are interrelated, and making adjustment to one aspect of policy will have wide ranging repercussions. As outlined above, changes to the CCS will enable shifts in demand – and providers are likely to respond by opening more services. But at the same time, some state and territory governments have committed to expanding preschool provision. These policies will have further consequences for the sector, some of which are unclear.

Without greater numbers of ECTs and educators, any increase in ECEC will not be possible. The ECEC workforce – both the people who work in services and those who are expected to enter the sector over coming years – should be the first priority for reform. This includes recognising the value of the work done by ECTs and educators in ECEC, including through better pay and conditions (which, without government

funding, will increase costs to families and may affect ECEC use), and improving the approach to qualification pathways that would enable more people to work in the sector. While this should be the immediate priority, the results of policy reform in this area will only be evident in the medium term.

The subsequent tranche of reforms should include:

- gradual introduction of CCS changes, starting with changes to the activity test and increasing the subsidy rate for low income families, and ongoing evaluation of the effects this has on ECEC supply and fees (including ensuring that higher subsidies to low income families are not used by some operators as an opportunity to increase fees)
- an independent review of regulatory authorities, to support more timely quality assessments and
- allocating greater funding to an ECEC research agenda, which should focus on understanding the effects on ECEC on children's outcomes and the factors affecting service quality in the Australian policy context. In particular, greater emphasis should be given to understanding the models of ECEC policy, funding and service delivery that best recognise the experiences of Aboriginal and Torres Strait Islander children and families.

From 2025, governments should focus on negotiating the NPA ECEC, including establishing the ECEC Commission. Once established, the ECEC Commission should start planning the transition towards universal access to ECEC, including considering changes to the CCCF, such as the quantum of funding, the areas where funding is required and the types of services that will address community needs. In addition, the Australian Government should allocate greater funding amounts to the ISP, to enable the inclusion of all children in ECEC. This should take account of any changes emerging from the review of the National Disability Insurance Scheme (NDIS).

As the sector progresses towards universal access, governments should evaluate and recalibrate their investment programs, to ensure they deliver greater access for those children and families who are currently missing out. They could also give consideration to different funding models, including supply-side funding or higher subsidy rates, as the changes in the system may affect their relative costs and benefits.

This draft report presents a pathway to reform, recognising that achieving change on such scale is likely to take years – and the benefits to children and families will emerge from each step along the way.

## **5. Next steps for the inquiry**

This draft report presents the Commission's assessment of the state of the ECEC sector and charts a pathway towards universal access. In addition to the Commission's work, there are many processes that will affect the future of the sector.

- National Cabinet is due to consider the draft vision for ECEC in late 2023. The Australian Government is developing an Early Years Strategy, with the aim of improving coordination between Commonwealth programs, funding and frameworks affecting young children and their families.
- The Early Childhood Care and Development Policy Partnership established under the Closing the Gap Agreement continues its work to improve ECEC outcomes for Aboriginal and Torres Strait Islander children.
- The Australian Competition and Consumer Commission is due to finalise its childcare inquiry by December 2023. Similarly, the NSW Independent Pricing and Regulatory Tribunal is due to complete its report on ECEC affordability, accessibility and consumer choice by the end of 2023.
- The Review to Inform a Better and Fairer Education System was completed in October 2023 and the Review of Australia's Higher Education System is expected to be finalised by December 2023. Both reviews were conducted by independent panels appointed by the Australian Government. In addition, the Department of Education has commissioned reviews of the ISP, IHC services and the CCCF restricted grant.

- The review of the National Disability Insurance Scheme, which had a significant focus on the early years, submitted its report to government in October 2023.
- Processes under the Fair Work Act (box 4) will have substantial consequences for the sector. Jobs and Skills Australia has recently begun a study of ECEC workforce needs, which is expected to be finalised in the first half of 2024.
- Many other policies and strategies will affect the ECEC sector, including the National Strategy for the Care and Support Economy, the National Strategy to Achieve Gender Equality and the White Paper on Jobs and Opportunities.

The Commission will consider the outcomes of these reviews as it prepares its final report, to be submitted to the Australian Government in June 2024. The Commission welcomes feedback on the draft recommendations included in this report, with submissions requested by 14 February 2024. The inquiry will hold public hearings in February and March 2024, with locations and times to be advised on its website ([www.pc.gov.au](http://www.pc.gov.au)).

## Summary of draft recommendations

Problems	Draft recommendations (DR number)	Benefits to children and families
<b>Affordability and availability gaps need to be addressed to achieve universal access</b>		
<ul style="list-style-type: none"> <li>• Children most likely to benefit from ECEC attendance are missing out</li> <li>• ECEC is less affordable for low income families</li> <li>• Activity test limits access for low income families</li> <li>• Poorer availability in regional and remote areas</li> <li>• Complex subsidy arrangements are a barrier to access for some families</li> </ul>	<ul style="list-style-type: none"> <li>• Give all children an entitlement to up to 30 hours or 3 days a week of subsidised care without an activity requirement (DR 6.2)</li> <li>• Lift subsidy to 100% of the hourly rate cap if annual family income up to \$80,000 (DR 6.2)</li> <li>• Provide additional support for persistently thin markets (DR 5.1)</li> <li>• Improve information about CCS for families (DR 6.3 – 6.6)</li> </ul>	<ul style="list-style-type: none"> <li>• Significant improvements in access</li> <li>• Life-time benefits of quality ECEC, particularly for children experiencing disadvantage</li> </ul>
<b>Availability can only improve if workforce challenges are resolved</b>		
<ul style="list-style-type: none"> <li>• ECEC workforce attraction and retention needs to be a priority</li> <li>• Low qualification completion rates and barriers to upskilling</li> <li>• Inadequate professional development opportunities</li> <li>• Additional barriers and inadequate recognition of cultural knowledge for Aboriginal and Torres Strait Islander people</li> </ul>	<ul style="list-style-type: none"> <li>• Fair Work Act processes addressing pay and conditions (DF 3.1)</li> <li>• Reduce barriers to upskilling (DR 3.1)</li> <li>• Support innovative delivery of teaching qualifications (DR 3.2)</li> <li>• Improve registration arrangements for early childhood teachers (DR 3.3)</li> <li>• Lift support and mentoring for new early childhood teachers (DR 3.4)</li> <li>• Improve pathways and support for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications (DR 3.5)</li> <li>• Provide greater support for professional development (DR 3.6)</li> <li>• Improved ECEC Workforce Strategy (DR 3.7)</li> </ul>	<ul style="list-style-type: none"> <li>• Improved ECEC availability</li> <li>• A higher quality experience for children</li> <li>• Better support for Aboriginal and Torres Strait Islander children</li> </ul>
<b>A universal ECEC system has to be inclusive of all children</b>		
<ul style="list-style-type: none"> <li>• Disability Standards for Education do not apply to all ECEC services</li> <li>• Only a small proportion of children with inclusion needs receive support</li> <li>• Subsidy design and rules for additional educators are restrictive</li> </ul>	<ul style="list-style-type: none"> <li>• Amend the Disability Standards for Education (DR 2.2)</li> <li>• Amend eligibility requirements for inclusion funding (DR 2.3)</li> <li>• Review and amend additional educator subsidies (DR 2.4)</li> <li>• Reduce administrative burden of ISP applications (DR 2.5)</li> <li>• Improve coordination of inclusion funding (DR 2.6)</li> </ul>	<ul style="list-style-type: none"> <li>• More inclusive services for children with disability</li> <li>• Improved access and experiences for children with additional needs</li> </ul>

