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The Productivity Commission

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

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

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



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31 October 2014

The Hon Joe Hockey MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

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

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Wendy Craik'.

Wendy Craik
Presiding Commissioner

A handwritten signature in dark ink, appearing to read 'Jonathan Coppel'.

Jonathan Coppel
Commissioner

Terms of reference

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

Background

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

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

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

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

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

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

Scope of the inquiry

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

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

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

Process

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

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

J. B. Hockey
Treasurer

[Received 22 November 2013]

Contents

The Commission's report is in two volumes. **This volume contains the overview, recommendations, summary of the Commission's main proposals and chapters 1 to 6.** Volume 2 contains chapters 7 to 17, appendix A and references. Below is the table of contents for both volumes. Appendixes B to J and a technical supplement on modelling are referred to in the chapters but are not included in the report. They are available from the Commission's website (www.pc.gov.au).

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

The modelling undertaken for the inquiry benefited from the critique on a draft version and helpful comments of Professor Guyonne Kalb, University of Melbourne. Dr Gordon Cleveland from the University of Toronto and Honorary Senior Fellow, University of Melbourne, provided helpful comments on the draft report overview.

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

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

Abbreviations and explanations

Abbreviations

ABS	Australian Bureau of Statistics
ACECQA	Australian Children's Education and Care Quality Authority
AEDC	Australian Early Development Census
AEDI	Australian Early Development Index
AIFS	Australian Institute of Family Studies
AIHW	Australian Institute of Health and Welfare
ANZSIC	Australian and New Zealand Standard Industrial Classification
ARIA	Accessibility/Remoteness Index of Australia
ASC	after school care
ATO	Australian Taxation Office
BBF	Budget Based Funded
BSC	before school care
CALD	culturally and linguistically diverse
CBC	centre-based care
CBD	central business district
CCB	Child Care Benefit
CCR	Child Care Rebate
CCTR	Child Care Tax Rebate
CELP	Community Early Learning Program
COAG	Council of Australian Governments
CPI	Consumer Price Index
CSP	Community Support Programme
DEEWR	(former) Department of Education, Employment and Workplace Relations
DHS	Department of Human Services
DSS	Department of Social Services

ECEC	early childhood education and care
ECLS	Early Care and Learning Subsidy
ECT	early childhood teacher
EMTR	effective marginal tax rate
EPPE	Effective Provision of Preschool Education study
FAHCSIA	(former) Department of Families, Housing, Community Services and Indigenous Affairs
FBT	Fringe Benefits Tax
FDC	family day care
FTB	Family Tax Benefit
FTE	full-time equivalent
GCCB	Grandparent Child Care Benefit
GDP	gross domestic product
GST	Goods and Services Tax
HBC	home-based care
HECS	Higher Education Contribution Scheme
HELP	Higher Education Loan Programme
HILDA	Household, Income and Labour Dynamics in Australia
HIPPY	Home Interaction Program for Parents and Youngsters
IHC	In-Home Care
IPSP	Inclusion and Professional Support Program
IPSU	Indigenous Professional Support Units
ISA	Inclusion Support Agency
ISF	Inclusion Support Facilitator
ISP	Inclusion Support Program
ISS	Inclusion Support Subsidy
JETCCFA	Jobs, Education and Training Child Care Fee Assistance
LDC	long day care
LSAC	Longitudinal Study of Australian Children
MACS	Multifunctional Aboriginal Children's Services
NAPLAN	National Assessment Program — Literacy and Numeracy
NATSEM	National Centre for Social and Economic Modelling

NDIS	National Disability Insurance Scheme
NICHD	National Institute for Child Health and Human Development
NISSP	National Inclusion Support Subsidy Provider
NPA	National Partnership Agreement
NQF	National Quality Framework
NQS	National Quality Standard
OCC	occasional childcare
OECD	Organisation for Economic Co-operation and Development
OSHC	outside school hours care
PC	Productivity Commission
PSC	Professional Support Coordinator
QIP	Quality Improvement Plan
ROGS	Report on Government Services
SCCB	Special Child Care Benefit
SEIFA	Socio-Economic Index for Areas
VAC	vacation care

Explanations

Billion	The convention used for a billion is a thousand million (10 ⁹).
Findings and recommendations	Findings and recommendations are listed thematically at the end of the report overview. The number of the finding or recommendation indicates its location in the body of the report. For example, ‘Recommendation 10.1’ and discussion relating to it would be found in chapter 10.

OVERVIEW

Key points

- Formal and informal Early Childhood Education and Care (ECEC) services play a vital role in the development of Australian children and their preparation for school, and in enabling parents to work. Many families use a mix of formal ECEC and informal, non-parental care.
- The number of formal ECEC services has expanded substantially over the past decade. Over the same period, Australian Government funding has almost tripled to around \$7 billion per year, and now covers two thirds of total ECEC costs. Despite this, many parents report difficulties in finding ECEC at a location, price, quality and hours that they want.
- Current ECEC arrangements are complex and costly to administer and difficult for parents and providers to navigate. There are over 20 Australian Government assistance programs, some poorly targeted. Assessing service quality is cumbersome and time consuming.
- The benefits from participation in preschool for children's development and transition to school are largely undisputed. There also appear to be benefits from early identification of, and intervention for, children with development vulnerabilities.
- The National Quality Framework must be retained, modified and extended to all Government funded ECEC services. To better meet the needs and budgets of families, the range of services approved for assistance should include approved nannies and the cap on occasional care places should be removed. All primary schools should take responsibility for outside school hours care for their students, where demand exists for a viable service.
- The Commission's recommended reforms will achieve, at minimal additional cost, an ECEC system that is simpler, more accessible and flexible, with greater early learning opportunities for children with additional needs. The reforms would also alleviate future fiscal pressures, establish a system that is easier to adapt to future changes in ECEC, and tax and welfare arrangements. Assistance should focus on three priority areas:
 - mainstream support through a single child-based subsidy that is: means- and activity-tested, paid directly to the family's choice of approved services, for up to 100 hours per fortnight, and based on a benchmark price for quality ECEC. In regional, rural and remote areas with fluctuating child populations, viability assistance should be provided on a limited time basis.
 - support the inclusion of children with additional needs in mainstream services, delivery of services for children in highly disadvantaged communities and the integration of ECEC with schools and other child and family services.
 - approved preschool programs funded on a per child basis, for all children, regardless of whether they are dedicated preschools or part of a long day care centre.
- Additional workforce participation will occur, but it will be small. ECEC issues are just some of a broad range of work, family and financial factors which influence parent work decisions. The interaction of tax and welfare policies provide powerful disincentives for many second income earners to work more than part time. Shifting to the recommended approach is nevertheless estimated to increase the number of mothers working (primarily of low and middle income families) by 1.2 per cent (an additional 16 400 mothers).
- Overall, more assistance will go to low and middle income families and their use of childcare is expected to rise. However, high income families who increase their work hours may also be better off. Enabling the lowest income families (those on Parenting Payments) some access to subsidised childcare without meeting an activity test may boost ECEC participation and improve child development outcomes for this group, but this comes at the cost of potentially higher workforce participation.

Overview

Early childhood education and care (ECEC) plays a vital role in the development of Australian children, their preparation for school and in enabling parents to participate in the workforce. Such outcomes are contingent on quality ECEC services being accessible and affordable for Australian families and their provision being flexible to match the variety of parents' work arrangements. Since the introduction of ECEC funding on a wider scale in the 1980s and 1990s, governments have tweaked and patched assistance arrangements to improve the short term accessibility and affordability of ECEC services for families (box 1). In commissioning this inquiry, the Australian Government has acknowledged that it is now time to rethink Australia's approach to ECEC.

The Commission was requested to examine and identify future options for ECEC that address current concerns with accessibility, flexibility and affordability in a way that better supports: children's learning and development needs, including their transition to school; and workforce participation of parents, especially women. In particular, the Government requested the Commission to report and make recommendations on the contribution that access to affordable, high quality ECEC can make and to evaluate current and future needs for ECEC, including for families in rural, regional and remote areas, families with shift work arrangements, and families with vulnerable or at risk children.

The Commission was also asked to consider the impacts of regulatory changes in childcare over the past decade, other specific models for ECEC delivery (including those used overseas) and assess alternative mechanisms for Government to deliver support to families and providers. At the same time, the Government requested that any modifications to ECEC funding be based on funding arrangements that are sustainable for taxpayers and include options within current funding parameters.

ECEC in Australia

Almost all of Australia's 3.8 million children aged 12 years or under have participated in some type of early childhood education and care (ECEC), and for around half of these children, formal or informal ECEC is the usual type of care. For many of these children and their families, ECEC is the formal care and early learning provided by long day care centres, family day care, occasional care services and some crèches in the years before children go to school. Depending on the state or territory, once children reach 4 to 5 years, the majority attend either a preschool program in a long day care centre, and/or a dedicated preschool. Once formal schooling begins, some children attend before or after school care and/or vacation care programs.

Box 1 **Evolution of ECEC assistance in Australia**

Governments in Australia provide assistance to ECEC through a mix of payments to families, support for providers and the direct provision of services. Historically, the Australian Government has funded arrangements for early childhood *care* while state and territory governments have had responsibility for childhood *education*. The Australian Government's role in ECEC remains largely confined to funding. State and territory governments provide some funding and are also service regulators and providers. Many local governments also provide specific services in their communities.

Throughout the 1970s and 1980s, the Australian Government focused on funding services to increase the number of childcare places for use by women (re)entering the workforce. In the 1990s, the affordability of work-related care became a community-wide issue and the Australian Government responded by providing fee assistance directly to families in addition to the assistance already provided to some services. More recently, governments have placed greater emphasis on the role of ECEC in child development and ensuring services are of high quality. Governments have also provided extra financial assistance for ECEC services in rural and remote areas and to developmentally vulnerable children, to improve the equity of access.

Payments to assist families with the cost of ECEC (around \$5.7 billion in 2013-14) represent the bulk of Australian Government funding for ECEC. The remainder (\$1.0 billion in 2013-14) is largely directed to service providers and to quality assurance processes through over 20 separate assistance programs. The three current key assistance measures to families are:

- Child Care Benefit (CCB) is a means tested benefit targeted towards low and middle income families. CCB covers up to 50 hours of ECEC use per child per week (provided parents satisfy an activity test of at least 15 hours per week). The CCB rate is dependent on the number of hours families participate in work related activities and use of ECEC, the number of children in care and whether they are at or below school age, the type of service (approved or registered) attended and family income. For families that do not satisfy the CCB activity test (including those not working), CCB is available for up to 24 hours of ECEC per week. Grandparent CCB (GCCB) is available for grandparents who are primary carers of children in ECEC services and Special CCB (SCCB) is available for families experiencing financial hardship or for children at risk. GCCB and SCCB meet up to the full cost of ECEC, with no means or activity testing. In 2013-14, CCB expenditure amounted to an estimated \$2.9 billion.
- Child Care Rebate (CCR) is a non means tested payment that provides additional assistance for families using approved care. CCR provides up to 50 per cent of a family's out-of-pocket child care costs after any CCB is deducted, up to a maximum of \$7 500 per child per year. In 2013-14, CCR expenditure amounted to an estimated \$2.7 billion. Around 686 000 families received both CCB and CCR and 89 000 families received only CCB.
- Jobs, Education and Training Child Care Fee Assistance (JETCCFA) provides assistance to eligible parents who qualify for the maximum rate of CCB. It pays most of the gap in out-of-pocket costs not covered by CCB, while a parent is working, studying or training. In 2013-14, JETCCFA expenditure amounted to an estimated \$0.1 billion for around 54 000 children (35 000 families).

The Australian Government has projected that its expenditure on ECEC will rise from \$6.7 billion in 2013-14 to \$8.5 billion by 2017-18.

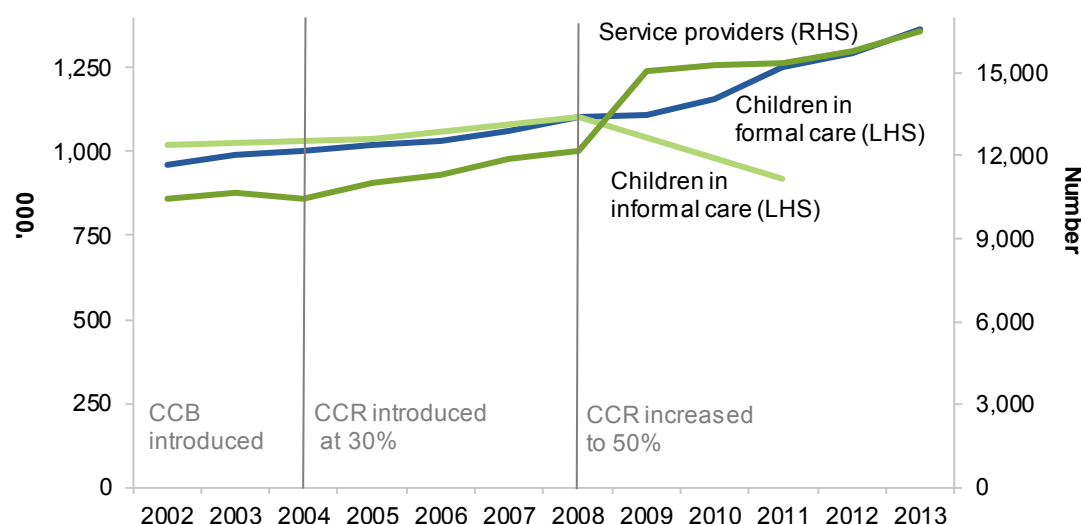
State and territory governments have, in recent years, contributed a further \$0.8 billion per year in support of ECEC (mainly for preschool programs) and all levels of government offer various concessions and tax exemptions to ECEC providers, particularly to the 34 per cent of providers that are not-for-profit.

Supplementing this formal (and mostly quality regulated) network of over 16 000 ECEC services, is a host of informal (largely unregulated) care and early learning arrangements provided by relatives, neighbours, playgroups, most nannies, and au pairs. Informal carers, particularly grandparents (who provide care for 26 per cent of children aged 12 years or under), also tend to be relied on when suitable formal care is not available or is too costly for the hours that parents work. It is estimated that around 40 per cent of children aged 12 years or under use some type of informal non-parental care on a regular basis. For just over 40 per cent of children, however, the usual form of care is parental-only care.

Increasingly, women wish to join or return to the workforce at some point after the birth of children. The workforce participation rate of mothers with a child under 15 years has grown from 57 per cent to 67 per cent over the past two decades. That, combined with a growing community awareness of the importance of early learning for child development, means that more families now use formal ECEC, although at times and in a manner considerably changed from past decades when often only one parent worked outside the family home.

The number of ECEC services has expanded substantially over the past five years to cater for the additional demand (figure 1).

Figure 1 Use and provision of ECEC services^a



^a The growth in services in 2008 also reflects a change to the way outside school hours care services that offer both before and after school care were included in the administrative data.

What the Commission found

Following more than 2000 submissions and comments, public hearings, wide-ranging consultation with providers of ECEC services and families who use these services (box 2), and consideration of available data and information, the Commission has reached a number of broad conclusions on ECEC in Australia.

There is a lot that is good about Australia's current ECEC system. Most children have some exposure to early learning opportunities prior to starting school and the vast majority of children transition well into school. But the current ECEC funding system was largely designed to meet the needs of a different era and the series of incremental additions and amendments mean there is much scope for improvement.

The benefits of formal ECEC for child development vary with the age of the child participating

Children are learning and developing from birth (and before) and the nature of interactions between a child, the adults around them, the environment and experiences to which the child is exposed all contribute to the child's early learning foundations. The benefits of quality early learning for children in the year prior to starting school are largely undisputed, with evidence of immediate socialisation benefits for children, increased likelihood of a successful transition into formal schooling and improved performance in standardised test results in the early years of primary school as a result of participation in preschool programs.

There is also some (mixed) evidence of the impacts on children's development from attending quality early learning from about 1 to 3 years of age, although the evidence of long term benefits from universal access (except for children from disadvantaged backgrounds or with additional needs) to such learning is currently less compelling.

For children under 1 year of age, those who are from homes where the quality of care and the learning environment is below that available in ECEC, are most likely to benefit from ECEC participation. Although there may be some developmental benefits for other very young children from time spent in formal ECEC settings, there is also potential for negative effects (such as the emergence of behavioural problems later in childhood). These risks are greater the closer to birth the child commences ECEC and the longer the time the child spends in formal care — particularly if the care is of low quality.

Many parents prefer parental-only care, at home, for their children, particularly when they are very young. The research suggests that except where the home environment offers very poor development opportunities or places the child at risk, these children continue to rapidly learn and develop in the home environment without participation in formal ECEC services, at least until about 2 to 3 years of age.

Box 2 Views on Australia's ECEC

I would like to return to work in a part time capacity to ensure my skills remain current ... the proposed paid parental leave policy, while generous, does not address the issues parents face when returning to work after the first six months. How am I supposed to rejoin the workforce when I can't find a child care place with 17 months notice. (comment no.19, ECEC user)

As a permanent firefighter I am a shift worker. My roster is an 8 day rolling roster so though I can tell which days and nights I am working for the next 10 years they are different days and nights every week. Therefore, regular childcare where I have to nominate a day each week is not an option. (comment no. 23, person not involved in ECEC)

So much focus is on ensuring fairness and equity and supporting low income earners, but the reality of childcare is that it should be more directed at working families. Spots can be filled by stay at home mums ... just looking for time off from the baby for a cheap 'babysitting' rate. (comment no. 30, ECEC user)

The waitlists are so long you can't be choosy about where to get your child care if you want to return to work ... if you aren't happy with where your child is in care you have no choice but to either leave them there while you move your way up other waitlists or you pull them out and leave work to look after them yourself. (comment no. 51, ECEC user)

I needed to keep my eldest daughter in care (1 day per week) whilst on maternity leave to increase the likelihood of my second child gaining a place. This means that a family needing care in those months might have been unable to get a place whilst my daughter was using a place as a 'holding spot' for herself and her younger sibling ... My daughter is about to begin preschool at public school in Canberra. However, because she is not school age, the school cannot provide before or after school care. The hours are odd, Thursday and Friday and every second Wednesday. While I might be able to get family day care, advice is that I would be expected to pay for the full day. I have reduced my hours to allow me to drop off at 9 and pick up at 3. My husband is having every Wednesday off. I'm not sure what I will do over school holidays, we do not have family close by. (comment no. 90, ECEC user)

... children are young for a short time compared to the length of their parents' working lives. The fact that most parents need to adjust and adapt their working lives needn't be defined as a problem that needs solving ... None of us feels that our arrangements are perfect; every week feels like a juggling act. Nevertheless, we chose to be parents and have managed to balance our children's needs with our financial requirements. (comment no. 96, ECEC user)

My eldest daughter attends [school] which in 2014 will have 650 students but only 180 spots for after school care. I have friends whose second child cannot access this service as they are full - and they are on the priority list. Next year will be even worse. (comment no. 46, ECEC user)

Children under 3 need a good home and a loving family atmosphere for their formative years, not stuck in a child care centre all day ... Way too much documenting and planning to justify our day and what we are doing ... Lets get back to basics and remember why we are there and what young kids actually need. This would take away a lot of the pressure off staff and also justify the wage rate. Govt's are trying and trying to make everyone more qualified. Remember the age group!! (comment no. 61, person not involved in ECEC)

Going to child care has been one of the best things that has happened for my son in the last 12 months. He has had developmental delays and the time he has spent with his peers and staff has helped him make huge progress in his speech and play development. He has especially benefited from one on one support through Inclusive Directions. (comment no. 202, ECEC user)

Quality is important

There is broad support for the National Quality Framework (NQF) in the ECEC sector, from both private and not-for-profit providers, including amongst those services not currently within scope of the framework. Some aspects of the National Quality Standard to which services are aiming are viewed by many as leading practice globally.