Problems	Draft recommendations (DR number)	Benefits to children and families
<b>ECEC services do not consistently respond to family needs</b>		
<ul style="list-style-type: none"> <li>• Some families need additional support to access ECEC</li> <li>• Limited access to ECEC services during non-standard hours</li> <li>• Families do not use a significant amount of the ECEC they pay for</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure integrated services are available where needed (DR 7.1)</li> <li>• Support connections between ECEC and child and family services (DR 7.2)</li> <li>• Introduce a higher hourly rate cap for non-standard hours (DR 7.3)</li> <li>• Examine planning restrictions related to operating hours (DR 7.4)</li> <li>• Ensure occasional care is available where needed (DR 7.5)</li> </ul>	<ul style="list-style-type: none"> <li>• Improved access to ECEC</li> <li>• Services that better meet families' needs</li> </ul>
<ul style="list-style-type: none"> <li>• OSHC services are not available at all primary schools where there is demand from families</li> <li>• Dedicated preschool hours do not match the needs of working families</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure OSHC is available where required (DR 9.1)</li> <li>• Support out of preschool hours ECEC (DR 7.6)</li> </ul>	<ul style="list-style-type: none"> <li>• Greater support for labour force participation</li> </ul>
<b>Quality is paramount to achieving the benefits of ECEC</b>		
<ul style="list-style-type: none"> <li>• Timeframe between service assessments is too long</li> <li>• Families lack current information on service quality</li> </ul>	<ul style="list-style-type: none"> <li>• Improve regulatory authorities' performance reporting (DR 8.1)</li> <li>• Review how services are assessed against NQF (DR 8.2)</li> <li>• Ensure regulatory authorities are adequately resourced (DR 8.3)</li> <li>• Incentivise quality provision in new ECEC services (DR 8.4)</li> </ul>	<ul style="list-style-type: none"> <li>• More consistent and higher service quality</li> <li>• Better information on service quality</li> </ul>
<b>New coordination mechanisms will support universal access</b>		
<ul style="list-style-type: none"> <li>• Lack of clarity in roles and responsibilities between levels of governments</li> <li>• Inadequate policy and funding coordination</li> </ul>	<ul style="list-style-type: none"> <li>• Form a National Partnership Agreement for ECEC (DR 9.1)</li> <li>• Establish an independent ECEC Commission (DR 9.2)</li> </ul>	<ul style="list-style-type: none"> <li>• Better coordinate planning and evaluation of progress towards universal ECEC</li> <li>• Less complexity for families (and services)</li> </ul>



# Recommendations, findings and information requests

## Recommendations and findings

### ECEC is positive for many children but those who would benefit most are least likely to attend



#### Draft finding: Many Australian children attend ECEC services

Early childhood education and care (ECEC) services play a major role in the lives of young children and their families. Nearly half of one-year-olds attend some form of ECEC and participation rises until children start school. About 90% of four-year-olds are enrolled in ECEC and, once in primary school, about 14% of children aged 5–12 years spend time each week in outside school hours care. **[Draft finding 2.1]**



#### Draft finding: Evidence shows children benefit from attending high-quality ECEC

Most credibly evaluated early childhood education and care programs have been found to benefit children. These benefits, while difficult to quantify, can be substantial, and often extend beyond short-term effects on learning and development in early childhood to a wide array of outcomes, including educational attainment, labour market success, and physical and mental health. Benefits seem stronger for children experiencing vulnerability or disadvantage, although they can extend much more broadly. **[Draft finding 1.1]**



#### Draft finding: Children who would benefit most from ECEC are less likely to attend

Children experiencing disadvantage and vulnerability – who are likely to benefit most from ECEC services – are less likely to attend than their more advantaged peers. **[Draft finding 2.2]**

## All children should have an ECEC entitlement



**Draft finding: All children aged 0–5 years should be able to attend up to 30 hours or three days of quality ECEC a week for 48 weeks per year**

Up to 30 hours or three days a week of quality ECEC should be available to all children aged 0–5 years whose families choose to use ECEC. Meeting this benchmark, along with improved affordability, inclusion and flexibility, would enable universal access to ECEC. **[Draft finding 5.1]**

## Availability gaps will have to be tackled to achieve universal access



**Draft finding: Expansion of for-profit providers has been the main contributor to increased supply of ECEC**

ECEC provision grew by 50% to 1.1 million places over the decade to March 2023, with much of the growth accounted for by for-profit centre-based day care. **[Draft finding 5.2]**



**Draft finding: ECEC availability varies markedly around the country**

ECEC availability tends to be poorer in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage. It is unclear whether this reflects a lack of local demand for ECEC, viability concerns that cause providers to decide against establishing services or both.

Only 8% of children aged 0–5 live in communities with sufficient centre-based day care places to support access to 30 hours or three days of ECEC a week.

Provision of preschool places by state and territory governments improves the broader picture for availability. However, these places only increase availability for some children aged three and over, and dedicated preschools often have more limited days of operation and / or shorter session lengths than centre-based day care. **[Draft finding 5.3]**



**Draft finding: Recent changes to the CCS and ongoing demand from parents will further support increases in supply in some regions; but in other areas, more support will be needed**

Many regional and remote areas are ‘thin markets’ – where the costs of delivering services are higher than families are able or willing to pay and non-government providers have limited incentive to establish services.

If the activity test were relaxed and affordability improved for lower-income families (draft recommendation 6.2), demand for ECEC will increase in some areas to the point where services are viable without further government support and supply will expand through market dynamics. Lower socio-economic areas with larger populations (including on the urban fringe), likely have this characteristic.

In other markets, prospective providers may still be reluctant to invest, perhaps due to higher costs and the challenges of recruiting and retaining educators and teachers. Supply-side funding programs will be needed to boost provision to achieve an entitlement to up to 30 hours or three days a week of quality ECEC for all children aged 0–5 years whose families choose to use ECEC. **[Draft finding 5.4]**



**Draft finding: Family day care can be an effective solution to addressing thin markets**

Family day care can be part of the solution to ensuring that families have access to ECEC in markets where there might be low and / or variable demand. Integrity concerns have been raised in the past and this has limited expansion of family day care in recent years. The Commission notes the Australian Government Department of Education is working to support the use of family day care while satisfying probity and integrity expectations. **[Draft finding 5.5]**



### Draft recommendation: Support universal access in persistently thin markets via supply-side funding

To ensure that up to 30 hours or three days a week of quality ECEC is available for all children aged 0–5 years whose families wish for them to participate, the Australian Government should provide additional support in markets where it is clear that ECEC providers are unlikely to invest, even with the changes recommended in this inquiry.

This support could take the form of:

- grant funding to establish a service in communities that are able to cover the operating costs of a service (such as wages, rent and other overheads) via child care subsidies and families' out-of-pocket gap fees, but expected earnings would not cover the capital costs of building or expanding physical facilities
- block grants to cover capital and operating costs in communities where the level of demand is too low to support all of the costs of operating a service or there are substantial barriers to accessing child care subsidies. Funding in these markets should generally be ongoing, with periodic review to determine if a service can be self-sustaining with child care subsidies
- specific arrangements for Aboriginal Community Controlled Organisations to be co-designed with Aboriginal and Torres Strait Islander communities.

The Australian Government could use a process of competitive tendering to provide services in markets where community representatives do not apply for grants.

Centre-based day care, family day care and mobile care should all be considered for funding to help address the varying needs of thin markets.

An advisory program should be established that works with community representatives and enables them to get the support they need. [Draft recommendation 5.1]

## Availability can only improve if workforce challenges are resolved



### Draft finding: Expected wage increases may relieve recruitment and retention challenges

The pay and conditions offered to the ECEC workforce – long at the heart of recruitment and retention challenges – may be addressed through processes arising out of recent changes to the *Fair Work Act 2009* (Cth), including approval from the Fair Work Commission for a significant number of employers in the sector to commence supported multi-employer bargaining.

Any increase in wages will need to be funded by families or governments, or a combination of both. It is a decision for governments whether funding a wage increase for ECEC workers is a priority use of public funds. [Draft finding 3.1]

**Draft finding: Accelerated qualifications will help lift early childhood teacher numbers**

With demand for early childhood teachers (ECTs) set to remain high, accelerated pathways that allow diploma-qualified educators to obtain an early childhood teaching qualification in a reduced time frame will have an important role to play in growing the pool of ECTs.

Such programs address some of the more significant barriers that diploma-qualified educators face when upskilling their qualifications by ensuring that their prior qualifications translate into reduced study time, and by reducing the financial and time commitments that educators face in order to undertake further study. [**Draft finding 3.2**]

**Draft finding: Completion rates for early childhood teaching qualifications have fallen**

Completion rates for domestic students who commenced early childhood teaching qualifications in the mid-2010s are much lower than those for students who enrolled a decade earlier. Only 48% of domestic students who started an early childhood teaching degree in 2016 had graduated by the end of 2022.

It is likely that educators seeking to upskill constitute a reasonable proportion of those who do not complete their studies. This points to the value of wrap-around supports to assist aspiring educators who are studying to become early childhood teachers. [**Draft finding 3.3**]

**Draft finding: Unpaid professional experience requirements are a barrier to upskilling**

The requirement to undertake supervised professional experience as part of teaching qualifications presents a significant barrier to some educators upskilling to become early childhood teachers, especially where this professional experience is unpaid. Many cannot afford to go without income while completing placements, and placements that involve travelling long distances and staying away from home create additional challenges for educators from remote and regional areas. [**Draft finding 3.4**]



### Draft recommendation: Reduce barriers to educator upskilling

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

- work with universities and the ECEC sector to develop and promote accelerated degree programs for upskilling diploma-qualified educators to ECTs
- expand wrap-around supports to educators who are undertaking university-level qualifications to become ECTs. Supports could include assistance to navigate enrolment processes, assistance to build academic skills, and regular mentoring. These initiatives should be underpinned by robust monitoring and evaluation
- provide financial support to ECEC services so they can provide a reasonable amount of paid leave to educators for them to complete supervised professional experience requirements associated with completing early childhood teaching qualifications.

In addition:

- when providing information on teaching courses to potential students, universities should publish an indication of how prior ECEC qualifications will be recognised. This could take the form of a median or average amount of credit that students with ECEC qualifications have received in the past
- the Australian Children's Education and Care Quality Authority (ACECQA) should examine the supervised professional experience that is required in order for an early childhood teaching qualification to be approved for the purposes of the National Quality Framework, with a view of extending the ability of students to fulfil such requirements in their existing workplaces. [**Draft recommendation 3.1**]



### Draft finding: Innovative pathways could lift enrolments in early childhood teaching qualifications

The conventional approach to training early childhood teachers suits a wide range of students. But innovative approaches that provide alternative pathways to qualification might work better for others. Risks in trialling new approaches can discourage universities from experimenting. [**Draft finding 3.5**]



### Draft recommendation: Support innovative delivery of teaching qualifications

Governments should provide modest financial incentives to universities to facilitate trials of innovative approaches for providing Initial Teacher Education to early childhood teachers.

The Australian Children's Education and Care Quality Authority (ACECQA) should work with governments and universities to develop pathways for early childhood teaching qualifications that are awarded through innovative teaching approaches to be recognised under the National Quality Framework. [**Draft recommendation 3.2**]

**Draft finding: Inter-jurisdictional differences in teacher registration impose unnecessary workforce barriers**

Teacher registration offers considerable benefits for early childhood teachers (ECTs) in the form of professional recognition, development opportunities and access to networks of peers and mentors.

Inconsistent teacher registration requirements for ECTs across jurisdictions are problematic. They limit the work opportunities for ECTs who move across jurisdictions, to the detriment of their careers, and reduce the number of ECTs that are available to services to employ. **[Draft Finding 3.6]**

**Draft recommendation: Improve registration arrangements for early childhood teachers**

State and territory governments should amend their teacher registration arrangements so that:

- early childhood teachers (ECTs) working in National Quality Framework-approved ECEC settings can be registered with the teacher registration body in their jurisdiction
- any ECT-level qualification that has been approved by the Australian Children's Education and Care Quality Authority (ACECQA) for recognition under the National Quality Framework should be automatically recognised as meeting qualification requirements associated with teacher registration.

In undertaking these actions, state and territory governments should also:

- review their teacher registration arrangements to ensure that there are accessible pathways for ECTs with an ACECQA-approved qualification to teach in primary school (including after they undertake additional study focussing on teaching in primary school settings)
- review their arrangements concerning highly accomplished and lead teachers (HALT) certification (in relevant jurisdictions) and act on opportunities to make it more accessible for ECTs. As part of reviewing these arrangements, governments should issue guidance on the eligibility of ECTs for HALT certification, the process through which ECTs can seek HALT certification (including in non-government operated ECEC settings), and the implications for ECTs if certification is achieved. **[Draft recommendation 3.3]**

**Draft recommendation: Lift support and mentoring for new early childhood teachers**

State and territory governments should develop structured mentoring and support programs for new early childhood teachers if they do not already have these in place. In developing these programs, state and territory governments should reflect the findings of the research underway by the Australian Education Research Organisation (AERO) on the effectiveness of existing support programs.

Jurisdictions that already operate programs to support and mentor new ECTs should review their programs to incorporate the findings from AERO's research once this is finalised. **[Draft recommendation 3.4]**



### Draft recommendation: Improve pathways and support for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications

In collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, governments should trial and evaluate new pathways for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications so they can participate in the ECEC workforce in greater numbers.

A central aim of these new pathways should be to better recognise the cultural knowledge and experience many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children.

In designing these pathways, governments should consider:

- using different approaches – such as culturally appropriate interviews – to better understand the prior knowledge, learning and experience of Aboriginal and Torres Strait Islander people, and to inform decisions about the extent that this can be recognised in the form of course credit (or other ways of recognising prior learning)
- using teaching assessment models that – while still ensuring rigour – might be more accessible or culturally appropriate for Aboriginal and Torres Strait Islander students, such as teaching in local languages or making greater use of observational assessments
- providing tailored, small group or one-on-one supports to Aboriginal and Torres Strait Islander students. **[Draft recommendation 3.5]**



### Draft finding: The ECEC workforce faces barriers to professional development

Take-up of professional development opportunities by the ECEC workforce is relatively widespread. But the workforce still faces several significant barriers to accessing professional development, including difficulty getting time off work and the cost of professional development activities. Costs to employers of backfilling positions while staff undertake professional development can also be an impediment. Some governments have begun to provide support to overcome these barriers. **[Draft finding 3.7]**

**Draft recommendation: Contribute to professional development for the ECEC workforce**

The Australian and state and territory governments should provide support for the ECEC workforce to undertake professional development activities. This should take the form of a contribution towards the cost of professional development.