Research indicates that what constitutes ‘quality’ ECEC includes the nature of the physical environment of the classroom, programs and routines, qualifications and ratios of ECEC staff, professional development experience and educator’s personal characteristics such as attentiveness. These facets are all important for the quality of the child’s experiences, but unfortunately there is a lack of consistent evidence that any one of these factors is more important than any other in delivering improved learning and development outcomes, particularly for children under 3 years of age. Despite this, for younger children in particular, having nurturing, warm and attentive carers is arguably upheld as the most critical attribute of quality in any ECEC setting.

The inability to distinguish the benefits of different staff ratios and qualifications is of particular concern as the vast majority of additional costs attributable to the NQF are likely to stem from changes to these requirements. Further, some providers indicated they had reduced the number of places for younger children because of the cost of these requirements, while others indicated they operate, despite the additional cost, with higher staff to child ratios or higher qualified staff because they consider it necessary for a high quality service.

There was strong disagreement from the ECEC sector in response to the inquiry draft report recommendations on *minimum* qualification requirements for ECEC workers. The Commission received and analysed a range of additional research and alternative views on existing research. It is accepted that children are learning and developing very rapidly in their early years; it is also accepted that the quality of children’s environment and interactions is important for learning and developing outcomes. What is not supported by the research evidence, and what the Commission does not accept, is that either (or a combination) of these findings necessitates that children require a tertiary qualified educator from birth. This is certainly an option that some parents may wish for and choose, but it should not be a minimum requirement imposed by governments, at considerable cost, on all families and taxpayers, until evidence substantiating the benefits for the additional cost is available.

The Commission considers that some changes in NQF requirements and their implementation could reduce costs for parents without compromising quality. For example, there is likely to be minimal value added from requiring outside school hours care (OSHC) and vacation care services to document educational outcomes for every child. Furthermore, some of the requirements on the physical environment that apply to long day care (LDC) centres may be irrelevant or impractical in their current form for mobile services and home-based services.

Access is an issue for some families

Most Australian children now participate in formal ECEC, at least in the year immediately prior to full-time schooling, and governments have committed in recent years, under a series of national partnership agreements, to increase the participation rates of Indigenous and developmentally vulnerable children.

However, a number of parents struggle to find ECEC services that meet their needs and enable them to increase their work commitments or they make substantial adjustments to work hours to accommodate available care and/or school hours. Few schools enable outside school hours care that either caters for a sufficient number of children or for the children's interests, meaning many parents are unable to work longer than the school day. The Commission concluded that OSHC is likely to be an area of significant growth in demand for places in the future, particularly given strong growth in the number of children in LDCs in recent years and that the workforce participation of mothers is expected to increase as these children reach school age.

There are long waiting lists for ECEC services in some areas or age groups (such as for babies in city LDC centres). Many parents pay for (and the Australian Government subsidises) ECEC places that are under-utilised but which are seen by parents as a way of gaining some flexibility to enable possible changes in their workforce participation.

Children with additional needs — those who are at risk of abuse or neglect, have a diagnosed disability, or are developmentally vulnerable (such as children who are not exposed to English in their homes) — would benefit most from some early learning but many are attending less than other children without such needs. Access issues for this group arise for a number of reasons — for cultural reasons; because parents do not see the benefits of ECEC attendance or find the costs prohibitive; or because services are unavailable at a local level or are unwilling to take children with particular needs.

The capacity of ECEC providers to alleviate access issues more generally is inhibited by regulatory restrictions on their operations (such as hours of operation restrictions and local government planning requirements), the type of services that can be provided (given the staff qualifications required) and incentives created by current funding arrangements.

Taxpayers fund most ECEC

The level of care and early education that families want or for which they are willing to pay varies considerably. Many parents have expressed satisfaction with care provided by family day care, nannies and au pairs — options that may offer more flexibility and potentially less education than some long day care services. Other parents are willing to pay for additional educational experiences for their children, such as language or music lessons, while attending ECEC services.

While there are some parents who cannot afford to access ECEC services that would benefit their child or assist their workforce participation, it appears that more commonly, parents cut back on their child's use of ECEC in order to keep their out-of-pocket costs below the CCR cap or minimise use for non-financial reasons. Only around 5 per cent of families reach the \$7500 per child cap on CCR contributions to out-of-pocket costs, and most of these use ECEC in central Sydney or Canberra and/or have children in care for over 40 hours per week.

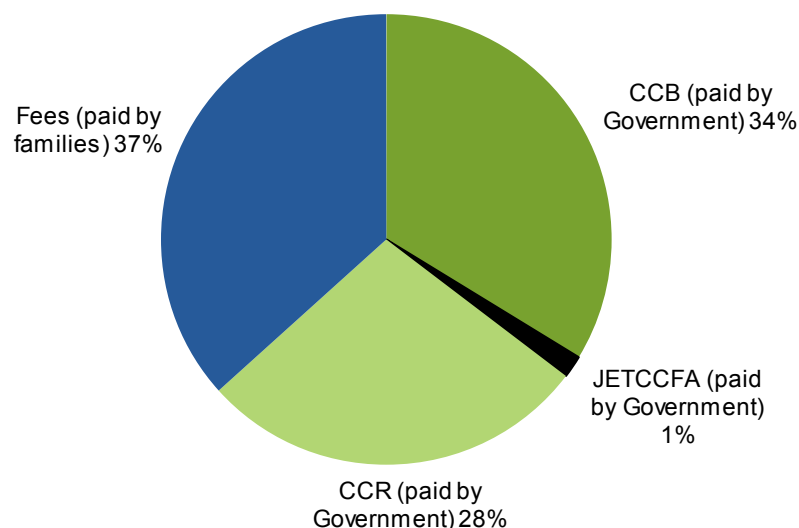
Many families have come to expect that the cost of early learning and care for their children should not unduly burden the family budget, but out-of-pocket costs in Australia (while 27 per cent of average wages and above the OECD average of 17 per cent) actually sit well below those of the United Kingdom, United States, New Zealand and Canada.

The Commission has concluded that some of the current demand for ECEC places has been created by prices (and out-of-pocket costs) that bear little resemblance to the costs of ECEC provision (in some localities and particularly for younger children) — because of government subsidies on the fees paid by parents and because of the extensive cross-subsidisation by providers. Children aged 0 to 2 years can be twice as expensive to care for in a LDC setting as 3 to 5 year olds, yet there is usually little, if any, difference in fees charged to parents. Parents of older children are cross-subsidising parents of younger children. The reluctance of families to disrupt care arrangements for their children by changing services means such practices become ingrained.

There is a widespread (but not universal) expectation that ECEC workers should receive greater recognition and financial reward for their role in children's development and that taxpayers rather than the families using services should bear the associated additional cost. Many providers claim to be providing services to families who cannot afford higher fees, and may be reliant on taxpayer funds to remain in operation. This is not an appropriate reason for further taxpayer assistance. Provision of taxpayer assistance should be based on the benefits generated for the community, including through improved child development outcomes and increased workforce participation.

The cost to taxpayers of ECEC assistance has ballooned from 0.8 per cent of total Australian Government expenditure 10 years ago to a projected 1.7 per cent in 2014-15. Overall, the Government pays around two thirds of the cost of approved childcare and families pay the residual (figure 2), with an increasing proportion of taxpayer assistance going to higher-income families. While taxpayer assistance for the majority of children has increased with demand, block funding to support services delivering ECEC to children with additional needs has been kept relatively stable.

Figure 2 **Who pays in Australia's ECEC system^a**



^a The government contribution is an underestimate as it excludes over \$800 000 per year in subsidies that are paid directly to service providers, but which also (indirectly) reduce fees paid by families.

There is scope to increase parental workforce participation

The Commission has estimated that there may be up to roughly 165 000 parents (on a full-time equivalent basis) who would like to work, or work more hours, but are not able to do so because they are experiencing difficulties with the cost of, or access to, suitable childcare. These are parents (mostly mothers) who are currently either not in the labour force or are working part time (figure 3) — most would prefer to work an average 25 hours per week.

The strong (constrained) preference of Australian parents for work that is part-time, particularly when children are young, is in stark contrast to many other OECD countries. Around 38 per cent of Australian couple families have one parent working full time and one parent part time, compared with an OECD average of 24 per cent. The dominance of part time work enables many parents to both maintain workforce attachment and spend time with their children. As workforce participation is affected by many factors other than ECEC (including flexible work arrangements, other government family payments and support of partners), the accessibility and affordability of ECEC and ECEC assistance arrangements are important, but not the only factors, that discourage parents from working.

In particular, Australia's tax and transfer system creates a strong disincentive for some parents to enter the workforce or to increase their hours of work. For some second income earners (usually mothers) who return to work and use ECEC, the combination of a drop-off in Family Tax Benefits once family income rises, progressive income tax rates, reduced CCB assistance at higher income levels and the cap on CCR assistance, can result in an effective marginal tax rate (EMTR) approaching 100 per cent, particularly once work

exceeds 3 days per week (figure 4). For low income families, EMTRs created by the aggregation of well-intentioned income support payment and other welfare measures, provide a powerful disincentive to meeting an ECEC activity test. For other parents (often those more qualified or with a career path) anticipated longer term private benefits from maintaining attachment to the workforce means they may continue working, despite facing high EMTRs in the immediate future.

Figure 3 Workforce participation of mothers, by age of youngest child

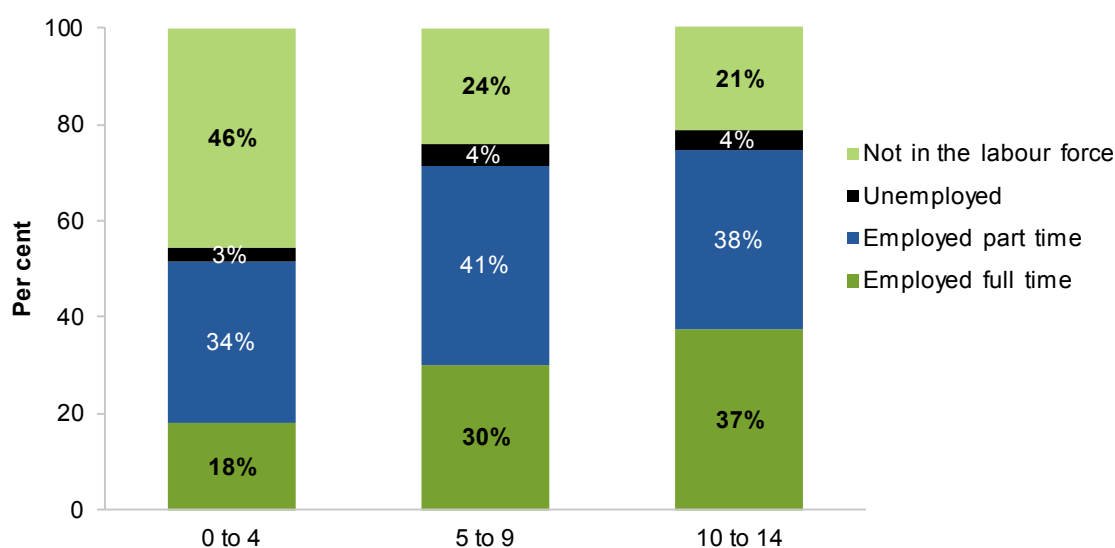
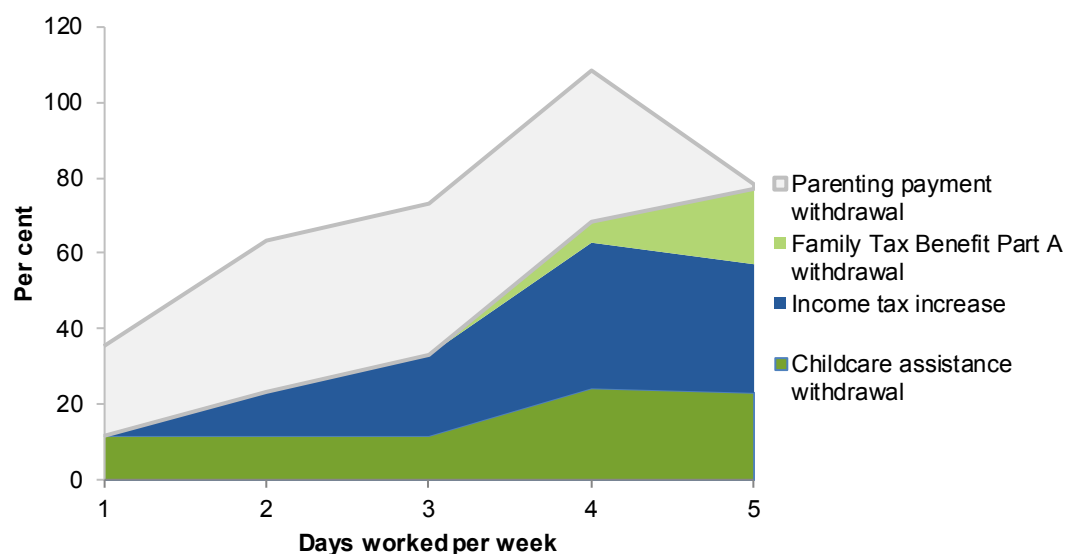


Figure 4 Example of effective marginal tax rates^a



^a Represents a single parent family with two children in long day care, as per 'family 1' in Box 5.

Program objectives overlap and administrative arrangements are complex

ECEC assistance arrangements (as detailed in box 1) are complex, costly for governments to administer, and difficult for parents and providers to navigate or to readily calculate the out-of-pocket costs of care. There are at least 20 Australian Government ECEC assistance programs, many overlapping in their objectives. Some assistance programs — such as the Special Child Care Benefit (SCCB), JETCCFA and Community Support Programme (CSP) — have been poorly targeted and funds have flowed to services and families well outside their intended purposes.

The processes in place to assess the quality of ECEC services are cumbersome, inconsistent, and costly to governments and providers. Less than half of all services have been assessed in the past two years and it seems unlikely that regulatory authorities will, as planned, assess all services at least once by mid-2015.

Why governments are involved in ECEC

The Government's rationales for assistance to ECEC, as laid out in the inquiry terms of reference, rely on the generation of community-wide benefits from enhanced child development and increased workforce participation of parents. These objectives represent a mix of both economic and social goals.

Early learning and development opportunities can contribute to: healthy child development (that builds human capital); early identification and intervention to address developmental delays; better transitioning of children into the formal education system; reduced risk of harm to certain children in the community; and overcoming disadvantage and its longer term social consequences.

Greater workforce participation by parents can: boost measured economic output and tax revenue; reduce reliance on welfare support; and promote social engagement. Most importantly however, increased parental workforce participation (independent of any usage of ECEC to facilitate it) can also improve child development outcomes. Family characteristics, including parental employment status and income, are some of the most crucial determinants of child development outcomes.

Governments also regulate the quality of ECEC and provide assistance to: increase information on ECEC available to parents and providers; ensure broad social objectives such as the safety of children are met; and promote sector stability, such as through assistance that supports providers moving quickly to new minimum standards of provision.

While some of these identified benefits of broader ECEC participation would be felt by the community, most also result in benefits that accrue primarily to the child attending ECEC and to their family. This means that families should not expect governments to fully fund

their use of ECEC. For families with children, there will always be trade-offs in work and lifestyle, and the responsibility for raising children and funding their care and early childhood education should lie predominantly with the family.

Certainly this is the case for the majority of children who are developing ‘normally’, have no additional needs and have families that provide them with quality early learning opportunities. One difficulty, however, is that children not in this situation are often not identified until they enrol at school or childcare. For this group, there are likely to be substantial savings to the community from the early identification and addressing of developmental needs, before they become entrenched problems. Furthermore, as evidenced by similar policies such as paid parental leave, community norms have moved to the point where some level of support for ECEC to promote mothers’ workforce participation is regarded as an acceptable use of taxpayer funds.

There is no clear delineation of the roles for state and territory governments and the Australian Government in ECEC — particularly in the preschool year immediately prior to the start of formal schooling. The interaction of ECEC assistance policies with other Commonwealth and state and territory policies compounds the complexities. In particular, family welfare and income tax policies are currently Australian Government responsibilities and as workforce participation is a key driver of welfare costs and tax revenue, it is a focus for the Australian Government. The push for formal ECEC services to include an educational component, facilitate transition to school, cater for children at risk of abuse, offer respite for parents and be reasonably integrated – or at least coordinated – with health and community services provision, all cross into current state and territory responsibilities. The Commission considers that the appropriate role of each level of government in ECEC should be addressed in the 2015 White Paper on the Reform of the Federation.

An ECEC system to aim for

The Commission has developed guiding principles to help in formulating an improved ECEC system. Detailed in the report, these principles include a need to:

- ensure safety and quality of care for children, including achievement of learning and development outcomes appropriate to the type of service
- support family choice of care options, recognising that no single ECEC type will be appropriate (or need necessarily be affordable) for all families
- promote efficient provision of services, including removal of any barriers, assistance or concessions that favour particular provider models
- address inequities in access
- deliver the best value for the community, ensuring fiscal sustainability while enabling provision and access where the market is unable to deliver services that would provide net benefits to the community.

The Commission's view of an ECEC system that governments, providers and families could work toward is summarised in table 1. The key features of such an ECEC system broadly relate to the facilitation of both child development outcomes and parental workforce participation, and the integration of ECEC with other community services and schools.

Table 1 An ECEC system to aim for

<i>Children under school age</i>	<i>School age children</i>
Parents are able to choose from a broad range of ECEC types (including their own care at home) to suit family needs. -----	All children start school (at an age that is consistently determined across Australia) after completing at least one year of guidance under an early childhood teacher. -----
A range of non-parental care options available at a range of prices, at least some of which are within most family budgets. -----	Schools organise appropriate external organisations to provide a range of optional outside school hours (including vacation) care and activities using school and external facilities. Some schools may choose to adjust school hours in order to provide such activities at one rather than both ends of the school day. -----
ECEC is appropriate quality (consistent with National Quality Standard), age and culturally appropriate and stimulating to child development needs. -----	These outside school hours care and activity options would be provided at a range of prices, with sufficient places at every school to meet the demand for care of children at that school. -----
In at least the year before school, children are guided by an early childhood teacher; for those at risk or developmentally vulnerable, this may extend to several years before school age. -----	Schools extend care and activity options to cater for onsite preschool students. -----
Additional needs children have (at a minimum) access to ECEC on the same basis as other children. -----	ECEC services enable all parents to work beyond the hours and weeks of a school year while providing a framework to cope with the juggle of children's development activities outside of school hours. -----
ECEC is closely linked in with schools, and family, health and social services. -----	ECEC providers compete to offer a range of quality ECEC services to schools and are able to negotiate contracts that ensure reliability in provision from year to year.
ECEC services enable all parents to work full or part time with flexibility, as they decide. -----	
ECEC places not needed on a temporary basis are used by providers for occasional care. -----	
Providers compete to offer a range of quality ECEC services and attract suitable staff.	