Government contributions to professional development should be targeted toward activities that will improve the quality and inclusivity of ECEC practices, including activities that build staff capability to:

- remain up to date with the latest pedagogical research and how to apply this in their teaching
- understand and apply the National Quality Standard and the national approved learning frameworks
- deliver more inclusive ECEC, including for children with disability, developmental delay or additional needs, children who have experienced trauma and Aboriginal and Torres Strait Islander children, particularly those attending in mainstream settings
- work with families – including families in complex or challenging situations – to engage with and participate in ECEC. **[Draft recommendation 3.6]**

**Draft recommendation: Improve the ECEC Workforce Strategy**

To maximise the value of the National Children’s Education and Care Workforce Strategy (*Shaping our Future*), the Australian, state and territory governments should:

- articulate a clear objective for the strategy against which its effectiveness can be measured
- include projections of the number of educators and teachers the sector is expected to require (over different timeframes) in the strategy
- clarify how each action in the strategy will be resourced
- commit to individually producing annual updates about how the actions, initiatives and reforms they are undertaking are contributing to the strategy’s implementation. These updates should be published alongside the broader assessment of progress in implementing the Strategy published by the Australian Children’s Education and Care Quality Authority (ACECQA). **[Draft recommendation 3.7]**

**Affordability and complexity should not be barriers to ECEC access****Draft finding: ECEC is less affordable for lower income families**

The Child Care Subsidy lowers out-of-pocket expenses for families, but those on lower incomes spend a higher proportion of their income on ECEC compared with those who are better off. The families whose incomes are in the lowest 10% of the income distribution pay out-of-pocket expenses equal to about 9% of their income on average. In contrast, families whose incomes are in the highest 10% of the income distribution pay about 5% on average. **[Draft finding 6.1]**



### Draft finding: CCS changes would reduce affordability barriers for lower income families

Many changes could be made to subsidy arrangements to improve affordability for families. The Commission has considered a suite of options to identify their effects on labour force participation, demand for ECEC and net costs to government, and their effectiveness in achieving universal access to ECEC.

Relaxing the activity test for all families and lifting subsidies for lower income families would target support to children and families who would benefit the most. Alongside improving availability, inclusion and flexibility, these changes to the Child Care Subsidy (CCS) would enable universal access to ECEC.

Preliminary modelling shows that relaxing the activity test for all families to allow at least three days of subsidised ECEC per week, and lifting the CCS rate to 100% for families with children aged 0–5 years who have incomes up to \$80,000, would increase:

- total hours of ECEC demanded by 12%
- hours of work by single parents and secondary earners in couple families with young children by 3.4% (or the equivalent of 20,700 full-time workers)
- Australian Government outlays on the CCS by 20% or \$2.5 billion per year.

Over half of the resulting increase in CCS expenditure would benefit families whose income is in the lowest 20% of the income distribution. **[Draft finding 6.3]**



### Draft finding: Broad-based CCS changes would make ECEC more affordable for all families but come at a substantial cost to taxpayers

Broad-based changes to the Child Care Subsidy (CCS) would reduce out-of-pocket expenses for all families and support larger increases in labour force participation – but come at a substantial cost to taxpayers.

For example, if in addition to relaxing the activity test and increasing the CCS rate for lower income families, the Australian Government were to extend a subsidy rate of 90% of the fee, up to the hourly rate cap, to all families for three days of ECEC a week, it is estimated that this would increase:

- total hours of ECEC demanded by 21%
- hours of work by single parents and secondary earners in couple families with young children by 5.7% (or the equivalent of 34,900 full-time workers)
- Australian Government outlays on the CCS by 53% or \$6.8 billion per year.

Preliminary modelling results show that policy options extending the 90% subsidy rate to all ECEC users or introducing a flat fee of \$10 a day have similar implications for labour force participation, demand for ECEC and net costs to government.

These options are more costly than a policy option that includes relaxing the activity test and increasing subsidy rates for lower income families. In addition, a disproportionate share of the increased government support would go to high income families – rather than to those experiencing disadvantage, who are most likely to benefit from greater access to ECEC. **[Draft finding 6.4]**



**Draft finding: Lower income families would not benefit if the only change to the CCS were a 90% subsidy rate for all families**

In line with the request in the terms of reference to consider a universal 90% subsidy, the Commission has assessed the potential effects of a policy option where the only change to current settings is that the Child Care Subsidy (CCS) rate increases to 90% of the hourly fee, up to the hourly rate cap, for all families.

It is estimated that this policy change would increase:

- total hours of ECEC demanded by 7.4%
- hours of work by single parents and secondary earners in couple families with young children by 2.8% (or the equivalent of 17,000 full-time workers)
- Australian Government outlays on the CCS by 33% or \$4.1 billion per year.

The policy change would have no benefit for low-income families, who are already eligible for a 90% subsidy rate. Nearly 60% of the increase in government outlays would accrue to the 20% of families on the highest incomes (those earning \$200,000 and above) and nearly 30% to the second highest 20% (those earning between about \$150,000 and \$200,000). **[Draft finding 6.5]**



**Draft recommendation: Modify the Child Care Subsidy to improve affordability and access**

The Australian Government should modify the Child Care Subsidy to allow:

- all families to access up to 30 hours or three days of subsidised care per week without an activity requirement
- families with annual income at or below \$80,000 should be eligible for a subsidy rate of 100% of the fee, up to the hourly rate cap.

In addition, the Australian Government should review the hourly rate cap associated with the Child Care Subsidy, and set a new cap based on the average efficient costs of providing early childhood education and care services. This should include consideration of a higher hourly rate cap for non-standard hours (draft recommendation 7.3). The hourly rate cap should be reviewed every three years to ensure it continues to reflect costs (in conjunction with other work mentioned in draft recommendation 6.1). In between these reviews, the hourly rate cap should be indexed at a rate that best reflects changes in the costs of provision such as wage indices or CPI. **[Draft recommendation 6.2]**



**Draft recommendation: Monitor rises in fees and out-of-pocket expenses**

The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify services where movements are out of step with sector norms. Increases that vary markedly should prompt closer investigation, and a regulatory response should be considered if they are not reasonable. To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every three years, along the lines of the work that the Australian Competition and Consumer Commission has been undertaking. This work would also signal if the hourly rate cap needed to be reset. **[Draft recommendation 6.1]**



**Draft finding: Complex ECEC subsidy arrangements can be a barrier to access for some families**

The information available to families when they are working out their Child Care Subsidy entitlement can be confusing and create substantial uncertainty as to their entitlements. Navigating this complexity can be much more difficult for those with low levels of English and / or computer literacy. For some families, this level of complexity creates a substantial barrier to ECEC access, and in some cases, means they choose not to access ECEC. **[Draft finding 6.2]**



**Draft recommendation: Make information about CCS eligibility easy to find and understand**

The Australian Government should explore options to make information provided on government websites about CCS eligibility easy to find and easy to understand by families. **[Draft recommendation 6.3]**



**Draft recommendation: Improve the CCS calculator on the Starting Blocks website**

The Australian Government should improve the functionality of the Child Care Subsidy calculator on the Starting Blocks website so that families can estimate their Child Care Subsidy eligibility under different scenarios (such as different working hours or income levels).

The Australian Government should investigate the best way to improve awareness of the availability of the CCS calculator on the Starting Blocks website. **[Draft recommendation 6.4]**

**Draft recommendation: Prompt families to update their details with Services Australia**

The Australian Government should use Single Touch Payroll information from the Australian Tax Office to prompt families to update their activity and income level details with Services Australia. [**Draft recommendation 6.5**]

**Draft recommendation: Provide better information to families about CCS withholding rates**

The Australian Government should provide clear and easy to find information to families about the Child Care Subsidy withholding rate during the Child Care Subsidy application process and when families update their details with Services Australia. [**Draft recommendation 6.6**]

**A universal ECEC system has to be inclusive of all children****Draft recommendation: Amend the Disability Standards for Education**

The Australian Government should amend the *Disability Standards for Education 2005* (Cth) to include all services within the early childhood education and care sector. [**Draft recommendation 2.2**]

**Draft finding: Increased inclusion support funding will be needed for universal access**

Increased funding will be required for the Inclusion Support Program to ensure children with additional needs are adequately supported and included in ECEC. At a minimum, funding should be sufficient to:

- enable Inclusion Agencies and the Inclusion Development Fund Manager to respond to all applications in a timely manner
- enable Inclusion Agencies to provide adequate support and advice to services
- ensure services can manage the increased demand likely to result from adoption of the Commission's recommendations. [**Draft finding 2.5**]



**Draft finding: Eligibility requirements for inclusion funding create barriers to access**

Services must provide evidence that a child has high ongoing support needs to access the Inclusion Development Fund Subsidy for an Additional Educator or the Family Day Care Top Up. Different professionals can provide this evidence, in a range of forms, including other than a formal diagnosis. But this may not be sufficiently clear to services and families.

Evidence that a child has additional needs other than disability is not accepted in all circumstances, which precludes some children from receiving support. **[Draft finding 2.6]**



**Draft recommendation: Amend eligibility requirements for inclusion funding**

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

Evidence a child has additional needs other than disability should be accepted in all circumstances for services seeking to access the Inclusion Development Fund Subsidy for an Additional Educator and the Family Day Care Top Up.

Increasing the funding allocated to the ISP (draft finding 2.5) will ensure children have adequate support, regardless of a diagnosis. **[Draft recommendation 2.3]**



**Draft finding: Subsidy design and rules for additional educators are restrictive**

Eligible services can apply for a subsidy to hire an additional educator to support the inclusion of children with additional needs through the Inclusion Development Fund Subsidy for an Additional Educator or Immediate/Time-Limited support. But there are several shortcomings with the subsidy design:

- the subsidy rate has not increased since 2016 and does not cover the costs of employing an additional educator
- subsidies can only be claimed for a limited number of hours per week (for example, 25 hours in centre-based day care) irrespective of the number of hours that children who require support are enrolled
- additional educators must meet National Quality Framework qualification requirements – meaning services cannot employ people with relevant experience and expertise in adjacent sectors, such as allied health, unless they also meet National Quality Framework qualification requirements. **[Draft finding 2.7]**



### Draft recommendation: Review and amend additional educator subsidies

The Australian Government should amend the Inclusion Development Fund Subsidy for an Additional Educator and Immediate/Time-Limited support, including:

- increasing the current hourly subsidy rate so that it subsidises 100% of an additional educator's wage, up to the median hourly wage of a certificate III qualified educator and ensuring it is indexed to the Wage Price Index
- removing limits on the weekly hours the subsidies can be approved for and ensuring they align with the child's enrolled hours
- allowing other human-services qualified staff and inclusion professionals, such as allied health or other relevant professionals to be employed as an additional educator, where the Inclusion Agency agrees this would be appropriate. **[Draft recommendation 2.4]**



### Draft recommendation: Reduce administrative burden of Inclusion Support Program applications

The Australian Government should assess the application process required for the Inclusion Development Fund with a view to reducing the administrative burden on services. This should include considering whether requirements to seek reapproval when there are changes to the care environment could be relaxed and if further upgrades to the Inclusion Support Portal are required beyond those currently being implemented. **[Draft recommendation 2.5]**



### Draft recommendation: Improve coordination of inclusion funding between governments

Australian, state and territory governments should better coordinate inclusion funding to reduce complexity for services and families.

In the short-term, the Australian Government Department of Education and relevant state and territory departments of education should work together to streamline application requirements, to reduce the need for services to apply for funding multiple times.

In the long-term, governments should clarify responsibilities for inclusion funding as part of a National Partnership Agreement on ECEC. **[Draft recommendation 2.6]**

## ECEC is critical to the wellbeing of many families



### Draft finding: Low-income families are less likely to use ECEC

Many families rely on ECEC services, or on a combination of formal and informal care, to participate in the labour force, access study and training or volunteer. ECEC is also a vital link to broader support services.

Families who do not participate in ECEC typically have lower incomes and are more likely to be unemployed or not in the labour force, have a lower level of education and to be receiving income support than those who do participate. They also tend to have more traditional beliefs about gender roles and live in low socio-economic communities.

Families are less likely to use ECEC if they have a parent at home to care for children – whether this is due to their preferences or barriers that prevent them from accessing ECEC is difficult to disentangle. Some families may want to use ECEC but find it too expensive or inaccessible; others may have concerns over the quality of care. [Draft finding 4.1]



### Draft finding: Mothers' participation in the labour force has increased markedly

The labour force participation rate of mothers (with a child aged under 15) increased from 67% to 75% over the decade to 2021 – mostly due to an increase in the participation of mothers with a child aged 0–4 years.

Full-time employment among mothers is on the rise, but the part-time employment rate of Australian mothers is still higher than most OECD countries. High rates of part-time work are a feature of the Australian labour market and evidence suggests that preferences are a significant factor in mothers' decisions to work part time. [Draft finding 4.2]



### Draft finding: ECEC is not the main barrier for most women who want a job or more hours

Parents' stated preferences when it comes to whether, and how much, they work suggest there is limited scope to increase the participation of fathers in the labour market but some scope for mothers. Most fathers are already employed full time, whereas about one in five mothers with a child aged under 15 years (or 507,000 women) stated they would like a job or to work more hours.

About 85,000 parents who wanted a job or to work more hours nominated ECEC as their main barrier. A further 190,000 parents did not want a job or to work more hours but reported ECEC barriers as their main reason for this position. If barriers were reduced, parents might be able to work their desired hours. Affordability is the most frequently cited ECEC-related barrier, but parents typically nominated others as well including availability and flexibility. [Draft finding 4.3]

**Draft finding: Removing ECEC-related barriers could see an increase in labour supply equivalent to up to 118,000 full-time workers**

If all reported ECEC-related barriers were removed, it is estimated that the equivalent of an additional 44,000 full-time workers among those wanting a job or more hours could be added to the labour supply. These would mostly be mothers from lower income households, those with younger children (aged 0–4 years), those who are more likely to have not completed high school and those who are single parents.

If parents who reported *not wanting* a job or to work more hours and for whom ECEC-related barriers are the main reason for this status are included in the estimate, then the equivalent of 118,000 full-time workers could be added to labour supply.

These figures are upper bounds – the analysis assumes that all ECEC-related issues are solved (including availability) and that any non-ECEC barriers are not sufficient to prevent these parents' engagement in the labour force. **[Draft finding 4.4]**

**Draft finding: High effective marginal tax rates are largely due to the tax and transfer system**

Effective marginal tax rates (EMTRs) are high for many mothers, creating a financial disincentive to work more than part-time hours. However, this is mainly due to the tax and transfer system rather than out-of-pocket ECEC expenses. The contribution of ECEC expenses to high EMTRs has likely been reduced further by the introduction of the 2022 Higher Child Care Subsidy and 2023 Cheaper Child Care reform. **[Draft finding 4.5]**

**ECEC services should be flexible and responsive to the needs of families****Draft finding: ECEC services cater to many children and families, but some families need additional support**

While the current system caters for many families, others may require or prefer different approaches to meet their needs or address barriers to access, and some may require additional support beyond ECEC.

Integrated services can support children and families experiencing vulnerability or requiring services beyond ECEC. Initiatives that create the 'connection function' that links ECEC services with other child and family services, such as health and family supports, can also overcome the siloing of services, providing more effective support to families. **[Draft finding 7.1]**



**Draft recommendation: Ensure integrated services are available where needed**

An ECEC Commission (draft recommendation 9.2) should be responsible for advising governments on the need for integrated early years services involving ECEC and the communities in which they are needed. **[Draft recommendation 7.1]**



**Draft recommendation: Support connections between ECEC and child and family services**

As part of its role in assessing access to ECEC, an ECEC Commission (draft recommendation 9.2) should be responsible for examining connections between ECEC and other child and family services and identifying the most suitable way to address any gaps. **[Draft recommendation 7.2]**



**Draft finding: Playgroups are a valuable part of the early years system**

While outside of the formal ECEC system, playgroups play a valuable role in supporting families and children in their early years. An ECEC Commission (draft recommendation 9.2) should consider a community's preference for a playgroup when assessing ECEC availability. **[Draft finding 7.2]**



**Draft finding: Additional costs of providing ECEC during non-standard hours are not reflected in the hourly rate cap**

Access to Child Care Subsidy approved services during non-standard hours is limited. Services incur additional costs, such as penalty rates, to provide ECEC during these times but these costs are not reflected in the hourly rate cap. **[Draft finding 7.4]**

**Draft recommendation: Introduce a higher hourly rate cap for non-standard hours**

The Australian Government should raise the hourly rate cap for ECEC delivered during non-standard hours. In designing the higher rate cap, the Australian Government should ensure:

- families are required to provide evidence that both parents work non-standard hours to access the higher rate cap
- the higher rate cap is only available during non-standard hours, with the definition adopted in the *Children's Services Award* (weekdays before 6.00am and after 6.30pm and weekends) offering a useful anchor point (but is not available if services offer care for a short period either side of standard hours)
- the higher rate cap is applied to all service types, although different rates should be set for each service type to reflect differences between them in costs of provision.