It is likely that some aspects of such an ECEC system would be difficult to achieve and trade-offs will be inevitable. In particular, the scope to move toward such a system is constrained by: the diversity in views on the role, importance and best way to deliver ECEC (for example, the Commission has been advised that not all school principals are receptive to OSHC services sharing school facilities); widespread expectations of ECEC stakeholders that ECEC quality and usage should continue to be largely funded by taxpayers rather than parents; and budget constraints that mean this funding is unlikely to

continue to grow on the scale to which parents and ECEC providers have become accustomed.

Furthermore, the two policy objectives that the Australian Government is seeking to meet — child development and workforce participation — are not always mutually consistent and their interaction needs to be carefully considered in ECEC policy design. For example, an assistance arrangement that enabled working parents to use care for very young children, at a low cost for an unlimited number of hours per week, would be unlikely to be generally beneficial to child development. This inquiry is looking at the two policy objectives of Government only through the lens of ECEC. It is likely, however, that changes in other policy areas — such as the tax and transfer system or employment conditions — may have a far greater impact on workforce participation, in particular, than do changes in ECEC policies alone.

The Commission's recommendations for ECEC reform involve both changes to the way ECEC is regulated by governments and changes to funding and assistance for families and ECEC services. The Commission has sought to direct regulatory reforms and Australian Government budgeted ECEC assistance to areas with the greatest potential to enhance the accessibility, flexibility and/or affordability of ECEC. An ECEC system that is accessible and affordable for families is more likely to enable improved child development outcomes for a greater range of children, and encourage parents to move back into paid work, or extend their existing work commitments.

While the Government has indicated that it wants a fresh approach to ECEC, the practical reality is that there is an existing ECEC system, existing structures of Commonwealth and state and territory roles and responsibilities, and a budget constraint. The combination of these means there will be substantial legacy and transitional costs in moving to a new ECEC system. The Commission has, as far as possible, proposed reforms that are cognisant of such constraints and feasible to implement.

Recommended reforms for accessibility, flexibility and affordability

The Commission has made a number of recommendations designed to improve the accessibility and affordability of ECEC and enable greater flexibility around the operation and use of services:

- Government assistance to families should be extended to home-based care services (such as approved nannies), where these services satisfy appropriate NQF requirements. This would enhance the accessibility and flexibility of ECEC, particularly for those families with parents needing to work irregular or non-standard hours (such as shift work or work that involves considerable travel).
- The current Australian Government cap on approved places for occasional care should be scrapped. When applications have been taken in the past for additional allocated places for occasional care, these re-allocation processes have been over-subscribed

two-fold. This would suggest that providers see considerable unmet demand (at current subsidised fees) for these services, at least in some areas or age groups.

- Universal access to a preschool program in the year before children start school should continue to be supported by all governments as a key measure for child development and transition to school.
- The onus should be placed on primary school principals to take responsibility for ensuring there is an OSHC for all children where sufficient demand exists for a viable service and to give such services priority use (at a reasonable fee) of school facilities. For schools with attached preschools, OSHC should be extended to preschool children, as the 15 hours per week over part days that most dedicated preschools operate currently makes workforce participation of at least one parent nearly impossible. OSHC services that are more widely available and more interesting to older school children would considerably boost the accessibility of ECEC for the 2.6 million children who undertake a combined 8 years of preschool and primary school.
- To help ensure continuity in access for children in regional and remote areas where services experience fluctuating populations of children, additional temporary assistance should be provided. This, coupled with the removal of restrictions on the hours of operation that any service must be open in order to attract Australian Government assistance, should ensure that many services currently struggling to offer ongoing access for local children, are able to remain viable and open on a regular basis.
- Improving the flexibility of ECEC arrangements would ideally be complemented by improvements in the flexibility of workplaces for parents and others with caring responsibilities.

Some reforms that primarily make ECEC more flexible and accessible (such as removing restrictions on service operating hours and extending the range of approved subsidised services) should also improve affordability — although the primary means to improve affordability lies in the design of government financial assistance to families and providers. Recommended reforms are not all aimed at making ECEC less costly to all families, as even without a constrained budget, it is appropriate to consider what is cost-effective for taxpayers more broadly.

The Commission examined a range of other measures to improve affordability for families, including allowing income tax deductions or tax rebates for childcare fees. While most childcare costs (particularly for children under 3 years and school age children) are likely to be incurred in order to enable parents to work, tax deductions or rebates are not an effective means of support for lower and middle income families who, in the absence of ECEC assistance, are likely to have the greatest difficulty affording care. The Commission considers that the Australian Government should not permit the cost of ECEC services to be tax deductible. To do so would be non-transparent, inefficient, inequitable, inconsistent with established tax deductibility principles and unsustainable.

Recommended regulatory reforms

For the benefit of children, appropriate national quality standards for ECEC services must be upheld, but there must also be scope within these standards for providers to offer a range of services that meet the needs and budgets of families. The Commission's recommended regulatory reforms aim to broaden the scope of the NQF, while at the same time, reducing the regulatory burdens on services and enabling providers to offer a broader range of quality ECEC options.

Providers should be encouraged, in their services on offer to families, to maintain an acceptable level of quality and improve on this over time. While improving quality could involve some additional costs for both governments and parents, there are a number of regulatory areas in which burdens faced by ECEC providers (and consequently, prices charged) could be lowered without compromising quality.

Qualifications and ratios

To improve overall quality in the sector, the coverage of the NQF should be extended to include all ECEC services that receive Australian Government subsidies or funding. This means that any nanny, provider funded service (such as the existing Budget Based Funded providers) or other service which wishes to receive Australian Government ECEC subsidies, would be required to satisfy the standards of the NQF. These standards are already tailored to recognise the unique environment provided by family day care, and would need to also be tailored and include a transition plan to reflect the different physical circumstances of services such as home-based care, mobile and other funded services in regional and remote areas.

Given the research on what is needed for quality ECEC services, all ECEC workers caring for children younger than 3 years of age should be required to hold *at least* a certificate III ECEC qualification and be supported in their implementation of an early learning program by a higher qualified ECEC worker with *at least* a diploma. In many centres, this would mean more certificate III and fewer diploma level workers than are currently required under the NQF, which is consistent with current requirements in family day care services. The Commission anticipates that allowing centre-based providers to operate with this arrangement could enable a range of services to emerge in the ECEC market at a lower cost to families than many LDC services currently offer.

The number of early childhood teachers required in centre-based services should be based on the number of children 3 years and over (rather than all children in the service). Current inconsistencies between states and territories in staff ratios and qualification requirements should be resolved, with all jurisdictions adopting the national requirements as minimum standards.

For OSHC, a nationally consistent set of staff ratios and qualifications for educators should be developed. These should take into account the focus of OSHC on care and recreation rather than education, the staff ratios that are considered acceptable during school hours, and the valuable contribution that can be made to OSHC services by less qualified older workers and university/TAFE students.

Reporting, compliance monitoring and assessment

For OSHC, occasional and mobile care services, the requirement to report against an education plan on an individual child basis should be removed, as such detailed reporting does not contribute significantly to the quality of outcomes for children and is burdensome for providers.

The process by which service quality is assessed under the NQF should be rationalized to enable all services to be assessed (and reassessed) in an acceptable time frame and to ensure resulting quality ratings reflect the overall quality of the service. There is considerable scope to improve information to ECEC providers about what particular quality requirements mean in practice and what level of reporting is necessary to demonstrate that requirements are being met.

Overlap between the National Quality Standard and state, territory and local government legislation (such as for food safety, preschool regulation and development requirements) should be removed. Local governments should not attempt to regulate the quality of ECEC services, including the design or layout of indoor and outdoor spaces, where this duplicates the NQF or the Australian Building Code.

Recommended funding and assistance reforms

The Commission recommends that funding for Australian Government ECEC assistance programs be combined and directed to three priority areas (figures 5 and 6):

- (i) mainstream ECEC services
- (ii) services for children with additional needs
- (iii) preschool services.

The design of the recommended funding system aims to maximise child development and workforce participation outcomes that are, as far as possible, likely to be *additional* to those that might be achieved in the absence of government funding (not simply compensate families for choices that they would have made regardless).

A particular concern to the Commission in this inquiry is to ensure that the interactions of ECEC assistance with other forms of assistance to families (such as Family Tax Benefits) reduce disincentives for parents to increase their work hours (particularly once children are in school).

While the Commission has detailed the criteria by which the Australian Government should allocate assistance to families and ECEC providers, there are considerable uncertainties involved. With a limited ECEC budget, unless efficiency gains can be found (such as through reducing regulatory burdens or improved market operation), additional assistance in one ECEC area must come at the expense of assistance to, or higher payments by, others.

The indicative distribution of Australian Government expenditure between these three priority areas is shown in table 2. The Australian Government has committed \$31 billion over the next 4 years (roughly \$7.7 billion per year) for assistance to ECEC. The bulk of funding supports mainstream use of ECEC services. While the Commission's recommended approach is consistent with this, maintenance of preschool access assistance and increased spending on ECEC for children with additional needs are also recommended, as these areas are particularly significant for improving child development and there is consistent evidence of their positive impact.

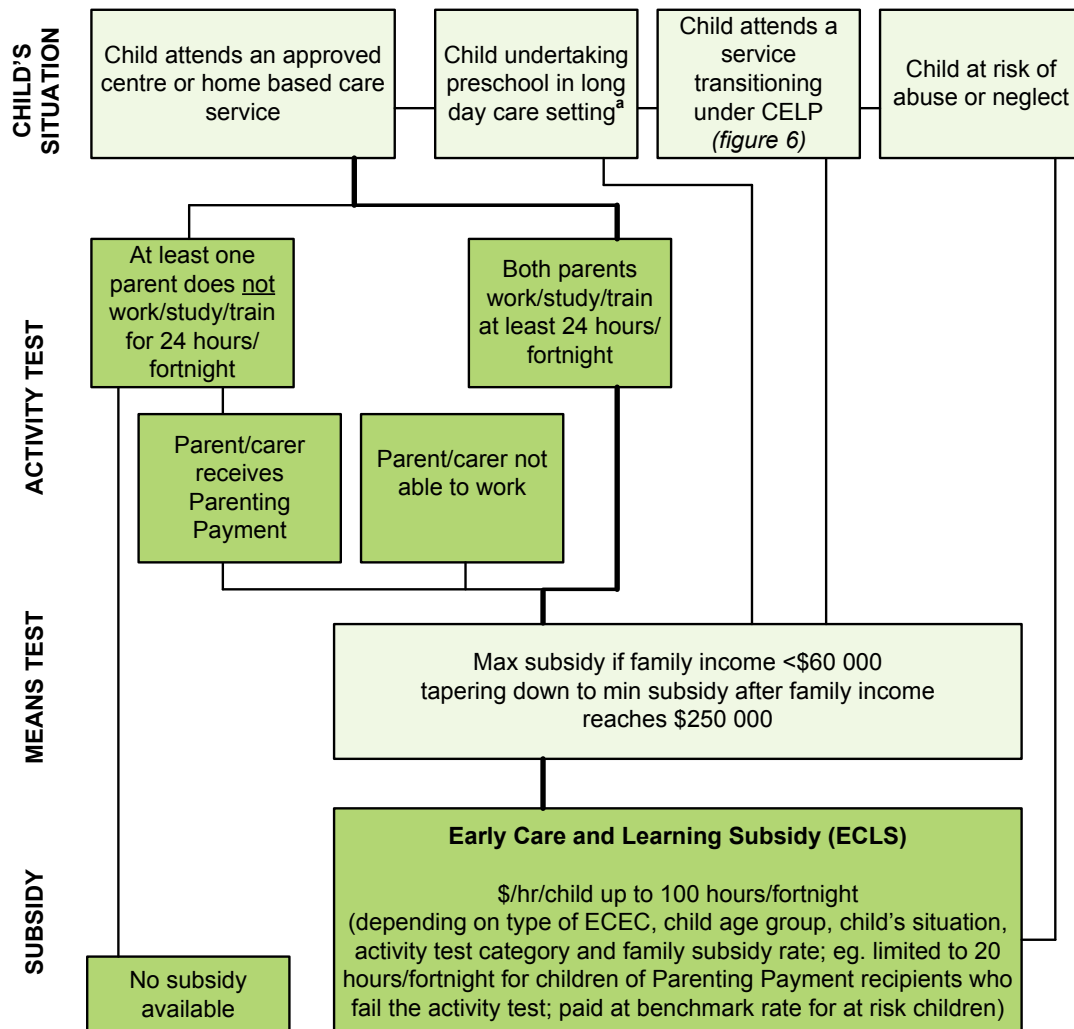
Table 2 Budgeted and recommended annual expenditure on ECEC

	<i>2013-14 Budgeted</i>	<i>2013-14 Recommended</i>	<i>2014-15 to 2017-18 Budgeted average</i>
<i>Program area</i>	<i>\$billion</i>	<i>\$billion</i>	<i>\$billion/year</i>
Mainstream assistance			
Child-based assistance	5.7	5.9	7.1
Preschool access assistance ^a	0.4	0.4	0.2
Other assistance ^b	0.6		0.4
Viability Assistance Program		0.02	
Additional needs ^c		0.7	
Total	6.7	7.0	7.7

^a The Australian Government's contribution to preschool access assistance under the current National Partnership Agreement with states and territories expires in December 2015. The 2014-15 to 2017-18 budget average for preschool is for 2014-15 only. ^b Includes a range of programs that are primarily assisting providers. ^c The estimate for additional needs includes funding for the Community Early Learning Program, Inclusion Support Program funding, at risk children funding. It also includes funding associated with the transitioning of most Budget Based Funded services to child-based funding — the cost of which would not immediately arise with the introduction of ECLS, but at an indeterminate point in the future.

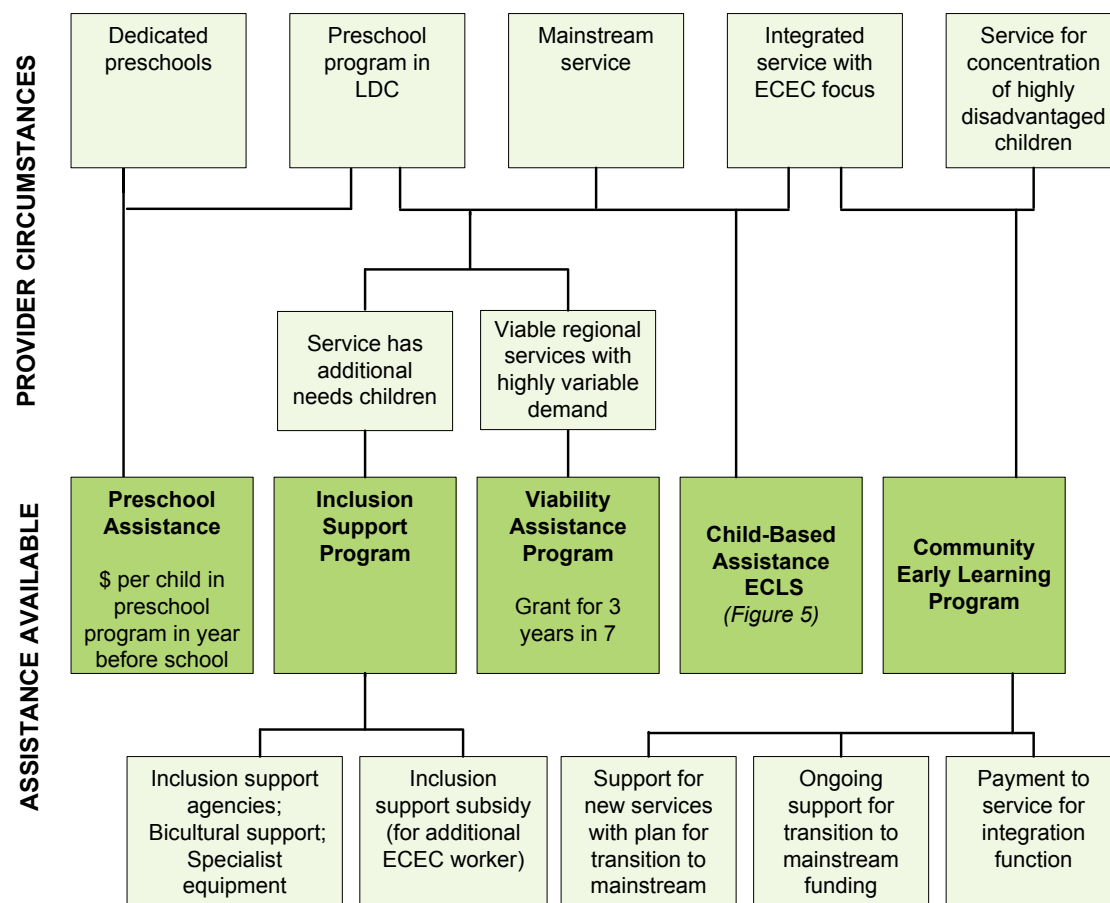
In its modelling of family ECEC use decisions, the Commission has included detail only for the main child-based assistance, and not for additional needs or preschool programs. The costing of these latter two programs is determined separately, based on the estimated number of children likely to be involved in each, assuming, for simplicity, no aggregate level change in choices associated with changes in funding arrangements.

Figure 5 **Child-based assistance — recommended approach for the Australian Government**



^a Activity test exemption applies only for the hours of the approved preschool program

Figure 6 **Program assistance — recommended approach for the Australian Government**



Assistance for children using mainstream ECEC services

A child-based subsidy

The primary form of ECEC assistance for the majority of Australian families would remain a child-based subsidy for use of formal ECEC services that are covered by the National Quality Framework ('mainstream' services). The primary objective of this mainstream funding is to continue the support for workforce participation (that begins with paid parental leave) and encourage widespread access to formal development opportunities for children in the years prior to school.

Child-based subsidies mean that assistance follows the child to whichever ECEC service is chosen by families. However, the range of services that could potentially attract this subsidy should be expanded to include, for example, more home-based care options (such as approved nannies), many existing registered care services, the ECEC component of

some integrated services, and some of the current Budget Based Funded services in rural, remote or Indigenous communities, where these services satisfy appropriate national quality standards and meet other recommended requirements in relation to the weeks of operation and use of coordinator services (for home-based care).

The child-based subsidy, to be called the '*Early Care and Learning Subsidy*' (ECLS), would be paid by the Australian Government directly to the ECEC provider(s) chosen by parents for their child. The subsidy would be contingent on each parent meeting, or satisfying an exemption from, an appropriate activity test, and cover a means-tested portion of the Government-determined benchmark price, up to 100 hours per fortnight for most families (boxes 3 and 4). Any difference between the subsidised amount of the benchmark price and the actual price charged by the service would be met by parents. The ECLS would replace the current CCB, CCR and JETCCFA schemes. Services would be able to charge different hourly rates for different age children.

The Commission received widespread support for the idea of combining the existing child-based assistance programs into a single subsidy. Nevertheless, some concerns were expressed by middle and high income earners about the means testing of taxpayer funded ECEC assistance. Others were concerned about groups that might have difficulty meeting the activity tests in order to receive a subsidy for their ECEC use. The Commission is keen to ensure that children from very low income families do not miss out on ECEC due to their parent's lack of workforce activity, as this is one group for whom ECEC has been shown to make a noticeable difference to child development outcomes.

Compared to the inquiry draft report, the Commission has now included an exemption to the activity test for those families receiving Parenting Payments (family income below about \$55 000 per year). However, in order to encourage workforce participation when ECEC is used, the subsidy to this group would only be provided for up to 10 hours per week (unless they meet the activity test). There are around 150 000 families currently in receipt of Parenting Payments who are using approved childcare.