The higher rate cap should be set based on the costs of providing early childhood education and care during non-standard hours and subject to regular review and indexation as outlined in draft recommendation 6.2. [**Draft recommendation 7.3**]

**Draft recommendation: Examine planning restrictions related to operating hours**

State, territory and local governments should examine their planning regulations to ensure they do not unnecessarily restrict the ability of services to provide ECEC during non-standard hours. [**Draft recommendation 7.4**]

**Draft finding: Families do not use a significant amount of the ECEC that they pay for**

In centre-based day care, services most commonly charge a daily fee for a full-day session (such as 10 or 12 hours) although some may offer shorter or part-day sessions. Children's attendance patterns often do not align with hours charged for, meaning families and taxpayers pay for ECEC that is unused. Across a year, children only attend about 60% of the hours for which their families are charged.

This inflexibility can lead to families being charged for unsubsidised hours. It may also create 'air pockets' in the system. Over 10% of children who attended CBDC in 2021-22 did so for an average of less than six hours a day in at least half of the weeks they attended. This suggests there is unused capacity in the system that may be able to be used by other families. [**Draft finding 7.5**]



### Draft recommendation: Ensure occasional care is available where needed

An ECEC Commission (draft recommendation 9.2) should be responsible for advising on the need for additional investments in occasional care and the communities in which these services are needed. Where additional investments are required, funding should be available through a more flexible Community Child Care Fund. **[Draft recommendation 7.5]**



### Draft finding: Dedicated preschools have difficulty providing additional subsidised hours of ECEC

The 15 hours per week of preschool provided under the Preschool Reform Agreement do not align with a standard work week. For families accessing dedicated preschools, this may mean they need to supplement preschool hours with additional ECEC to support their labour force participation.

Dedicated preschools are not prohibited from offering additional hours of ECEC, or from facilitating access to a separate outside preschool hours service either on or off site. But provisions in Family Assistance Law make it hard for these types of activities to attract the Child Care Subsidy. **[Draft finding 7.6]**



### Draft recommendation: Support out of preschool hours ECEC

To support greater access to outside preschool hours ECEC, the Australian Government should amend Family Assistance Law to:

- allow dedicated preschools to claim the Child Care Subsidy (CCS) for additional ‘non-preschool’ hours by creating a separate ‘wrap-around preschool’ care type that would:
  - not be subject to minimum operating periods or restrictions that it must not predominantly provide a preschool program in the year before full-time school
  - attract the CCS for hours of ECEC delivered beyond jurisdiction-specific standard preschool hours, with services required to report on the length of the preschool session delivered
- make it easier for providers to establish a CCS-eligible ‘outside preschool hours’ service, by creating a separate ‘outside preschool hours’ care type that would cater primarily to preschool aged children and would not be subject to the minimum 48-week operating period. **[Draft recommendation 7.6]**

## Many Aboriginal and Torres Strait Islander families prefer Aboriginal Community Controlled Organisations



### **Draft finding: It is unclear if the National Quality Framework adequately promotes cultural safety and capability**

Cultural safety is critical to Aboriginal and Torres Strait Islander families and children.

While Aboriginal Community Controlled Organisations may often be the first preference of Aboriginal and Torres Strait Islander children and families when accessing ECEC, there is also a need to ensure mainstream ECEC services are inclusive of Aboriginal and Torres Strait Islander children and families.

The National Quality Framework sets expectations around inclusion and cultural responsiveness. Revised versions of the national approved learning frameworks, released in 2023, include a strengthened focus on Aboriginal and Torres Strait Islander perspectives. It is unclear whether further changes to the National Quality Framework are needed to promote cultural safety and capability. **[Draft finding 2.4]**



### **Draft finding: ACCOs are well placed to provide early years and family services – but face funding challenges**

Aboriginal Community Controlled Organisations (ACCOs) provide culturally safe ECEC to Aboriginal and Torres Strait Islander children – but often face funding challenges and uncertainty.

Under Priority Reform 2 of the National Agreement on Closing the Gap, governments have committed to building Aboriginal and Torres Strait Islander community-controlled sectors, including in early childhood care and development. The Early Childhood Care and Development Policy Partnership, established as part of the Closing the Gap commitments, provides a forum for governments and Aboriginal and Torres Strait Islander people to develop new funding frameworks to support the work of ACCOs. **[Draft finding 7.3]**

## Quality is paramount to achieving the benefits of ECEC



### **Draft recommendation: State and territory regulatory authorities should improve their performance reporting**

To improve the transparency of the ECEC regulatory system, all regulatory authorities should publish an annual report detailing progress against key objectives, including metrics on the number of assessments performed, average time between assessments, funding and other monitoring, compliance and enforcement activities. [**Draft recommendation 8.1**].



### **Draft finding: The timeframe between service assessments is too long**

The time between ECEC quality assessments undertaken by state regulatory authorities is unacceptably long. This increases the risk of poor quality service provision and undermines the relevance and value of quality ratings. [**Draft finding 8.1**]



### **Draft recommendation: Ensure regulatory authorities are adequately resourced**

The operations of the state and territory regulatory authorities that administer the National Quality Framework should be independently reviewed. This review should examine the timeliness of assessments, and whether additional funding is required to enable authorities to improve timeliness.

Based on the outcomes of this review, the Australian Government should ensure additional funding is provided to state and territory regulatory authorities, to provide updated assessments within agreed timeframes. [**Draft recommendation 8.3**]



### **Draft recommendation: Incentivise quality provision in new ECEC services**

State and territory regulatory authorities should be required to consider the performance of a provider's existing services when making decisions on an application to approve new services from that provider, and prioritise new service approvals from higher rated providers over those with lower existing service ratings. [**Draft recommendation 8.4**]

**Draft finding: Families tend not to use information about service ratings**

Families are usually unaware of or do not value ratings against the National Quality Standard when choosing between ECEC services, preferring other indicators of quality. Families would benefit from more detailed, accessible information on service ratings. **[Draft finding 8.2]**

**Draft recommendation: A new review of the National Quality Framework**

Australian, state and territory governments should, through the Education Ministers Meeting, commission ACECQA to review the National Quality Framework, with a specific focus on the way in which services are assessed against the National Quality Standard, and if assessments could be made more accurate, consistent and efficient.

NQF reviews should be conducted on a regular basis to enable regulators to incorporate feedback from ECEC providers as well as new findings from research on links between ECEC quality and children's outcomes. **[Draft recommendation 8.2]**

**Draft recommendation: Ensure appropriate quality regulation for services outside the scope of the National Quality Framework**

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

An ECEC Commission (draft recommendation 9.2) should be tasked with reviewing regulatory arrangements for out-of-scope services receiving direct Australian Government ECEC funding to ensure they meet the needs of children. As part of this work, the ECEC Commission, with Australian, state and territory governments should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities and peaks to determine the appropriate way to regulate the quality of Aboriginal and Torres Strait Islander services out-of-scope of the National Quality Framework. **[Draft recommendation 2.1]**



**Draft finding: It is unclear whether the National Quality Framework is fit-for-purpose for outside school hours care**

Under the National Quality Framework (NQF), outside school hours care (OSHC) services are regulated in a similar way to services for children under school age. But children in OSHC are likely to have different needs.