If an objective of the Australian Government is to keep ECEC funding within the existing budget envelope, then the more generous assistance arrangements for ECEC use by children from very low income families (such as those on Parenting Payments), means that the income testing for all families would need to be tightened, as detailed in box 3, or other savings found within the ECEC budget. This largely means there would be a small reduction in the welfare of each higher income ECEC user, in order to encourage ECEC attendance of children from very low income families.

Why provide assistance to higher income families

Providing assistance to higher income families is contentious. On the one hand, some assistance to all families using approved ECEC reflects the possible spillover benefits for the community of quality ECEC attendance — both child development benefits and workforce participation benefits (as described earlier). It would lessen the divide between

the public education system (available to all children regardless of family income) and ECEC — a divide that is becoming outdated with the move to universal preschool attendance and the increased role of formal ECEC in facilitating the transition to school.

Such assistance recognises that for most families, childcare is largely used to facilitate participation in the workforce and, as outlined extensively in submissions, that the cost of care (particularly when combined with Australia's current tax and transfer arrangements) can be perceived as a disincentive to work, regardless of family income. Accordingly, a minimum payment for every child in formal ECEC may help stem any reductions in parental workforce participation associated with the removal of the non-means tested 50 per cent CCR. It also is a more efficient, cost-effective and equitable means of encouraging increased workforce participation of those parents who have higher average productivity and associated incomes, than alternatives such as tax rebates or deductions.

On the other hand, some members of the community expressed the view that providing ECEC subsidies to higher income families is merely substituting taxpayer funds for private funds that would be expended on ECEC anyway, given this group is more likely to have higher educational qualifications, be career focused, recognise the longer term financial, career and non-monetary benefits of maintaining workforce participation and be prepared to maintain workforce attachment and bear higher out-of-pocket costs for ECEC in the short term. Furthermore, some argued that having children is a private choice and their care and early education should be solely the responsibility of their parents.

Less than 2 per cent of all families with children under the age of 15 years have a family income over \$250 000 and comparatively little is known about what drives the work and ECEC choices of these families. While the cost of ECEC is probably not the main factor for many, Australia's experience in recent years would suggest it is clearly still important — particularly when it comes to parents' decisions about the *hours* of work and ECEC use. The Commission has estimated that providing a 20 per cent subsidy to those with a family income above \$250 000, rather than extending the same assistance taper to reach zero per cent at a higher family income, would cost taxpayers around \$18 million.

The Commission considers that, on balance, the additional benefits of providing a minimum payment to every family are uncertain but are likely to outweigh those that could be derived from using these funds for other ECEC purposes. A minimum payment may ultimately be seen by many in the community to convey the message that it is important for women at all income levels to be able to work and therefore disincentives to work presented by childcare costs are of concern.

Who would qualify for assistance under the recommended activity test

The Commission's recommended funding approach focuses assistance on families where parents are working, studying and training. This is a deliberate step to ensure that ECEC availability and affordability does not inhibit parental participation in the workforce. Ideally, the activity test would have hours of subsidised ECEC closely linked to a parent's actual hours of work (plus travel time), but the administrative costs of implementing such a test, given the lack of information currently collected by the Australian Taxation Office and Centrelink on work hours, is considered prohibitive. If this changes in the future, then the specification of the activity test should be revisited.

The number of hours per fortnight required to work/study/train in order to satisfy the activity test was determined by consideration of the hours of work typically undertaken by second income earners (on average, around 25 hours per week) and the hours typically available in less flexible forms of ECEC, such as centre-based care. The Commission has recommended a minimum of 24 hours per fortnight of work/study/training be required to receive taxpayer assistance for ECEC. This is well below the average hours worked by second income earners, in recognition that for some, low work hours are a first step to greater workforce participation. The Commission is aware that this activity test may deter some parents from taking a job with very low hours per week, but it also provides an incentive to increase work hours above the minimum threshold for ECEC assistance. The recommended hours for the activity test reflects the need to balance these incentives, as do the recommendations on the exemptions from the activity test.

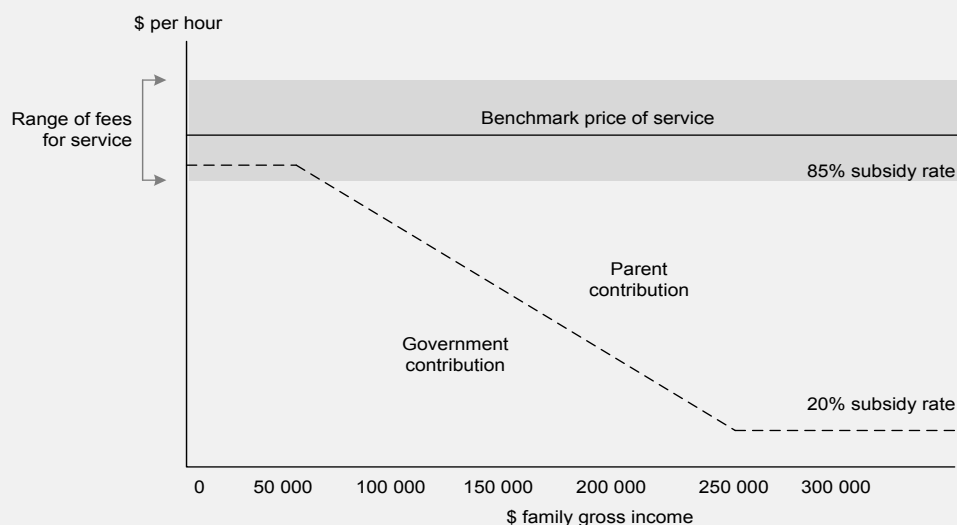
As with the activity test for current childcare assistance, there are a number of exemption categories — largely related to income support recipients — that enable some families to receive some subsidised childcare without satisfying an activity test. The existence of these exemptions recognises that there is potentially value to the community, as well as to children, from their participation in ECEC, even when parents are not working. In fact, much of the child development literature suggests that children of non-working families are more likely to be developmentally vulnerable and the benefits of ECEC attendance may be higher for these children. The Commission has therefore recommended that families on Parenting Payment be able to access 20 hours of ECEC services per fortnight without needing to meet the recommended activity test.

Box 3 Early Care and Learning Subsidy (ECLS)

Under the Commission's child-based assistance scheme (ECLS), the rate of assistance received by families for a child attending a formal ECEC service would be determined by the 'benchmark price' for ECEC services that satisfy the National Quality Standard, given the type of service provided and the age of the child. ECLS would:

- be available for all approved centre-based ECEC services (including long day care, occasional care and OSHC) and all approved home-based care (including family day care and approved nannies) that satisfy the appropriate National Quality Standard
- vary with family income, including tax-free income and all income support payments received, such that those with an annual family income of \$60 000 or less would have 85 per cent of the benchmark price of ECEC subsidised by taxpayers, reducing gradually to 20 per cent for those with a total annual family income of \$250 000 or more
 - these rates represent a tightening in the means testing and subsidy rates from that proposed in the inquiry draft report, whereby the Commission suggested subsidy rates tapering from 90 per cent at low incomes down to 30 per cent at incomes above \$300 000
- be available for up to 100 hours of service per fortnight for children aged 13 years and under whose parents undertake at least 24 hours per fortnight of work, study or training; or are in an exemption category (such as in receipt of a Disability Support Pension); or for children who have, as their primary carer, someone other than their parent(s)
- be available for up to 20 hours of service per fortnight for children whose parents do not meet the activity test but are in receipt of a Parenting Payment or for up to 30 hours per fortnight for children undertaking an approved preschool program in a long day care centre
- be paid directly to providers, apply to the hours of care charged for and be passed on transparently as a discount in the fees charged
- have the benchmark rate determined semi-annually as the median of published prices for ECEC services; all other income thresholds should be updated annually using an appropriate indexation approach.

The primary levers to adjust ECLS include the income threshold at which different payment rates apply and the rates of assistance applicable.



Box 4 Benchmark price of service provision

One reason that the cost to taxpayers of the current child-based assistance under CCB and CCR has grown so rapidly in recent years is that CCR is tied to the actual prices charged by ECEC services, with no accountability as to what is actually being subsidised by taxpayers. This means that it delivers the greatest dollar subsidy per hour to those families who pay the most for their ECEC — typically families with higher incomes, and sometimes for luxury or premium services. While CCB is based on a fixed rate per hour, this rate reflects neither the prices charged by services nor the cost of provision.

In its place, the Commission is recommending that ECLS be based on a benchmark price for delivering an approved quality service. In contrast to the inquiry draft report, the Commission has in the final report modelled a benchmark price which varies with both service type and child age, as these factors are important influences on the cost of ECEC provision, and resulting fees.

Specifically, the Commission has assumed a benchmark rate equivalent to the median price charged for ECEC services, based on administrative data. In 2013-14, these rates are estimated to be: \$7.41 per hour for a 0 to 35 month old child in LDC, \$7.20 for child aged 36 months or over in LDC, \$6.94 per hour for all children in family day care (this rate is also applied to approved nannies), and \$6.00 per hour in OSHC. Although there is currently not a lot of variation in prices between some of these categories, establishing the capacity for separate benchmark rates allows variation to emerge over time and be taken into account, as the market matures.

Variations in the benchmark price between different geographic localities were also investigated. While prices were typically found to be higher in inner city areas than outer metropolitan and regional areas, this was not consistently the case. Geographic dispersion in the range of prices was not large overall, although there was considerable variability in prices within some geographic areas. The Commission was therefore unable to determine an appropriate geographic basis for varying the benchmark price and, given the risk of creating substantial distortions in the market through artificial boundaries on maps, the Commission's modelling does not attempt to have benchmark prices that vary on a geographical basis. The capacity for government to vary the benchmark price on, for example, a geographic basis or in response to well identified and evidenced disparities in costs of provision to particular disadvantaged groups, should be included in the final design of the scheme.

The use of a benchmark price as the basis for a subsidy makes it easy for families to know the amount of subsidy they would receive. In addition, having a benchmark based on market prices means the subsidy can be readily adjusted with broad changes in ECEC prices but not be driven solely by individual provider pricing decisions. Where services charge a fee that is less than the benchmark price, families would receive a subsidy that is the minimum of either the means tested portion of the benchmark price, or (for those on very low family incomes), the full amount of their ECEC fees.

Viability Assistance Program

For those mainstream regional and remote services that have the potential to be viable, but are experiencing temporary difficulties, support would be provided under a *Viability Assistance Program* to ensure continuity of ECEC access for children. This is intended as a

temporary measure only, with support available on a 3 years in 7 basis, to allow the service to continue to operate and retain a portion of its staff and facilities while experiencing a temporary reduction in demand. The Commission considers this program may be beneficially targeted at centre-based care services and mobile services in rural, regional and remote areas, where there are small and fluctuating child populations. Providers which are never viable without additional taxpayer assistance need to rethink their operating model — considering alternatives such as viable opening hours, home-based care models or integrated services — and identify clear ongoing net benefits to the community which would justify the receipt of any additional taxpayer assistance.

Assistance for children with additional needs

As noted earlier, enabling ECEC participation by children with additional needs could provide both immediate developmental benefits to these children and potentially longer term benefits for the community through early identification and intervention to address developmental concerns. However, as with all programs, there is a point at which further funding comes at a higher cost than the benefits it delivers. As an added complication, some benefits may not be fully realised unless these children can access a more comprehensive set of services than just ECEC.

To ensure that ECEC services are available to, and affordable for, families with children who have additional needs, the Commission proposes three funding programs:

- The *Inclusion Support Program* (ISP) would support providers to include children with a range of additional needs, most notably disability. The ISP would provide guidance, training in inclusion support and funding for additional staff. Some children with disabilities, developmental delays, and from different cultural backgrounds to the majority of children require additional support, either in terms of an additional staff member or specialist equipment. But for many, it is more about the ability of a provider to organise their program to address the issues raised by including such children.

In the inquiry draft report, the Commission recommended a supplement to ECLS for children with additional needs. While there was some support for this approach, it was also pointed out that: the need for additional funding for inclusion of a child varies with the setting that the child is in; many children needing assistance to attend an ECEC service either have a diagnosis pending, or have cultural needs or developmental delays that would not satisfy the eligibility requirement; and the draft report approach had the potential to undermine the inclusion principle by attaching funding to the child.

In considering the feedback received on that proposal, the Commission acknowledges that outcomes for children would be improved through a program that is more focused on supporting the needs of the child in the ECEC setting in which they would be participating. It also recognises that inclusion is not just about the child with additional needs, but also the other children with whom the child interacts.

As the sector matures and inclusive practices become entrenched within services, the Commission considers it should be possible to move toward an additional needs based supplement to ECLS. Such an approach remains highly desirable as it better ensures the quantum of funding for additional needs into the future.

The ISP funding for additional staff would be available for children in centre-based and OSHC services only, would not substitute for other services provided to children with diagnosed disabilities through the National Disability Insurance Scheme (NDIS), nor would it replace specialised centre-based services to children with disabilities that are currently funded by states/territories.

- *‘At risk’ children funding* would meet the full benchmark price of providing ECEC services for up to 100 hours per fortnight to children assessed as at risk of abuse or neglect. Risk of neglect or abuse may be a short-term problem due to changing family circumstances such as major health or relationship problems in the family, or a longer-term problem, where children are known to, or monitored by, state or territory child protection services.

To qualify for this funding, the child would have to be identified as ‘at risk’ by a suitably qualified ECEC worker, social worker, teacher, or medical professional, have a state/territory case worker (not necessarily a child protection worker) assigned to monitor their circumstances, and the ECEC provider have notified the Australian Government Department of Human Services (DHS) of the call on assistance under this program. Assistance would be provided initially for a 6 week period and then in blocks of up to 26 weeks on application by the relevant state or territory department and approval by DHS. Where a child has been under the program for at least 26 weeks, an exemption from the activity test for child-based assistance would be granted for up to 18 months to help avoid the withdrawal of the child after the family returns to means-tested ECLS.

- *The Community Early Learning Program (CELP)* would assist providers delivering new and ongoing services to concentrations of children with additional needs in highly disadvantaged communities. The target groups are concentrated populations of developmentally vulnerable children — such as those in Indigenous or new migrant communities. The program would fund:
 - new ECEC services with a five year business plan to transition to mainstream child-based funding
 - existing ECEC services transitioning to mainstream child-based funding, including professional and business support to providers to assist with the transition
 - a coordinating role where the ECEC service is part of an integrated service delivery model and is the logical service to play this role.

The CELP should replace the current funding for those Budget Based Funded services that are ECEC focused, various indigenous ECEC services, the CSP, funding for children and family centres and the Australian Government funding (other than universal access for preschool) under the National Partnership Agreements. Moving

services to child-based funding is a more sustainable solution for meeting funding needs and frees up resources to support new services in communities.

A small number of CELP funded services may never fully transition to child-based funding and all should have their funding reassessed at 3 yearly intervals.

Assistance for universal preschool access

As the year immediately before starting school is a particularly important year for early development of most children, the Commission recommends that governments should maintain preschool program funding as a priority area. The *National Partnership Agreement on Universal Access to Early Childhood Education* has been a major factor in boosting preschool attendance across the country in recent years and support for preschool access should be maintained.

Responsibility for preschool programs should remain with the states and territories. The Commission considers that sessional dedicated preschools, particularly those integrated with schools, currently offer more scope for a smooth transition into school. However, they could be made more accessible for working parents if they included OSHC. Preschool programs in LDCs on the other hand, generally enable many parents to work who would not otherwise be able to if they had access only to sessional dedicated preschools, but closer links with schools should be pursued.

Funding for all preschools — both dedicated preschools and those in LDCs — should be provided in a similar per-child manner to funding for schools. That is, the state and territory governments should fund preschool for every child, regardless of whether it is delivered in a dedicated preschool or in a LDC, with a per-child subsidy provided by the Australian Government to each state or territory to assist with the cost. A condition on state and territory receipt of preschool funding from the Australian Government would be that it must be directed to the particular preschools chosen by families.

To ensure that families are not being subsidised twice to attend a LDC preschool program (first under ECLS and again through the per-child preschool subsidies), the benchmark price under ECLS should be reduced for preschool programs in LDCs by the amount of the per-child preschool subsidy provided. Government funding for preschool (on a per child basis) should ensure universal access for children to 15 hours per week of a preschool program for 40 weeks, in the year prior to starting school. Governments should also further investigate the hours of preschool attendance that would be optimal to ensure children's development and successful transition to school.

What these changes would mean

The Commission's recommendations represent significant changes to Australia's ECEC system. The proposed changes would affect all ECEC participants — children and families (as ECEC users), ECEC service providers (both businesses and carers), and governments (as funders and regulators).

To examine the impacts of the recommended reforms, the Commission developed a behavioural micro-simulation model for the childcare sector. The model simulates immediate childcare and labour force responses of families to complex changes in ECEC assistance arrangements, given existing tax and welfare settings. However, the model does not capture the impacts of the wide range of recommended reforms — such as the removal of the cap on occasional care places — that are designed to improve the accessibility and flexibility of ECEC services. While the impacts of such reforms are more difficult to quantify, they are nevertheless expected to deliver significant benefits to families.

In looking for system designs that would be likely to improve child development outcomes, the Commission considered options that gave reasonable increases in ECEC participation, particularly (but not exclusively) for children from families with low income levels. And in looking for system designs that would improve workforce participation, the Commission considered options that provided reasonable increases in the number of people in the workforce and hours worked. The income level at which this participation occurred was also considered, as it is likely that the model does not fully capture the responsiveness to out-of-pocket costs of (the primarily higher income) families with non-financial reasons to maintain workforce attachment. While sophisticated, the model necessarily simplifies the complex judgements made by parents in their work and child care decisions, and the impacts of proposed changes presented below should be seen as indicative only.

More assistance to lower income families

Overall, the Commission's recommended approach for child-based assistance would enable improvements in both child development and workforce participation, while remaining broadly within the government's funding envelope (table 3). It implies a significant shift in taxpayer funded ECEC assistance toward those employed on low to middle level family incomes that may, in the longer term, provide savings for the community in terms of reduced transfer payments and reduced intervention to address child development problems.

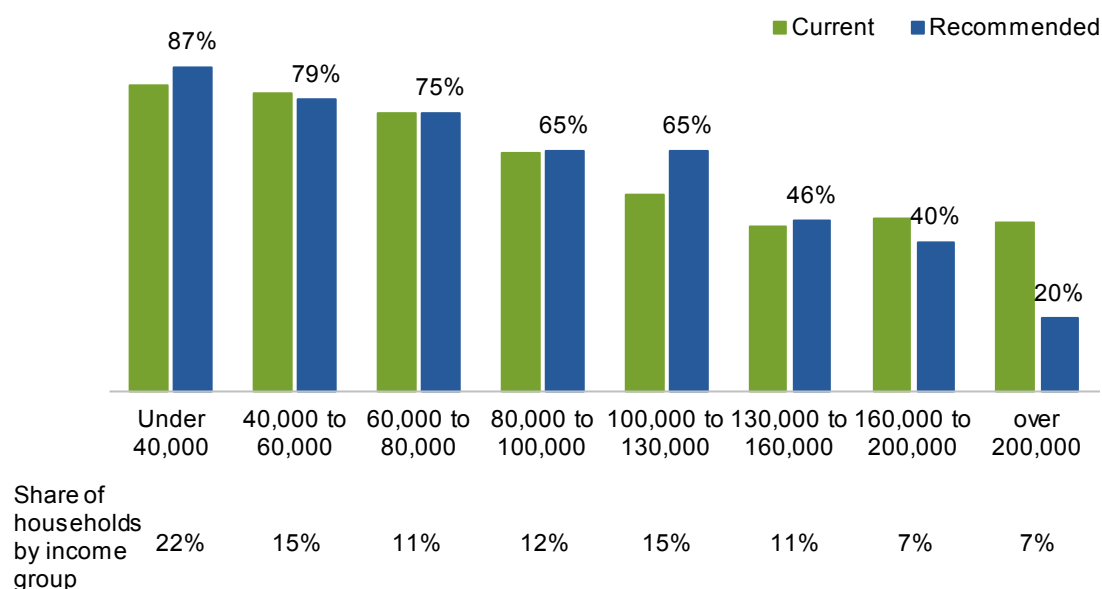
The average rate of assistance across all income groups is estimated to be around 65 per cent, largely unchanged from the average rate of assistance provided under the current CCB and CCR programs. For those with a family gross income under \$130 000, mainstream ECEC services are likely to be more affordable under the new scheme than under the existing combinations of CCB and CCR (figure 7). For example, the average rate of assistance is 65 per cent for those in the \$100 000 to \$130 000 income range under the

recommended approach, compared with 53 per cent under the current CCB and capped CCR. Furthermore, while assistance under the current scheme is declining each year for families relying on the capped CCR, it is expected that the rate of assistance under ECLS would be able to be maintained by the Australian Government into the future.