Despite the fact that children attending an OSHC service usually also attend the school at which that service is located, the Commission has heard of instances where the school environment may not meet the requirements of the NQF.

It is hard to determine whether the issues raised by inquiry participants relate to the standards in the NQF, the inappropriate application of those standards to an OSHC context or both.

Moreover, while the national approved learning framework for school-aged care reflects the importance of leisure, this is not reflected in the National Quality Standard. [**Draft finding 2.3**]

## New coordination mechanisms will support universal access



**Draft finding: A one-size-fits-all funding model would not be efficient or effective**

A one-size-fits-all approach to ECEC funding would not be an efficient or effective model to support the objectives of access, affordability, inclusion and flexibility. A mixed approach comprising mainstream funding to support affordability and accessibility for all families, and additional expenditure targeted to enabling participation among those with higher needs, could efficiently and effectively underpin a universal system. [**Draft finding 9.1**]



**Draft finding: Improving components of the funding model would support universal access**

The architecture of the current ECEC funding model provides a baseline mechanism to support families to access ECEC, with additional, targeted interventions to address cost barriers, provide additional support for inclusion needs and to establish services in regional and remote markets.

Reforms to improve the efficiency and effectiveness of the Child Care Subsidy, Additional Child Care Subsidy, Inclusion Support Program and Community Child Care Fund would represent a significant improvement on the current funding model and contribute to achieving universal access.

These reforms should be complemented through a more coordinated approach between the Australian, state and territory governments to co-fund preschool, address availability gaps and support the establishment of integrated services where there is a need. [**Draft finding 9.2**]

**Draft finding: System stewardship is a missing part of the policy puzzle**

Overlapping roles and responsibilities between different levels of government create a range of coordination challenges for sector participants. Funding and policy coordination can be addressed through a stewardship model. There would be benefit in clarifying roles and responsibilities through the national vision for ECEC and any future partnership agreement between governments. **[Draft finding 9.3]**

**Draft finding: States and territories are better placed to oversee and ensure availability of OSHC**

There is a strong case for state and territory governments to take responsibility for ensuring the provision of outside school hours care (OSHC) in government schools to address availability gaps, promote more consistent charging and contracting practices within jurisdictions, and improve linkages between schools and the OSHC providers operating on site. **[Draft finding 9.4]**

**Draft recommendation: Improve policy coordination and implementation**

The Australian, state and territory governments should form a new National Partnership Agreement (NPA) for Early Childhood Education and Care (ECEC) by 2026.

The NPA should articulate the national vision for ECEC and clarify roles and responsibilities between all governments.

- The Australian Government should remain responsible for early childhood policies in the years before preschool and for associated funding responsibilities and for the funding of outside school hours care through the CCS.
- State and territory governments should remain responsible for preschool, school readiness and take on the responsibility of ensuring the delivery of outside school hours care in government schools.
- Governments should build upon the Preschool Reform Agreement to ensure funding supports the desired outcomes, regardless of the preschool delivery model adopted in each jurisdiction.

The NPA can also help to establish a more formal stewardship approach, underpinned by an ECEC Commission (draft recommendation 9.2). **[Draft recommendation 9.1]**



### Draft recommendation: Establish an ECEC Commission

A stewardship model – where the Australian, state and territory governments better coordinate their roles in the ECEC system and share accountability for sector outcomes – should be implemented to address some of the challenges observed in the market, coordinate a more cohesive policy response and steer the sector towards universal access. This should be underpinned by an ECEC Commission, jointly established by the Australian, state and territory governments as part of a new National Partnership Agreement (draft recommendation 9.1). The ECEC Commission should have two main functions:

- support the Australian, state and territory governments to better coordinate and deliver ECEC policies, by providing information and advice
- provide a mechanism to hold the system stewards publicly accountable for achieving the objectives of ECEC policy.

The ECEC Commission will require high quality data to execute its advisory and reporting functions effectively. It should have the authority to collect data from the Australian, state and territory governments, as well as mechanisms to safely store and share data between jurisdictions. **[Draft recommendation 9.2]**



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

The literature on early childhood education and care programs presents some lessons about how programs and systems to improve children's outcomes might be designed, but there is also much that is not known.

- The benefits from ECEC programs can be greatest for children experiencing disadvantage or vulnerability, while extending more broadly. Services that are accessible to children from a wide range of backgrounds may, as well as reaching more children, be more conducive for the learning and development of each child who does attend.
- Benefits have been produced by programs with a wide range of features, including those with different operating models, starting ages and number of weekly hours attended. Realising the potential of ECEC for childhood development requires a better understanding of how program features affect children's outcomes.
- Factors that contribute to the quality of ECEC services can be difficult to disentangle using available measures of process or structural quality. Predictions of how children's outcomes will be affected by efforts to improve these measures, including regulated features of services such as staffing requirements, are highly uncertain.

While the ECEC Commission may be best placed to oversee a research agenda, many actions would need to be taken before one is established. The Australian Education Research Organisation could commence the process of developing and overseeing the implementation of a research agenda in the short term. **[Draft finding 1.2]**

## Information requests



### Suitability of the National Quality Framework for Outside School Hours Care

The Commission seeks further information about the suitability of the National Quality Framework (NQF) for outside school hours care (OSHC) services.

- Is the NQF suitable for an OSHC context and for school-aged children? If not, why?
- If not, would further guidance to services and assessing officers on how NQF requirements should apply in an OSHC setting be sufficient to address concerns? Or are modifications to the NQF required to account for the needs of school-aged children? **[Information request 2.1]**



### Cultural safety in ECEC services

The Commission seeks information on cultural safety in ECEC services for Aboriginal and Torres Strait Islander and culturally and linguistically diverse families and children.

- What factors most effectively promote the provision of culturally safe ECEC?
- Should there be changes to the National Quality Framework to promote cultural safety and capability, beyond the updated learning frameworks? Would a national cultural competency framework help improve the cultural safety of ECEC services for Aboriginal and Torres Strait Islander families and children?
- Does the structure of the Inclusion Support Program adequately prioritise and allow provision of culturally safe ECEC in mainstream services? If not, what are the issues and how could these be addressed?
- Would professional development in cultural capability (draft recommendation 3.6) be adequate to promote inclusion in ECEC services, or are there other components required? **[Information request 2.2]**



### Functioning of the Inclusion Support Program in family day care

The Commission is seeking feedback on whether the Inclusion Support Program provides effective support to family day care services. Is the Family Day Care Top Up adequate? **[Information request 2.3]**



### Transition to school statements

The Commission is seeking information on the extent to which transition to school statements are used, their adequacy and whether they contribute to more effective transitions. **[Information request 2.4]**



### **ECEC-related vocational education and training**

The Commission is seeking information on the quality of ECEC-related vocational education and training (VET). In particular, the Commission would welcome views on:

- the impact of recent and ongoing reform – both to VET ECEC qualifications and the VET sector more broadly – on the quality of qualifications and the job readiness of ECEC graduates
- whether there are widespread problems with the quality of VET ECEC courses, and if so, what these problems are, why they exist and what should be done to address them. **[Information request 3.1]**



### **Effectiveness of traineeship arrangements**

The Commission is seeking information on the effectiveness of traineeships as a career pathway in ECEC, for trainees as well as ECEC providers.