Table 3 Estimated aggregate implications of ECLS

	<i>Level change</i>	<i>% change</i>
ECEC use		
(increased hours/week)	666 000	3.1
(increased number of children, at current use patterns of 24hrs/week)	27 700	3.1
Average subsidy rate (%)	65	1.0
Family out-of-pocket costs (change, \$m per year)	-18.7	-0.6
Workforce participation of mothers		
(increased hours per week)	625 000	1.2
(increased number of mothers working, full time equivalent basis)	16 400	1.2
Total additional government childcare expenditure (\$m/year)	266	4.7
Total additional government expenditure net of income tax and transfer payments (\$m/year)	68	-0.3

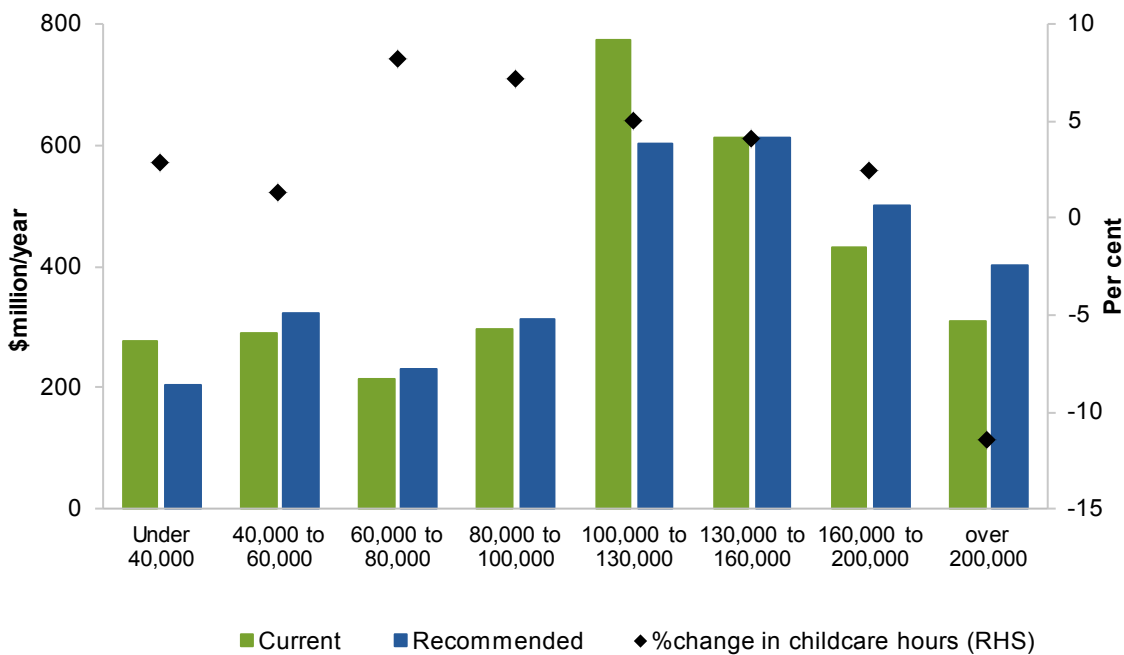
Figure 7 ECEC subsidy rates by family income group



Higher average rates of assistance are associated with slightly lower out-of-pocket costs for families for the majority of families, particularly those with income below \$130 000 (figure 8). However the outcomes would vary with family circumstances, as illustrated by family case studies (box 5). In some cases, out-of-pocket costs may increase despite higher assistance rates because families find it beneficial to increase their hours of work and ECEC use (as shown in aggregate in the \$60 000 to \$100 000 income groups).

There are clearly many alternative settings for ECLS that would provide either higher or lower rates of assistance to families in different income groups. The Commission considered a large number of scenarios and settled on the recommended settings because, on balance, they provide a reasonable combination of scope for improved child development outcomes and increased workforce participation, while ensuring the overall costs to taxpayers would be neutral.

Figure 8 Aggregate out-of-pocket costs by family income group



Box 5**Family case studies: out-of-pocket costs under the current and recommended ECEC assistance regimes**

Family 1: Nicola is a single mother with 2 children aged 2 and 3 years. She works three days a week with a gross salary of \$37 440 per year. Both children attend LDC 3 days per week at a cost of \$80 a day for each child.

Under the current ECEC assistance arrangements, Nicola is eligible for CCB, CCR and FTB part A. Total out-of-pocket expenses from her existing childcare arrangements are \$88.57 per week.

Under the recommended ECEC assistance arrangements, Nicola is eligible for ECLS for both children at a rate of \$6.29 per hour for each child. The weekly out-of-pocket cost would be \$64.39 per week (she would be better off by around \$24 per week).

Family 2: Melissa and Rick have two children aged 2 and 4 years. Melissa works full time and has a gross salary of \$140 000 per year. Rick works shift work, full time with a gross salary of \$69 160 per year.

Under the current ECEC assistance arrangements, the couple are eligible for CCR. The children are in LDC 5 days per week at a cost of \$935 per week. With two children in full time LDC the family currently reaches the CCR cap after 32 weeks. Total out-of-pocket expenses from childcare are \$467.50 for the first 32 weeks of the year and then \$935 per week for the rest of the year (averaging \$ 646.54 per week).

Under the recommended ECEC assistance arrangements, the couple is eligible for ECLS and receive \$2.42 per hour subsidy for each child. Total out-of-pocket expenses from their existing childcare arrangements would be \$668.42 per week (they would be worse off by \$21.88 per week, on average).

The couple investigate hiring a nanny at \$30 an hour for 55 hours a week. They receive \$2.27 per hour subsidy for each child. The total out-of-pocket expenses from hiring a nanny would be \$1423 per week.

Family 3: Andy and Anneke have two children aged 3 and 6 years. Andy works full time, has regular hours and has a gross salary of \$78 000 per year; Anneke works 2 days per week and has a gross salary of \$16 600 per year. Their youngest child attends a LDC centre 2 days per week at a cost of \$82 a day; their oldest child attends OSHC for 2 afternoons per week at a cost of \$15 a day.

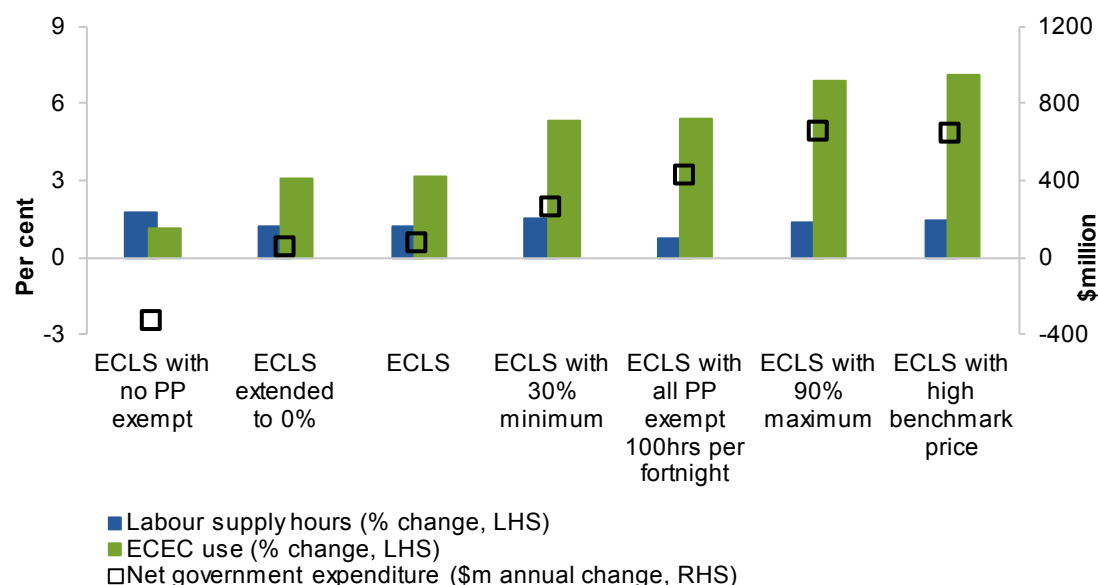
Under the current ECEC assistance arrangements, total out-of-pocket expenses from ECEC are \$58.62 per week.

Under the recommended ECEC assistance arrangements, the couple is eligible for ECLS and receive \$4.37 per hour subsidy for their oldest child and \$5.40 per hour subsidy for their youngest child. Total out-of-pocket expenses from childcare would be \$49.19 per week (they would be better off by about \$9.50 per week).

To illustrate these trade-offs (figure 9), compared with the recommended approach:

- a 90 per cent rate of assistance for lower income families (rather than the recommended 85 per cent) would increase labour supply by a further 75 000 hours per week and increase ECEC usage by a further 790 000 hours per week, but come at an additional cost to taxpayers of \$580 million per year.
- a 30 per cent rate of assistance for higher income families (rather than the recommended 20 per cent) would increase labour supply by a further 168 000 hours per week and increase ECEC usage by a further 460 000 hours, but come at an additional cost to taxpayers of \$185 million per year.
- removal of all assistance for higher income families (assistance tapering to zero beyond \$250 000 rather than continuing at 20 per cent) would save taxpayers \$18 million per year, but would be associated with around 11 000 hours fewer per week in ECEC use and around 6000 hours fewer per week in workforce participation.
- increasing the benchmark price from the median to the 75th percentile price would increase hours of work by a further 113 000 per week and ECEC use by a further 848 000 hours per week, but come at an additional cost to taxpayers of \$574 million per year.
- allowing those receiving Parenting Payments to access 100 hours (rather than the recommended 20 hours) per fortnight of subsidised ECEC is estimated to increase ECEC usage by a further 486 000 hours per week, reduce the additional hours of work by 222 000 hours per week, and cost taxpayers a further \$358 million per year (through higher childcare subsidy expenditure, lower increases in income tax and less of a reduction in transfer payments than under the recommended approach).
- removing the activity test exemption for Parenting Payment recipients would substantially increase their participation in the workforce by around 304 000 hours per week (as many would be induced to work in order to receive subsidised childcare) and would save taxpayers \$397 million per year, but would also result in lower ECEC use by around 417 000 hours per week, with a number of very low income families (those receiving Parenting Payments) using considerably fewer hours of ECEC.

Figure 9 Trade-offs between gains to ECEC use and workforce participation



Note: PP Parenting Payment recipients

Small changes in workforce participation are expected

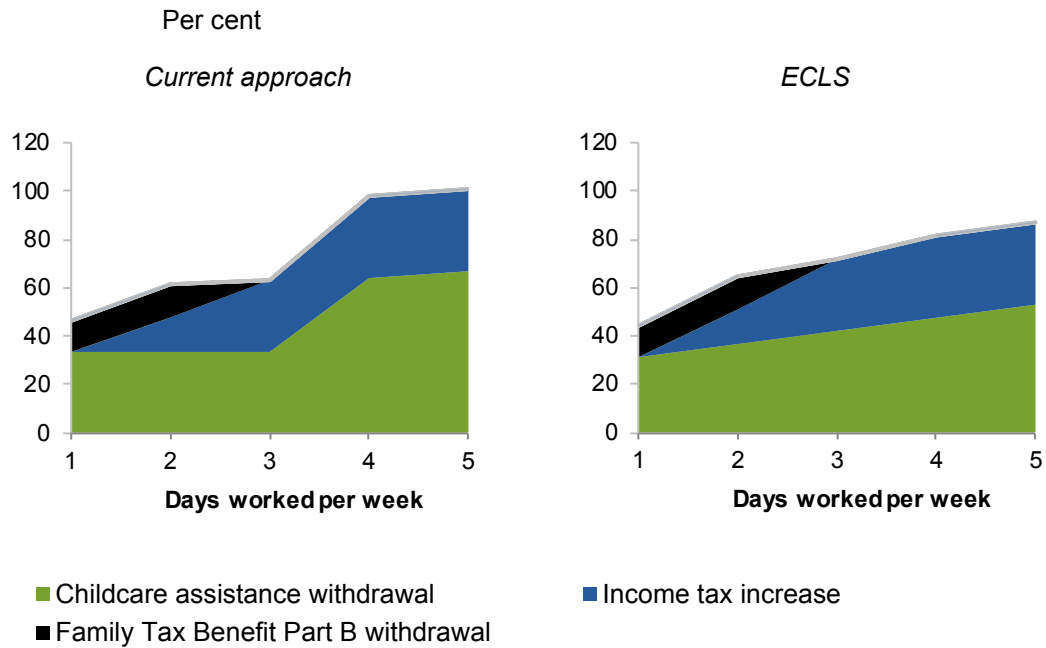
For those parents who face lower out-of-pocket costs for ECEC, their demand for ECEC services, and their willingness to work, could be expected to expand and some may substitute formal ECEC services for informal care currently used. In contrast, for parents facing higher out-of-pocket costs, their demand for ECEC services, and their willingness to work, could be expected to contract, unless they also have access to informal types of care (such as grandparents) which can substitute for higher cost formal care.

The magnitude of these changes in ECEC demand and workforce participation would vary with factors such as family structures, the nature and flexibility of work available, parents' preferences to care for their children in their home, the age of children, income levels, and the effects of the tax and welfare system. One of the most significant financial factors for many families is the loss in Family Tax Benefits incurred once additional work results in a higher family income.

Given the broader tax and welfare settings, there is only so much that changes to ECEC assistance and accessibility can do to improve workforce participation. The Commission's recommended approach is nevertheless expected to substantially improve the incentives to work beyond three days per week — many families could be better off financially, compared with the current system and compared with working fewer days, if they choose to work four or five days per week (figure 10). However, the impact of high EMTRs is

such that Government should consider directly addressing the collective disincentive in a social policy review that covers the full range of support for low income Australians.

Figure 10 Effective marginal tax rates^a



^a Represents a couple family with two children in long day care, as per 'family 2' in box 5.

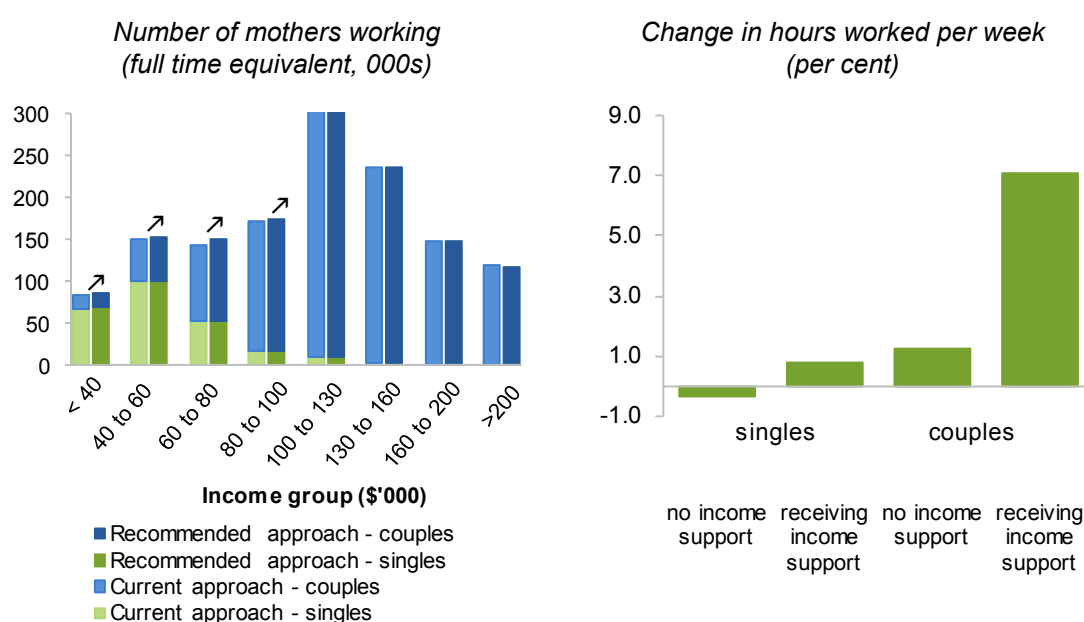
The Commission estimates that the changes in workforce participation would be relatively small in aggregate (figure 11). Under the recommended settings for ECLS, the number of mothers in employment is expected to rise by around 1.2 per cent, or 16 400 mothers, on a full-time equivalent basis (or around 25 000 on a part-time basis). Most of this increase is coming from low to middle income families with parents who are not working under the current CCB and CCR arrangements but are induced to work by assistance arrangements under ECLS.

Total hours worked is also expected to rise for each family income group up to \$130 000. At higher income levels, hours worked may fall slightly in aggregate compared to the current situation, although the modelling currently does not take into account that many parents choose to work for little short term financial gain, in anticipation of greater longer term benefits from continued workforce attachment. It is also possible that some of the increase in flexibility associated with the Commission's recommendations would not generate additional workforce participation but simply enable parents currently working and using unsubsidised care to access assistance for that care choice.

The increase in workforce participation of the recommended ECEC assistance reforms could be considerably higher if Parenting Payment recipients were not exempted from the activity test or if a slightly higher rate of assistance (around 30 per cent) was provided to

middle and higher income families. However, as noted earlier, such changes involve trade-offs — removal of the Parenting Payment exemptions lowers the ECEC use of those children most likely to benefit from participation; higher assistance rates increase the overall costs of ECEC to taxpayers. If the Government is seeking increased workforce participation, this may be achieved more effectively through additional funding of ECEC than through the modification of the Paid Parental Leave scheme.

Figure 11 Mothers working — change from current system



Economy-wide benefits from a redistribution of assistance

Broader economy-wide benefits from regulatory and funding reforms may arise as a result of an overall increase in the workforce participation of parents, an increase in the participation of children in formal ECEC (particularly any increases in preschool participation) and/or from distributional changes in the types of families that are participating in the workforce and ECEC.

The funding reforms are likely to generate a small increase in workforce participation that is concentrated amongst low to middle income families. As the average productivity and value of the workforce contribution of these families to measured Gross Domestic Product (GDP) is comparatively low, the aggregate immediate impact of funding reforms on measured GDP would also be low. The Commission has estimated the first-round GDP impacts (that is, ignoring any flow-on impacts on wages or ECEC fees) associated with the workforce participation effects of ECLS to be around 0.1 per cent, or an additional \$1.3 billion in 2013-14.

This estimate does not recognise that those who are not in the workforce are still contributing to the wellbeing of society. Time dedicated to childrearing, maintaining a household and volunteering all add to the wellbeing of society, even though the non-market nature of these activities means they are not measured as part of GDP. To the extent that some of these welfare-enhancing activities may be reduced in order to increase workforce participation, the increase in welfare represented by measured GDP would be an overestimate.

This estimate also does not include a monetary value for any longer term benefits associated with improved child development outcomes. It is expected that while assistance for preschool access and for children with additional needs involves a lower proposed budget allocation than that for use of mainstream services, the additional benefits derived from these may add significantly to GDP. In the longer term, the proposed changes in the ECEC system should result in additional benefits to the community associated with universal preschool attendance, better child development outcomes associated with early identification and intervention to address developmental delays, and increased uptake of ECEC by children from disadvantaged and lower socio-economic backgrounds. Increases in workforce participation are also likely to have flow on benefits for child development as outcomes are improved for children whose parents have some workforce attachment.

The extent to which these benefits arise and are evident for not just the children involved but also the broader community, are highly uncertain and contingent on the quality of both ECEC services and the following education system. Some studies have attempted to measure the longer term benefits of increased participation in quality ECEC by extrapolating the outcomes from very small targeted programs for highly disadvantaged children undertaken in other countries many decades ago. While such approaches are understandable, given the lack of information linking child development outcomes in Australia to Australia's ECEC system, the focus on highly disadvantaged children means that they are misleading and would overstate the economy-wide benefits from universal improvements in child development.

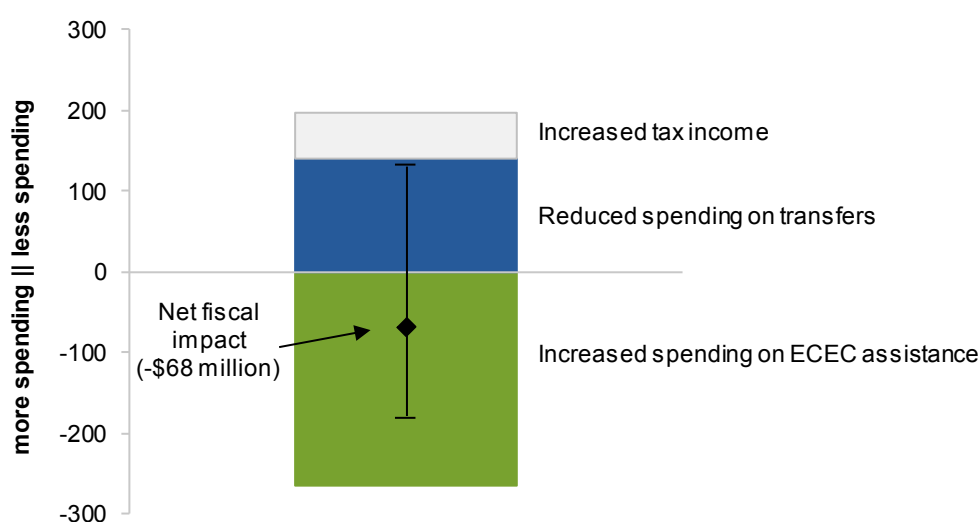
A sustainable basis for taxpayer assistance to ECEC

The above analysis suggests that additional funding for families' use of mainstream ECEC services can raise workforce participation but that only limited increases are possible within the current ECEC funding envelope. It is also expected that assistance for children with additional needs and for preschool access would likely generate improved child development outcomes with some community-wide benefits. Should the Government consider that these benefits outweigh those achievable through alternative uses of taxpayer money, then more funding could be directed to ECEC.

Greater scope to expand the budget for ECEC services would ultimately be provided through additional income tax receipts and reductions in welfare payments (most notably Family Tax Benefits and Parenting Payments) associated with any growth in parental workforce participation.

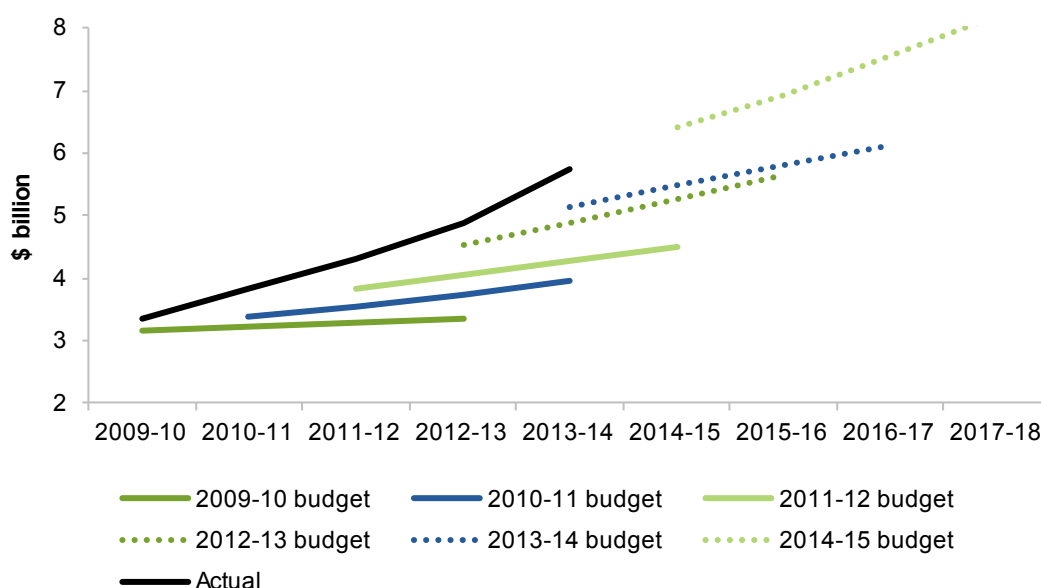
The net cost to the Australian Government (and therefore taxpayers) of ECEC assistance through ECLS depends on changes in the use of ECEC as well as the ECEC subsidies paid to families, changes in other welfare payments paid and changes in income tax received. Under the recommended approach, child-based ECEC assistance would be around \$5.9 billion per year, around \$266 million above the budgeted \$5.7 billion for 2013-14. However, this \$266 million additional cost to Government would be partially offset by increased tax revenue and Medicare levy receipts of around \$57 million associated with the increase in workforce participation, and reduced Family Tax Benefit and Parenting Payments of around \$141 million per year (figure 12). Taking into account these offsetting factors, ECEC assistance for the use of mainstream services would cost taxpayers around \$68 million above the budgeted 2013-14 expenditure on mainstream assistance.

Figure 12 Change in net cost to Government of ECLS compared with current mainstream assistance



There is considerable uncertainty around the Australian Government estimates of its expenditure on ECEC (figure 13). Given the lack of data on how families and providers have responded to past ECEC reforms, uncertainties about possible responses to recommended reforms, and the influence of any changes in labour market conditions on outcomes, the Commission has not modelled the impacts of its reforms on future Government expenditure. However, compared with the current ECEC assistance arrangements, there are several key aspects of the proposed ECEC scheme that are likely to move Australian Government assistance to a more reliable and sustainable footing over the longer term.

Figure 13 **Government estimates for child-based assistance^a**



^a Actual and projected Australian Government expenditure on CCB, CCR and JETCCFA.

Using a benchmark price as the foundation for the child-based assistance would mean that Government is no longer subsidising the full cost of additional premium services that provide mostly private benefits to the child and family using them and little additional benefit to the community. This should dampen growth in total Australian Government expenditure on assistance, and enable the recommended approach to remain financially sustainable for taxpayers. Allowing centre-based providers to offer a broader range of care services, particularly for younger children, would also enable ECEC services to be more affordable to both families and taxpayers more generally.

Under the Commission's recommendations, preschool services would be funded on the same basis as for school age children, regardless of whether they participated in a dedicated preschool or a preschool program in a LDC. This would provide an ongoing and consistent framework for preschool funding in every state and territory into the future. This should not be viewed as a cost-saving measure for the Australian Government, other than to the extent that it results in administrative savings.

The provider-based funding programs — the Community Early Learning Program, Inclusion Support Program and the Viability Assistance Program — would all have capped budget funding that could be adjusted to fit within budget constraints. The Commission cautions the Government however, to avoid treating these areas as an easy source of savings relative to the broader ECLS assistance program. Any reduction to funding of capped programs should take into consideration the potential costs of lower assistance to those using the capped programs, compared with the benefits of directing that funding elsewhere.

An area where there is considerable uncertainty around the extent of Government funding required is for children with additional needs. The Commission has attempted to estimate the number of children who may be eligible for additional needs assistance, but there is very little information available to assess the adequacy of the recommended funding levels.

While the Commission was unable to obtain evidence on the costs to Governments of administering ECEC assistance programs, the simplification and streamlining of arrangements recommended is expected to reduce administrative costs in the long term. It will also establish a system that can be more readily updated over time in response to changes in the ECEC sector, and tax and welfare policies more generally.

Transition to new assistance arrangements

It will take some time to move to a new system. Governments will need to collect information on the costs and fees of different types of ECEC services, and develop the compliance monitoring systems required as the range of approved services expand to include home-based care options. Parents, providers, government agencies and regulators will need to be informed about the changes and the implications for their processes and approaches.

With the recommended cut in the number of programs, and substantial changes to others, there will be some families that are better off, but some will face higher out-of-pocket costs for the ECEC services they use. Lower and middle income families and families with additional needs children are the main beneficiaries from the recommended reforms. Most families who currently receive CCB and/or CCR will be able to transition directly to the ECLS, once they provide evidence of satisfying the ECLS means- and activity- tests. This excludes those families that currently have an in-home care place and those that use occasional care, as these providers are not yet within the scope of the NQF. For families using ECEC services that are not currently approved (including registered care providers and nannies) they will need to encourage their provider to seek approval so that they can access the subsidies available to approved services.

The main change for approved providers of mainstream ECEC services is that they will receive the full amount of the subsidy directly for all eligible children. To the extent that the benchmark price is lower or higher than their fees, they may wish to review their fees, including the extent to which the provider cross subsidises between children aged 0 to 2 years and those aged 3 to 5 years. Those providers that have come to rely on specific programs as a source of funding, may find they need to change their service delivery model. Ultimately though, these are commercial decisions for each provider.

There will be a major transition for service providers — mainly nannies, registered care services, occasional care services and Budget Funded Services — that currently fall outside the approved care category. For users of these services to apply for ECLS these providers have to meet the NQF to become approved providers. This may take some time, but most of these providers will have an incentive to make this transition as otherwise,

subsidies will not be available to their users. Provider-based funding will also be phased out, other than in limited, specific circumstances. Further, some mainstream ECEC services, such as LDCs, may find it feasible to include home-based care places in their service offerings.

The main effort involved in transitioning current CCB and CCR systems to ECLS is administrative. A benchmark price must be determined and information (similar to that required for CCB) collected from families to determine eligibility under the means and activity tests. Nevertheless, transitioning to a single means tested payment will require changes to the Department of Education's Child Care Management System, the Department of Social Services Online Funding Management System and the Department of Human Services payment system. These departments should take the opportunity to streamline and better integrate their processes. For the capped programs that support children with additional needs, transparent criteria and mechanisms for the allocation of funds must be determined.

Not all of the recommended reforms can be implemented immediately and the timing of their implementation is important. Changes such as the expansion of the NQF to include more home-based care options, for example, first require the agreement of the states and territories and development of appropriate compliance monitoring frameworks. Implementation of the Commission's recommended reforms in stages would reduce the disruption to families and ECEC providers and increase the likelihood that the resulting ECEC system is simpler for families, providers and governments to use and that it is more accessible, flexible and affordable into the future.

Recommendations and findings

Families using mainstream services — improving accessibility, flexibility and affordability

FINDING 11.1

The amount families pay for ECEC varies depending on their income, care use patterns and family size. For the vast majority of families, subsidies from the Australian Government cover more than half of their ECEC fees.

Current subsidy arrangements make ECEC more affordable for families. However, there are a number of issues with the way Government support is delivered:

- the existing system is complex and some families have difficulty understanding their entitlements under the Child Care Benefit and the Child Care Rebate
- the design of these measures is resulting in a declining proportion of assistance to lower income families who are least able to afford ECEC services
- the Jobs, Education and Training Child Care Fee Assistance program is not well targeted and the very high degree of subsidisation may encourage families to remain eligible for the program.

RECOMMENDATION 15.1

The Australian Government should combine the current funding for Child Care Rebate, Child Care Benefit and the Jobs Education and Training Child Care Fee Assistance to support a single child-based subsidy, to be known as the Early Care and Learning Subsidy (ECLS). ECLS would be available for children attending all mainstream approved ECEC services, whether they are centre-based or home-based.

RECOMMENDATION 15.2

The Australian Government should fund the Early Care and Learning Subsidy to assist families with the cost of approved centre-based care and home-based care. The program should assist families with the cost of ECEC services:

- supplied by approved providers that satisfy the requirements of the National Quality Framework
- with a means tested subsidy rate between 85 per cent (for family incomes at or below \$60 000) and 20 per cent (for family incomes at or above \$250 000), with annual indexation of the thresholds
- which is applied to an hourly benchmark price based on the median fees charged for the type of service, and differentiating by age of child for long day care
- for up to 100 hours of care per fortnight for children aged 13 years and under of families that meet an activity test of 24 hours of work, study or training per fortnight, or are explicitly exempt from the activity test (recommendation 15.3)

-
- paid directly to the service provider of the family's choice on receipt of the record of care provided
 - be conditional on the child being fully immunised, unless care occurs in the child's home.

RECOMMENDATION 15.3

The Australian Government should exempt families from the activity test in the following circumstances:

- parents are receiving an income support payment, with those who receive only a Parenting Payment being exempt from the activity test for up to 20 hours only of ECEC use per fortnight
- the primary carer is a grandparent or other non-parent primary carer
- exceptional circumstances, including when a family has experienced a sudden change in employment circumstances that would mean they no longer satisfy the activity test, with the exemption to apply for a period of three months following this change in circumstances
- the child has been assessed as 'at risk', with those who have had at least 26 weeks of being assessed as at risk exempt from the activity test for a further 18 months
- the child is attending a service funded (in full or part) by the Community Early Learning Program
- the child is attending a preschool program in an ECEC service, with the exemption to apply for the period of the preschool program (15 hours per week for 40 weeks per year).

Unless otherwise stated, these families should still be subject to the same means test as applied to other families in determining the subsidy rate that applies to their use of the ECEC service.

These activity test exemptions would replace the current Special Child Care Benefit, Grandparent Child Care Benefit, and Jobs Education and Training Child Care Fee Assistance arrangements and these programs should be abolished.

RECOMMENDATION 15.4

The Australian Government should establish a capped Viability Assistance Program to assist ECEC providers in rural, regional and remote areas to continue to operate under child-based funding arrangements (the Early Care and Learning Subsidy), should demand temporarily fall below that needed to be financially viable. This funding would be:

- accessed for a maximum of 3 in every 7 years, with services assessed for viability once they have received 2 years of support
- be limited to funding the fee gap that arises from a decline in the number of children using the service relative to the previous 3 years
- prioritised to centre-based and mobile services that are viable in most years
- be available to new services on the condition that they can demonstrate a business plan to be financially viable within two years.

FINDING 10.1

The value of waiting lists to families would be increased if providers were to regularly publish on an appropriate platform:

- information on the fees charged to join the waiting list
- information on the number of families on the waiting list for each age group
- statistics on the number of places offered to children on the waiting list over a given period.

RECOMMENDATION 10.1

The Australian Government should remove the 'Priority of Access' Guidelines once the proposed means and activity test requirements have been introduced.

RECOMMENDATION 10.4

The Australian Government should remove caps on the number of occasional childcare places and abolish operational requirements that specify minimum or maximum operating hours for all services approved to receive child-based subsidies.

ECEC services to children under school age should be operational for at least 48 weeks per year in order to be approved to receive child-based subsidies.

ECEC services for school age children should be operational for at least 7 weeks per year in order to be approved to receive child-based subsidies. The requirements for before and after school care services to operate on every school day should be abolished.

RECOMMENDATION 10.5

Governments should allow approved nannies to become an eligible service for which families can receive ECEC assistance. Assistance would not be available for use of nannies who do not meet the National Quality Standard.

National Quality Framework requirements for nannies should be determined by ACECQA and should include a minimum qualification requirement of a relevant (ECEC related) certificate III, or equivalent, the same staff ratios as are currently present for family day care services, and be linked to an approved coordinator, as occurs in family day care.

Assessments of regulatory compliance should be based on both random and targeted inspections by regulatory authorities.

RECOMMENDATION 10.7

The Australian Government should simplify working holiday visa requirements to make it easier for families to employ au pairs, by allowing au pairs to work for a family for up to the full 12 month term of the visa, rather than the current limit of six months per family.

Additional needs — improving accessibility, flexibility and affordability

FINDING 5.1

Generally, Australian children are doing well developmentally and most are well prepared to begin formal schooling. Those who are less well prepared tend to be Indigenous children, children living in socio-economically disadvantaged communities, children living in very remote areas and children from non-English speaking backgrounds. There is likely to be overlap across these groups.

RECOMMENDATION 5.2

Early intervention programs to address the development needs of children from disadvantaged backgrounds should be underpinned by research. Their impact on the development outcomes of the children attending ECEC should be subject to ongoing monitoring and evaluation, including through the use of longitudinal studies.

FINDING 13.1

Having short-term arrangements that enable access to ECEC for children at risk of neglect and harm is an essential element of a wider solution to protect these children.

Access for unlimited hours — in some cases 24/7 care — amounts to emergency care and is the responsibility of state and territory governments.

RECOMMENDATION 15.5

The Australian Government should continue to provide support for children who are assessed as ‘at risk’ to access ECEC services, funding an at risk children program that provides:

- a 100 per cent subsidy for the benchmark price of ECEC services
- up to 100 hours a fortnight, with exemption from the activity test
- support initially for 6 weeks then in blocks of up to 26 weeks, on application by the relevant state or territory department and approval by the Department of Human Services
- automatic extensions are to be provided for children for whom there is a current child protection order.

Families who have had a child assessed as ‘at risk’ for a period of 6 months or more would be exempt from the activity test for on-going ECEC services for this child for a further period of up to 18 months.

RECOMMENDATION 15.6

States and territories should nominate an agency for ECEC providers to contact where the provider has identified a child as at risk and applied for the initial six weeks at risk subsidy. This state or territory agency should be responsible for assigning a case worker to the child. If assistance is required beyond the initial period, this agency should also be responsible for making any applications for extensions for assistance on behalf of the child to support their attendance at the ECEC service. The application would require approval by the Department of Human Services.

ECEC providers should be required to contact the designated state or territory department contact agency within one week of applying for the six week at risk assistance. Continuation of access to the subsidy would be based on ongoing involvement by a state or territory agency with the child and their family, and approval by the Department of Human Services.

The processes for providers to notify the nominated state or territory agency, and for the agency to apply for an extension of the full subsidy on behalf of a child, should be trialled to establish an effective process before being fully rolled out.

RECOMMENDATION 15.7

The Australian Government should retain the Inclusion Support Agency, Inclusion Support Subsidy, Bicultural Support, and Specialist Equipment Support elements from the Inclusion and Professional Support Program to form the core of a new Inclusion Support Program. The National Inclusion Support Subsidy Provider should also be retained.