The Commission would also welcome views on opportunities to improve traineeship arrangements. **[Information request 3.2]**



### **Falling completion rates for early childhood teaching qualifications**

The Commission is seeking views on the factors that have led to a decline in completion rates of early childhood teaching qualifications. **[Information request 3.3]**



### **Low rates of expansion among not-for-profit providers**

The Commission is seeking information about possible reasons why not-for-profit providers have not expanded to meet the growing demand for ECEC. What, if any, barriers and limitations do they face? **[Information request 5.1]**

### **Planning processes and availability of ECEC**

The Commission is seeking views on the effects of planning processes on the availability of ECEC.

Are delays, inconsistency or complexity in the development assessment process, or unwarranted rejections of applications for development approval for ECEC centres, posing a barrier to availability? Where are planning systems working well to support the availability of ECEC services, and how could these efforts be built on or expanded? **[Information request 5.2]**

### **Potential modifications to the activity test**

The Commission is seeking views on the costs and benefits of options to modify the Child Care Subsidy activity test. Draft recommendation 6.2 would relax the activity test to allow all families to access up to 30 hours of subsidised care a week (60 hours per fortnight) regardless of activity, providing a step towards universal access. Options for the levels of activity that should be required for hours above 60 hours of subsidised care per fortnight could include:

- retaining the current activity test for hours of care over 60 hours per fortnight. This would allow 60 subsidised hours for all families, up to 72 hours of subsidised hours for families with 16 to 48 activity hours per fortnight, and up to 100 hours of subsidised care for those with more than 48 activity hours
- simplifying the number of activity test tiers further by allowing 60 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours
- simplifying the number of activity test tiers by allowing 72 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours.

The introduction of a modified activity test could also be phased, for example, starting with lower income families, in order to allow time for supply to respond to increased demand and to evaluate the effects of the change before relaxing the activity test more widely. The Commission is seeking views on the costs and benefits of a phased introduction, and which cohorts of families would benefit most from being able to access a relaxed activity test earlier. **[Information request 6.1]**

### **Child Care Subsidy taper rates**

The Commission is seeking views on how Child Care Subsidy taper rates could be designed if the top rate of subsidy was increased to 100% of the hourly rate cap, as proposed in draft recommendation 6.2. This includes options to adjust taper rates for the Higher Child Care Subsidy, available to families with multiple children aged five or younger in ECEC who are eligible for a subsidy. **[Information request 6.2]**



### Level and indexation of the hourly rate cap

The Commission is seeking information on how the level and indexation of the Child Care Subsidy's hourly rate cap could be adjusted to better reflect costs of provision over time, including a higher hourly rate cap for non-standard hours, as proposed in draft recommendations 6.2 and 7.3. **[Information request 6.3]**



### Potential expansions: CCS to families with restricted residency; Assistance for Isolated Children Distance Education Allowance to preschoolers in isolated areas

The Commission is seeking views on the costs, benefits and practicalities of:

- expanding CCS eligibility to include families who have restricted residency in Australia such as temporary protection visa holders
- expanding the Assistance for Isolated Children Distance Education Allowance to include children receiving a preschool education in geographically isolated areas. **[Information request 6.4]**



### Potential measures to reduce CCS administrative complexity

The Commission is seeking views on the costs and benefits of potential measures to reduce Child Care Subsidy (CCS) administrative complexity. These may include:

- streamlining the Higher Child Care Subsidy rate to be more aligned with the CCS rate over time
- allowing families who are already eligible for income support payments or a Health Care Card to be automatically eligible for CCS, and aligning processes that are similar across CCS and other payments
- extending the initial length of eligibility for Additional Child Care Subsidy (Child Wellbeing) from six weeks to 26 weeks and subsequent lengths of eligibility to between 26 and 52 weeks
- extending the length of eligibility for Additional Child Care Subsidy (Child Wellbeing) for those children on a long-term protection order, in formal foster care or in a formal kinship arrangement, while their circumstances remain unchanged
- extending Additional Child Care Subsidy (Grandparent) to recognise informal kinship carer arrangements
- maintaining a child's eligibility for CCS for a period of eight weeks when there is a change of guardian. **[Information request 6.5]**



### Scope for broader funding reform

The Commission welcomes views on the implications of broader funding reform in ECEC for children, families, service providers and governments, including the benefits and costs of expanding the use of supply-side funding mechanisms. **[Information request 9.1]**



### The CCCF as a vehicle to address practical barriers to ECEC access

The Commission is seeking information on the appropriateness and responsiveness of the Community Child Care Fund (CCCF) to address practical barriers to ECEC access (such as transport) that families may face.

- Do CCCF grants adequately and effectively respond to the various practical barriers (such as transport or food provision) that families face in accessing ECEC?
  - Is the current frequency (that is, grant rounds every 2–3 years) and funding amount available to services for community-level supports sufficient? If CCCF is not accessed for this purpose, are services receiving funding for this elsewhere?
- If the current CCCF does not adequately and effectively respond to these needs, what funding changes are needed? Options could include:
  - a more flexible approach through CCCF, with an open pool of funds that could be applied for as needed and available to all services, provided they demonstrated community need in their application
  - an expansion of the Inclusion Support Program, where funding could be provided through Innovative Solutions. **[Information request 7.1]**



### 'System navigator' roles in the ECEC sector

The Commission is seeking views from inquiry participants on 'system navigator' roles in the ECEC sector.

- Are current initiatives to support families experiencing additional barriers to navigating the ECEC system sufficient? Do they require additional information or support to perform this role?
- Is there a need for national investment in system navigator roles?
  - If so, who would be best placed to perform these roles? Examples could include Inclusion Agencies or contracted delivery by a range of ECEC services, community organisations, local councils or ACCOs.
  - How could this be delivered across different groups of families (for example, regional or remote, Aboriginal and Torres Strait Islander and culturally and linguistically diverse families), including ensuring delivery in a culturally sensitive manner? **[Information request 7.2]**



### Barriers and potential solutions to providing more flexible sessions of ECEC

The Commission is seeking information on barriers and potential solutions to providing shorter sessions of ECEC that more closely mirror attendance patterns and are less expensive than full-day sessions, particularly in centre-based day care. Suggestions for ways that unused hours ('air pockets' in the system) might be made available to families who want access to ECEC on an occasional basis are also sought. **[Information request 7.3]**



### Availability of occasional care

The Commission is seeking information about the availability of ECEC on an occasional basis. What barriers, if any, do services face in providing this type of care? How might these be resolved? Are families' needs for this type of care going unmet? **[Information request 7.4]**



### Provision of service ratings information for families

The Commission is seeking information on how service ratings information could be made more useful and more accessible to families. For example:

- requiring services to display ratings information on their website
- changing how ratings information is communicated:
  - to specify which element/s of the National Quality Standard a service did not meet
  - to make clearer what is meant by a rating of Working Towards
- requiring services to inform:
  - prospective families of their current National Quality Standard rating
  - current families of a new National Quality Standard rating.

Would these changes be desirable, and how would they best be implemented? Are there other options that should be considered? **[Information request 8.1]**



### Regulatory actions against serial underperformers

The Commission is seeking views about the most appropriate regulatory actions for serial underperformers, while considering the effects on families and children from more severe measures (such as service closure). Would this be best addressed by additional powers for regulatory authorities, or by regulators making more use of existing powers? **[Information request 8.2]**



### Support for services to meet the NQS

The Commission is seeking information and evidence about the extent to which services need more support to meet the NQS, and the types of support required. For example, would the Quality Support Program offered in New South Wales provide the type of support needed by services in other states to meet the NQS? **[Information request 8.3]**



### An ECEC Commission

The Commission is seeking views on:

- how the proposed ECEC Commission should be structured
- what the scope of its functions should be
- whether it should include the national regulator, the Australian Children's Education and Care Quality Authority (ACECQA). **[Information request 9.2]**