The budget should be increased for:

- the Inclusion Support Agencies to allow for 'value for money' contracting based on the number of services and child populations, with an adjustment for level of disadvantage in the communities in their allotted district
- the Inclusion Support Subsidy to allow for up to 7 hours of funding a day for up to 10 days a fortnight and paid at the certificate III award rate
- Bicultural Support to allow services access to at least 20 hours of support to settle new culturally and linguistically diverse families and their children into an ECEC service.

The ongoing need for Inclusion Support Agencies should be reviewed in five years.

RECOMMENDATION 13.2

The application process for the Inclusion Support Subsidy should be streamlined through:

- sharing of information across government agencies to reduce the administrative burden on families and ECEC services
- an upgraded and more user friendly IT portal.

FINDING 13.2

Funding to providers has an important role to play in improving accessibility to ECEC for children who live in disadvantaged areas without access to ECEC. There is scope to improve the current Budget Based Funded Programme which delivers assistance directly to providers in disadvantaged areas. Current funding precludes new services from opening up and does not encourage existing services to transition from provider-based funding to child-based assistance.

FINDING 13.3

Block funding is problematic for the long term sustainability of integrated services — the loss of one service (if funding for that service is not continued) can threaten the viability of other providers in the service. While the ECEC component of integrated services can be funded through mainstream ECEC funding arrangements, block funding of coordination functions may be required to realise the value of integration. Non-ECEC services should be funded through the appropriate budget portfolio.

RECOMMENDATION 13.3

Governments should consider greater use of integrated ECEC and childhood services in disadvantaged communities:

- to improve accessibility for families of ECEC and other childhood services
- to help identify children that are at risk of abuse or neglect or have additional needs
- ensure that the necessary support services, such as health, family support and any additional early learning and development programs, are available
- to improve the efficiency of related service provision.

RECOMMENDATION 15.8

The Australian Government should establish a Community Early Learning Program (CELP) to fund ECEC services for communities where the children in the community are at a high risk of development vulnerabilities. The CELP would fund the:

- establishment of new services that have a five year business plan to transition to mainstream funding
- operation of these and current Budget Based Funded Programme services as they transition to mainstream funding, with a declining share of funding being provided by the CELP over time
- on-going support to CELP services to meet any unavoidable higher costs of supply to children after transition
- activities undertaken by an ECEC service to organise and manage integration of the ECEC service with other family and child services
- Indigenous Professional Support Agencies to assist CELP services in Indigenous communities in the establishment and transition of these services. The Inclusion Support Agencies are to provide these services for those CELP services that target refugee communities. These agencies would also provide advice to mainstream ECEC services on culturally relevant inclusion planning strategies.

RECOMMENDATION 15.9

Budget Based Funded (BBF) Programme services that are unable to transition even with on-going assistance should be reviewed every three years and closed if there are better alternatives available to provide ECEC services to the children attending the service. Activities (such as playgroups) in the BBF Programme that do not involve non-parental care do not fit within the ECEC non-parental care and early learning objectives and should find alternative non-ECEC sources of funding.

Preschool — supporting universal access

FINDING 12.1

Whether preschool is the responsibility of the states and territories or the Australian Government needs to be resolved and could usefully be a consideration of the White Paper on the Reform of the Federation.

FINDING 12.2

Participation in a preschool program in the year before starting formal schooling provides benefits in terms of child development and a successful transition to school.

An analysis of the effectiveness of the existing arrangements in improving development outcomes and evidence drawn from relevant Australian and overseas research is necessary before any decisions can be made on the value of extending the universal access arrangement to younger children.

RECOMMENDATION 12.1

Payment of a portion of the Family Tax Benefit Part A to the parent or carer of a preschool aged child should be linked to attendance in a preschool program, where one is available.

RECOMMENDATION 15.10

The Australian Government should continue to provide per child payments to the states and territories for universal access to a preschool program of 15 hours per week for 40 weeks per year. This support should be based on the number of children enrolled in state and territory government funded preschool services, including where these are delivered in a long day care service. A condition placed on the per child payments is that they should be directed by the state or territory to the approved preschool service nominated by the family.

The Australian Government should reduce the benchmark price for the hours of preschool provided by a long day care centre by an equivalent amount to the per child preschool funding.

Outside school hours care — improving the accessibility, flexibility and affordability

RECOMMENDATION 10.2

State and territory governments should proactively encourage the provision of outside school hours care on school sites. At a minimum, this should involve:

- ensuring outside school hours care services receive high priority on any guidelines on access to school facilities in non-school time
- placing the onus on school principals to take responsibility for ensuring there is an outside school hours care service for their students on and/or offsite if demand is sufficiently large for a service to be viable.

RECOMMENDATION 12.2

The Australian Government should ensure that any requirements on the age of children able to attend an outside school hours care service be sufficiently flexible as to enable an outside school hours care service to include, or operate primarily for, preschool age children.

RECOMMENDATION 7.2

Governments and ACECQA should remove educational and child-based reporting requirements for outside school hours and vacation care services, and consider other ways to tailor the National Quality Standard to suit different service types.

RECOMMENDATION 7.6

Governments should develop and incorporate into the National Quality Framework a nationally consistent set of staff ratios and qualifications for those caring for school age children in outside school hours and vacation care services.

- The minimum staff ratio for school aged care should be no stricter than 1:15.
- At most, one-third of staff should be required to hold or be working towards an approved qualification. Approved qualifications may be a certificate III and could also include those from other relevant disciplines such as sport and recreation.
- Outside school hours and vacation care service directors should be required to hold or be working towards at least a diploma level qualification.

Removal of ECEC assistance to some providers

RECOMMENDATION 5.1

Australian Government ECEC funding should be limited to funding approved ECEC services and those closely integrated with approved ECEC services, and not be allocated to fund social services that largely support parents, families and communities. Any further Australian Government support for the Home Interaction Program for Parents and Youngsters (HIPPY) should be outside of the ECEC budget allocation.

RECOMMENDATION 9.1

In line with the broad level recommendations of the Productivity Commission's 2010 study into the *Contribution of the Not for Profit Sector*, the Australian Government should remove eligibility of not-for-profit ECEC providers to Fringe Benefits Tax exemptions and rebates.

State and territory governments should remove eligibility of all not-for-profit childcare providers to payroll tax exemptions. If governments choose to retain some assistance, eligibility for a payroll tax exemption should be restricted to childcare activities where it can be clearly demonstrated that the activity would otherwise be unviable and the provider has no potential commercial competitors.

RECOMMENDATION 10.3

The Australian Government should abolish the Community Support Programme.

RECOMMENDATION 10.6

The Australian Government should remove the In-Home Care category of approved care once nannies have been brought into the approved care system.

RECOMMENDATION 11.1

The Australian Government should remove the registered childcare category under the Child Care Benefit.

RECOMMENDATION 13.1

The Australian Government should remove the category of 'financial hardship' as a justification for receiving fully subsidised ECEC services.

RECOMMENDATION 14.1

The Australian Government should amend the *Fringe Benefits Tax Act 1986* (Cth) to remove section 47(2), that is, the eligibility for Fringe Benefits Tax concessions for employer provided ECEC services.

Section 47(8), which enables businesses to purchase access rights for children of their employees without this being considered an expenditure subject to the Fringe Benefits Tax should be retained but better publicised.

Workforce participation

FINDING 6.1

The workforce participation rate of mothers with children aged under 15 years has grown substantially in recent decades, in line with that for all women. However, the participation rate of mothers is below that of fathers and women without children. The employment rate of Australian mothers is also below the OECD average.

FINDING 6.2

Of employed mothers with children aged under 15 years, more work part time than full time. The part-time share of employed mothers is much higher than that of fathers and women without children. Australia has a higher proportion of couple families where one parent works full time and the other part time than the OECD average.

FINDING 6.3

Roughly 165 000 parents (on a full-time equivalent basis) with children aged under 13 years who would like to work but are not able to because they are experiencing difficulties with the costs and accessibility of suitable childcare, could potentially be added to the workforce.

FINDING 6.4

Secondary income earners in couple families and single parent families with children under school age could face a significant disincentive to work more than 3 days a week due to high effective marginal tax rates from the cumulative impact of income tax and the withdrawal of childcare assistance, Family Tax Benefits and the Parenting Payment.

FINDING 16.1

Reforming subsidies for early childhood education and care services on their own can only partially address disincentives for mothers to work. Greater workforce attachment can be achieved by simultaneously reforming childcare subsidies, taxation, family income support and transfer payments.

Other factors that can encourage greater workforce participation of mothers include fathers being willing and able to work flexibly and take on more child caring responsibilities and having ECEC services that offer rich and engaging experiences (particularly in relation to outside school hours care).

RECOMMENDATION 6.1

The proposed White Paper on the Reform of Australia's Tax System should include consideration of how taxation and the design of family income support and transfer payments impact on effective marginal tax rates.

FINDING 6.5

The workforce participation of mothers of children aged under 15 years is affected by the preferences of parents to look after their own (particularly very young) children. These, in turn, can be affected by such factors as costs and availability of suitable childcare, the stresses of managing paid work and unpaid work at home, the provision of flexible work and other family-friendly arrangements by employers, the level of contact with the workplace, long-term career prospects and the effective marginal tax rates facing mothers.

RECOMMENDATION 6.2

Employer and employee associations, the Fair Work Ombudsman, the Australian Human Rights Commission and the Workplace Gender Equality Agency should all trial innovative approaches to:

- increase awareness about legal rights and obligations with respect to flexible work
- promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements.

FINDING 6.6

Based on analysis in the Productivity Commission's 2009 inquiry on *Paid Parental Leave: Support for Parents with Newborn Children*, it is unlikely that the Government's proposed changes to the Paid Parental Leave scheme would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. If the Government is seeking increased workforce participation, this may be achieved more effectively through additional funding of ECEC than through the modification of the Paid Parental Leave scheme.

Quality assurance processes and regulation of ECEC

RECOMMENDATION 7.1

To simplify the National Quality Standard, governments and ACECQA should identify elements and standards of the National Quality Standard that can be removed or altered while maintaining outcomes for children.

RECOMMENDATION 7.8

Governments should:

- urgently reconsider the design of the assessment and ratings system, giving particular consideration to finding ways to increase the pace of assessments
- explore ways to determine services' ratings so they are more reflective of overall quality
- abolish the 'Excellent' rating, so that 'Exceeding National Quality Standard' is the highest achievable rating.

RECOMMENDATION 7.9

Governments, ACECQA and regulatory authorities, as applicable, should:

- abolish the requirement for certified supervisor certificates
- give providers more detailed and targeted guidance on requirements associated with Quality Improvement Plans, educational programming, establishing compliant policies and procedures and applying for waivers
- identify and eliminate potential overlaps between the National Quality Framework and state and local government requirements
- review ways that services with higher ratings ('Exceeding National Quality Standard') could be relieved of some paperwork requirements, where these are less important to ensuring quality given the service's compliance history
- remove the requirement for outside school hours care services operating on school facilities to provide site plans as a condition of service approval.

RECOMMENDATION 7.10

Governments should extend the scope of the National Quality Framework to include all centre and home-based services that are eligible to receive Australian Government assistance.

National Quality Framework requirements should be tailored towards each care type, as far as is feasible, and minimise the burden imposed on service providers. In particular, child-based educational reporting should not be required where children only attend services irregularly.

RECOMMENDATION 7.11

The quality standards in state and territory education legislation which apply to dedicated preschools should recognise those standards that are required to be satisfied under the National Quality Framework and any sources of inconsistency or duplication of requirements should be removed from the education legislation applying to preschools.

RECOMMENDATION 7.12

State and territory governments should, within two years, harmonise background checks for ECEC staff and volunteers by either:

- advancing a nationally consistent approach to jurisdiction-based ‘working with children checks’ as proposed in the National Framework for Protecting Australia’s Children, including mutual recognition of these checks between jurisdictions, or
- implementing a single, nationally recognised ‘working with children check’.

RECOMMENDATION 7.13

Where there is an overlap with existing state and territory food safety requirements, Governments should exempt services from, or preferably remove, those requirements in the National Regulations.

State and territory governments, in conjunction with Food Standards Australia New Zealand, should explore the possible exemption of childcare services from Standard 3.3.1 of the Australian food safety standards, as in New South Wales.

RECOMMENDATION 7.14

Local governments should adopt leading regulatory practices in planning for ECEC services. In particular, local governments should:

- use planning and zoning policies to support the co-location of ECEC services with community facilities, especially schools
- use outcomes based regulations to allow services flexibility in the way they comply with planning rules, such as in relation to parking
- not regulate the design or quality of any aspect of building interiors or children’s outdoor areas within the service property, where such regulation unnecessarily duplicates or extends the requirements of the National Regulations or other standards such as the Building Code of Australia
- not impose regulations that interfere with the operation of the ECEC market, such as by restricting the maximum number of permitted childcare places in a service

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- provide clear guidelines for the assessment of development proposals in relation to ECEC services, and update these guidelines regularly.

RECOMMENDATION 7.15

State planning departments should, as in Victoria, develop flexible standard planning provisions that can be applied across local governments to ensure some level of consistency; and scrutinise amendments to local planning schemes that might seek the introduction of different standards, to guard against potentially costly requirements being imposed.

ECEC qualifications and ratios

FINDING 8.1

There are no significant regulatory or other impediments preventing the ECEC sector from addressing any recruitment, retention and workforce shortage issues through higher wages, better conditions and improved career opportunities. Some services have taken this approach.

The use of wage subsidies to attract and retain staff is likely to be ineffective, inefficient and unsustainable. Implementing the required regulatory reforms around the NQF would increase the potential pool of eligible ECEC workers.

RECOMMENDATION 7.3

Where all children are aged 25 months and over, educator-to-child ratios for home-based care services should be amended such that a ratio of 1 educator to 5 children is permitted for children aged from 25 months up to school age.

RECOMMENDATION 7.4

Requirements for educators in centre-based services should be amended by governments such that:

- all educators working with children aged birth to 35 months are, as a minimum, required to hold or be working towards at least a certificate III or equivalent and be under the supervision of at least a diploma qualified educator
- services may determine the number of diploma qualified educators sufficient to supervise and support certificate III qualified educators, as is currently the case in family day care services
- the number of children for which an early childhood teacher must be employed is assessed on the basis of the number of children in a service aged over 35 months.

RECOMMENDATION 7.5

Differences in educator-to-child ratios and staff qualification requirements for children under school age across jurisdictions should be eliminated and all jurisdictions should adopt the national requirements.

RECOMMENDATION 7.7

To provide services with greater flexibility to meet staffing requirements:

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- all governments should amend the National Law and any other relevant legislation to allow ACECQA further flexibility in the way it approves qualifications — in particular to allow ACECQA to approve qualifications on a conditional or restricted basis
 - all governments should allow a diploma qualified educator to be replaced by a certificate III qualified educator for short irregular absences of up to half a day per week
 - ACECQA should continue to explore ways to make the requirements for approving international qualifications simpler and less prescriptive in order to reduce obstacles to attracting appropriately qualified educators from overseas
 - the New South Wales and South Australian Governments should allow a three month probationary hiring period in which unqualified staff may be included in staff ratios before beginning a qualification, as was recently adopted in all other jurisdictions.

RECOMMENDATION 8.1

Governments should ensure, through regulatory oversight and regular audits by the Australian Skills Quality Authority, that Registered Training Organisations maintain consistently high quality standards in their delivery of ECEC-related training.

Where Registered Training Organisations are unable to rectify identified non-compliant processes, the Australian Skills Quality Authority should employ appropriate regulatory responses including the cancelling of registration.

RECOMMENDATION 8.2

ECEC employers should accept primary responsibility for the funding and support of ongoing professional development.

- Funding for Professional Support Coordinators should be discontinued. That part of their function which relates to assisting services in the inclusion of children with additional needs should be provided through an inclusion support program.
- Funding for the Long Day Care Professional Development Program should not be extended once the current funding arrangements have expired.

RECOMMENDATION 8.3

To retain skills and experience in those services being brought within the scope of the NQF, staff employed in the service at the time of transitioning to the NQF who have a minimum of five recent years of relevant practical experience should be considered as meeting the NQF minimum qualification and be included in the staff ratio requirements.

Ongoing support for evaluation and ECEC policy assessment

RECOMMENDATION 17.1

The Australian Government should establish a program to link information for each child from the National ECEC Collection to information from the Child Care Management System, the Australian Early Development Census, and NAPLAN testing results to establish a longitudinal database. Where possible, this should also be linked to other key administration data sets and Censuses.

A confidentialised file should be made available for statistical, research, policy analysis and policy development purposes. The ability of researchers to access unit record information should be permitted subject to stringent privacy and data protection requirements.

The Australian Government agency that is the custodian of the Child Care Management System should provide a publicly available extract from the database each year for interested parties at a sufficiently detailed geographic level for planning purposes.

RECOMMENDATION 17.2

Centrelink and the Department of Human Services should clarify in the claim form for ECLS that parents have the ability to authorise ECEC providers to enquire or act on their behalf in relation to their claim.

RECOMMENDATION 17.3

The Department of Education should establish a complaints mechanism for parents to lodge a complaint about an approved ECEC provider with regard to pricing, accessibility, and any other ECEC matter. The mechanism should include a referral of the complaint to the appropriate Australian Government or state and territory government agency.

RECOMMENDATION 17.4

The Australian Government should review the operation of the new ECEC funding system and regulatory requirements after they have been implemented. In particular:

- within 2 years of introducing subsidies based on a benchmark price, any adverse unintended outcomes of the approach should be identified and resolved
- within 3 years of extending the coverage of the National Quality Framework (including to current block funded services and to nannies), ACECQA should prepare a report identifying any legislative, regulatory or procedural difficulties arising from the wider coverage of the National Quality Framework
- within 5 years of implementing the new ECEC funding system and regulatory requirements, the Australian Government should undertake a public review of the effectiveness of the revised arrangements.

PART A: BACKGROUND

1 About the inquiry

Key points

- Early childhood education and care (ECEC) services within the scope of this inquiry include both those that currently are regulated and receive government support and those more informal types of ECEC that are not currently regulated or funded by governments.
- The delineation between what constitutes care, early childhood education, formal schooling and other child-related community services have become increasingly blurred in recent years.
- Shortcomings in the current ECEC system will mean its contribution to children's development and to parents' workforce participation is less than optimal.
- The Commission has developed a set of principles to guide its assessment of ECEC in the remainder of this report.
- Parents, governments and ECEC providers have particular outcomes or objectives that they want ECEC to meet. These objectives do not always align.
- An ECEC system that satisfies all parents and providers would be very costly and options that are affordable for every family now may represent a considerable ongoing tax burden for the wider Australian community.

1.1 Background to the inquiry

The early childhood education and care (ECEC) sector in Australia is large, diverse and has been evolving in response to changing demographics, family preferences, the regulatory environment and government assistance settings. Most children have some exposure to formal, non-parental care and/or early learning prior to starting school. For some, this is simply attendance at a preschool program in the year immediately before school starts; while for many young children, non-parental care constitutes a large part of each week for a number of years (chapter 3). Parental care and informal care (for example, by grandparents) remain, however, important complements to the formal ECEC learning system, and are the preferred methods of care for some families.

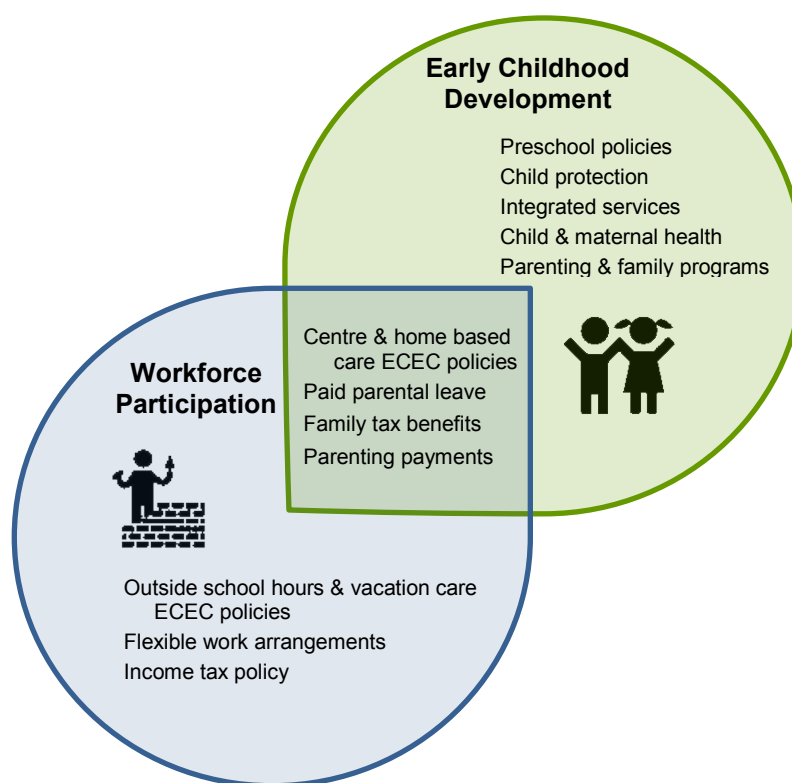
Australia has a high reliance, relative to many other OECD countries, on market provision of ECEC (both profit and not-for-profit). Nevertheless, governments at all levels in Australia provide considerable support to the operation of the market through the funding of some provision and usage of services, and the setting of standards and regulation of operation. State, territory and some local governments also directly provide ECEC services, particularly preschool. Australian governments have been involved in the ECEC sector for many years. For example, the Australian Government first became financially

involved with ECEC in 1972, and the Tasmanian Government has funded preschools linked to primary schools since 1911. Historically, state government funding has been focused on education and formal schooling, while the Australian Government has been more concentrated on care for children under school age. Thus, the range of ECEC services provided and prices charged are determined by both market conditions and government involvement in the sector.

The lines between what constitutes care, early childhood education, formal schooling and other child-related community services have become increasingly blurred (figure 1.1). The sector includes services that provide both education and care (such as long day care centres with a preschool program), and more of a focus on care (such as most outside school hours care services). In addition, some ECEC services provide other functions relating to health (such as long day care centres that conduct testing for hearing problems), other community facilities (for example, integrated services that provide long day care, maternal and child health services and family support services) and links to the formal school system (such as where dedicated preschools are integrated into schools).

This integration of services provided under ECEC is largely considered a positive move, but it does complicate government assistance arrangements for the sector and means that it is often unclear which particular economic or social objective of government an ECEC policy is targeting. (The objectives of governments are discussed in section 1.3.)

Figure 1.1 The interaction of policies and objectives



With growing community awareness of the importance of early learning for child development, expectations of ECEC services are higher than in the past. Additionally, more women wish to remain in, or return to, the workforce after the birth of children. More families use ECEC, although at times and in a manner considerably changed from when often only one parent worked outside the family home. For many families, ECEC assistance is a continuation of the support for workforce participation that begins (incidentally) with paid parental leave. These changing societal views and expectations have contributed to the growth of government funding of ECEC, which now exceeds \$7 billion per year.

Australia's ECEC system has a number of important strengths. It provides a wide range of quality care at multiple price points, meets the needs of the majority of parents and assists most children in transitioning well into school.

However, it is also apparent to the Commission that there are significant shortcomings with aspects of the operation of the sector and there is substantial scope for improvements in the government assistance programs and regulations that support it. For instance, some families still struggle to find ECEC services that meet their needs in terms of the type and quality of care they want for their children, and its affordability, availability and flexibility. These and other shortcomings (which are examined in detail in the remainder of this report) have been noted in the inquiry's terms of reference, and by stakeholders in the submissions and comments received by the Commission.

This inquiry provides an opportunity to look at where we are now with ECEC in Australia, what we want in the future and how we might go about achieving that in a way that is affordable to both families and the Australian community.

1.2 What has the Commission been asked to do?

The Australian Government has requested that the Commission examine ECEC in Australia and recommend policy options for improving current arrangements. The inquiry terms of reference note that the Australian Government is the largest funder of the sector and it is important that this significant expenditure achieves the best possible impact in terms of benefits to families and children, as well as the wider community. Specifically, the terms of reference directs the Commission to recommend improvements to childcare assistance arrangements, taking account of:

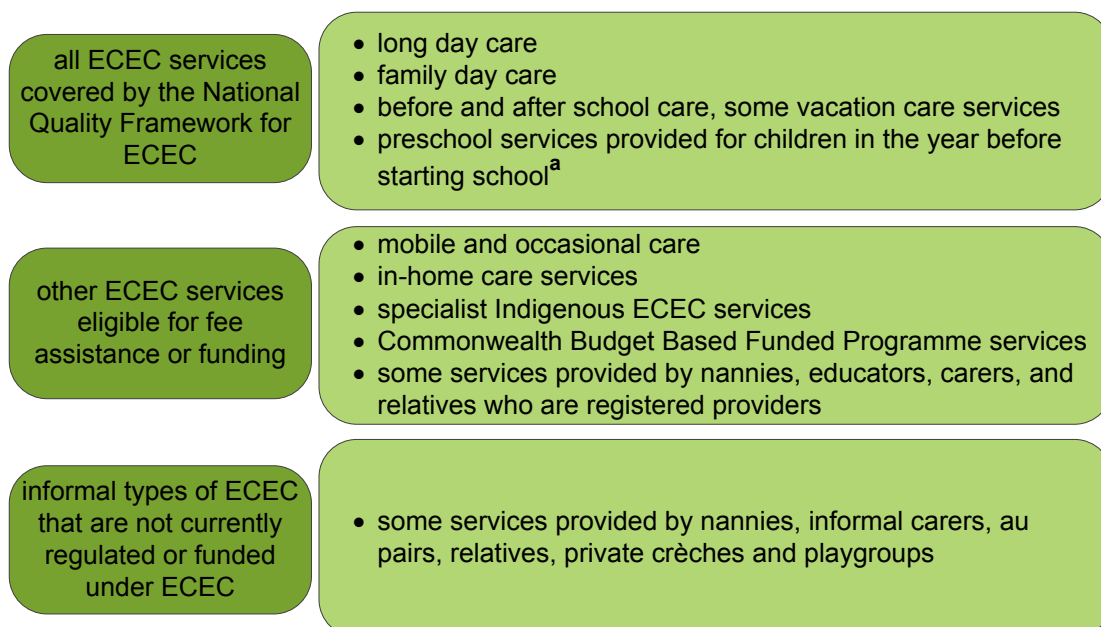
- the contribution that access to affordable, high quality childcare can make to:
 - increased participation in the workforce, particularly for women
 - optimising children's learning and development
- the future needs of childcare in Australia
- affordability of childcare

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- accessibility, flexibility and options for improving choice, particularly for families with non-standard work hours, disadvantaged children and for those in rural, regional and remote areas
 - whether there are other models of care, particularly international models, that should be considered for trial or implementation in Australia
 - the sustainability and appropriateness of funding arrangements
 - regulatory change in childcare over the last decade — but taking into account the Australian Government’s planned work with the states and territories to streamline the current quality framework arrangements.

Services within scope

ECEC services that fall within the scope of this inquiry are highlighted in figure 1.2. Broadly, these services include those that are currently regulated and receive Government support and more informal types of ECEC services that are not currently regulated or funded. As well as considering the appropriateness of Government support for services in the first group, the Commission also considers whether there is a case for extending Government involvement to cover the forms of care in the latter group.

Figure 1.2 ECEC services within the scope of this inquiry



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

Throughout this report, the Commission has used the term ‘ECEC’ in a generic sense to cover all types of formal and informal early learning and care. The Commission is aware that some stakeholders consider the term ‘childcare’ or ‘carer’ diminish the value of early learning that typically occurs in many ECEC settings. Despite these views, the Commission has not attempted in this report to systematically avoid the use of such terms — and neither does the inquiry’s terms of reference provided to the Commission.

Age of children within scope

While there are informal and, to a lesser extent, formal care options available to children of all ages, for the purposes of this inquiry the Commission has defined ECEC to generally include services for children from birth up to and including 12 years of age. However, in some parts of this report the Commission also draws on data collections that include children up to only 11 years old or collections that extend to include children up to 15 years of age.

Consideration of options

The Commission has developed proposals for improving ECEC regulation and funding with the objective of achieving an ECEC system that provides the highest possible net benefits to the community. However, as directed by the inquiry terms of reference, the Commission’s draft recommendations for future policy and program settings also propose options that are ‘within current funding parameters’.

Individual policy proposals may be targeted at achieving one or more of the Government’s stated objectives of improved child development outcomes and increased workforce participation, and other social objectives such as equity. The extent to which these objectives might be achieved will necessarily be related to the willingness of both governments and families to contribute to the cost of ECEC. The Australian Government has allocated \$31 billion in its budget to ECEC support and programs over the 4 years to 2017-18 (chapter 4).

The Commission makes an assessment of the likely child development and workforce participation outcomes that could be achieved within this budget and demonstrate, as far as possible, outcomes that could be achievable with higher expenditure. Measures that might, depending on the specifics of their design, fall outside existing levels of funding, may be feasible should additional funds become available in the future.

However, not all options that aim to deliver one or more of these objectives would represent an appropriate use of Government funds. Government budget constraints and the costs and inefficiencies associated with raising taxation revenue underscore the importance of well-targeted spending on ECEC. Moreover, expenditure on ECEC foregoes potential net benefits for the community from alternative (non-ECEC) programs.

Accordingly, measures proposed in this report have been assessed by the Commission as likely to generate community-wide benefits in excess of the cost of the measure. This means, for example, that the Government should not necessarily fund services in every location where market provision is not viable, nor should it necessarily support the level of flexibility of services desired by some parents (in this case because of the potential negative consequences for the child, as well as the cost to taxpayers).

Interaction with other policies

The inquiry's terms of reference have asked the Commission to consider the interactions of ECEC policies with relevant Australian Government policies and programs. The Commission has interpreted this broadly to include other welfare measures that families with young children may receive (such as the Family Tax Benefit, the Parenting Payment and Paid Parental Leave) as well as other policies that may influence workforce participation (such as income tax arrangements and Government policies on workplace flexibility, salary sacrificing arrangements and fringe benefits tax).

The Commission has focused on policy interactions that particularly reduce or enhance the effectiveness of ECEC policies. This may occur, for example, when policies reduce incentives to increase workforce participation or reduce the scope to achieve improvements in child development outcomes.

1.3 Desired features of an ECEC system

What families want from ECEC

Families have advised the Commission that their primary needs from, and concerns relating to, the use of ECEC include:

- the happiness and safety of their children
- carers who are experienced, friendly and caring
- the opportunity for children to develop the necessary social and educational skills to transition well into school environments, and to provide opportunities to play with their school friends or do homework in outside school hours care
- care options that are accessible, convenient and flexible, given the pressures placed on families by work environments and travel needs, as well as family characteristics such as separated parents or children with additional needs
- care that is affordable, given the costs of schooling and after-tax income available from increased workforce participation.

The priority placed by individual families on each of these objectives will necessarily vary with factors such as family characteristics, the age of children involved and whether the family is living and working in a metropolitan or regional part of Australia.

In terms of the type of ECEC service used (box 1.1), for example, many parents have a strong preference to care for children aged less than 12 months at home or, if they do need to use formal care, typically prefer an environment that is convenient, safe and nurturing. Once children become more self-mobile and interact with their environment, many parents look for opportunities for their children to engage with other children, develop social skills and expand their range of experiences. Finally, once children reach school age, the priorities of parents are often focused on a flexible and healthy environment in which children can relax and either enjoy the company of their school friends or be assisted to get home safely so that parent(s) can remain at work beyond school hours.

Box 1.1 Parents' needs and concerns relating to the type of ECEC service used

While access to and affordability of care is important, the overarching concern for me in relation to care for my children is the quality of that care. (comment no. 441)

My children attend daycare because I want them to, not because they have to. I want the best for them in the future and believe quality early learning will assist them when going in to primary school and having a head start in their education. (comment no. 24)

The most important thing for me, as a parent of three young children, is the quality of care provided to my children in early childhood and outside school hours services. Feeling secure, supported, engaged, stimulated and happy: these are what I want for my children, and this is the high benchmark I expect ECEC and OSHC services and educators to meet.

... I understand that quality costs, and I am prepared to pay whatever it takes for my children to experience high quality education and care. I see this, in every way, as an investment in my children's future, and it is one I choose to make. (comment no. 79)

The research seems to suggest that children would benefit from being at home with a devoted carer for the first 2/3 years of life, after which good quality childcare provides many long-term benefits to the child and society. ... Rather than purely focusing on getting women back to work as soon as possible, shouldn't the government be exploring ways of helping parents be home with their children at this critical time of development, without it being the death nail on their financial situation and future career prospects? (comment no. 12)

Source: Comments from ECEC users

Parents have different preferences about when (or if) they return to work, and how much they work (box 1.2). For some parents, their preferences will be shaped by the tradeoff between the immediate financial costs of childcare and the long term possible benefits of a less interrupted career. Accordingly, parents' work choices may depend on the affordability and flexibility of care and/or the value they place on the benefits and costs of their children attending ECEC.

Box 1.2 **Parents' workforce participation objectives and concerns**

I could not maintain my professional career [due to unavailability of OSHC] and my employer was not flexible enough to allow for school hour roles. (comment no. 1)

I applied for a place at all of our local childcare centers when I was 5 months pregnant, anticipating a return to work in April 2015. Not one of the centers can guarantee my child a place at this time due to their lengthy waiting lists. Returning to work and employing a nanny is not financially viable and furthermore is virtually impossible in this regional area due to a lack of qualified nannies. I would like to return to work in a part time capacity to ensure my skills remain current. (comment no. 19)

I am a single mother with a 16 month old child. Without subsidised day care, I would not be able to return to work. ... From a personal development perspective, and to be a good role model to my child, I would prefer to work than stay at home. In this way child care is essential. (comment no. 6)

On my mid-level professional salary (I am a public servant) I am not much better off financially by taking on extra days, although I am seeing career benefits in doing this (better fit for my job, more effective in getting through workload etc.). (comment no. 7)

I've over the past few months attempted to access any available kind of daycare for my daughter, who is 1 year old, in order to consider a return to work. This has proven exceptionally difficult as there is simply no availability of any care places, either in centres close to any potential employment, close to my current place of study, or close to home.

... For me, now, this lack of care availability is preventing my economic participation at any level beyond the household and putting huge stresses financially on our family, for whom I have always been the primary breadwinner. (comment no. 11)

I feel it is beneficial for my children to attend a centre as it helps build social skills etc but if the fees keep increasing I would have to seriously evaluate whether I should withdraw them for 1 day per week and drop back my work week to 3 days. (comment no. 15)

Source: Comments from ECEC users.

What ECEC services are aiming to achieve

ECEC providers are a diverse group, but, across a range of service types and localities, many have advised the Commission that their objectives and concerns (box 1.3) include:

- to deliver quality ECEC (as demonstrated through apparent widespread support for the National Quality Framework, chapter 7)
- to meet the needs of families and their children requiring ECEC services
- a predictable business environment, particularly in relation to the regulatory and funding frameworks within which they operate
- recognition of their role in child development.

Some types of providers may reasonably have additional motivations. For example, the potential for good returns on investment may motivate commercial providers to offer a niche service that is highly valued by a group of parents.

Box 1.3 Objectives and concerns of ECEC providers

Only About Children:

We focus on child wellbeing and best practices through consideration of successful educational practices combined with current research and an understanding of what today's families are looking for in childcare. At Oac, this has resulted in a service that embraces education, health and development of the children in our care. (sub. 393, p. 3)

UnitingCare Children's Services:

Our purpose is to provide an educative environment that nurtures resilient and confident children through inclusive services in partnership with families and community. UCCS aims to nurture the confidence and development of children, enabling them to have the best start in their critical formative years. (sub. 326, p. 1)

Annie Dennis Children's Centre:

We aim to operate early childhood education and care services which are

- Community managed — to ensure that decisions about the way in which services are run will be made through a management structure involving a majority of parents and educators;
- ... Flexible — to ensure that the services cater for care and educational needs of children in the City of Darebin ... (sub. 92, p. 1)

Goodstart Early Learning:

Goodstart's vision is for Australia's children to have the best possible start in life. Its mission is to provide high-quality, accessible, affordable, community-connected early learning in its centres, as well as partner and openly collaborate with the sector to drive change for the benefit of all children.

... To a large extent Goodstart still has to contend with multiple regulatory bodies, each with different approaches and interpretations. Goodstart would like to see much greater consistency between the states and territories on the implementation of the NQF. (sub. 395, pp. 6, 42)

ECEC worker:

Not only do we provide your children with the best early education, we also have to have top notch training in first aid, computer skills, food handling and community awareness, to name but a few. We are a very rare breed of people, we don't do our job for the money, it's way too mentally draining for that. We do it because we love it. It's in our hearts. So take heed, you can't keep treating us like second-class citizens. If you want truly great people looking after your children, then treat us with the respect we deserve. (comment no. 19)

Objectives of governments

The Australian Government's objectives for ECEC are laid out in the inquiry's terms of reference. In particular, the Government wants an ECEC system that:

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

Broadly speaking, submissions from state and territory governments, education departments and ECEC regulators support these objectives, particularly those relating to workforce participation and children's learning and development needs.¹

The focus on these objectives varies depending on the circumstances of each jurisdiction. For example, the Northern Territory Government submission placed a particular emphasis on concerns relating to Indigenous Australians and children in regional and remote areas, while Tasmanian and Western Australian submissions expressed support for integrating ECEC services with the schooling system (both states already integrate preschool within the schooling system, see chapter 12).

These objectives represent a mix of both economic and social goals. Increased workforce participation, particularly by those who experience, or are at risk of, disadvantage, and by those whose participation results in substantial community benefits, could be expected to contribute to an increase in overall economic activity (chapter 6). There may also be benefits associated with an increase in income tax revenue, reduction in dependence on welfare support, maintenance of skill levels and capabilities and increased social engagement. Most importantly however, increased parental workforce participation (independent of any usage of ECEC to facilitate it) can also improve child development outcomes. Family characteristics, including parental employment status and income, are some of the most crucial determinants of child development outcomes (chapter 5). While these benefits rely on policy settings beyond ECEC and other factors such as the flexibility of work environments, they are likely to be more achievable with an ECEC system that is responsive to parents' working environments and funded in a manner that is sustainable for the community (chapters 6 and 14).

Addressing the learning and development needs of children, particularly those who are at risk of poor long-term outcomes, can similarly provide benefits not just for these children and their families, but also for the wellbeing of the community. Provision of a high quality environment and opportunities for children in their early years can reduce the costs to the community of intervention later on, assist in overcoming entrenched disadvantage and, for some children in the community, reduce the risk of harm that may occur in their home environment. How these potential benefits can be achieved and the extent to which they vary by the age and circumstances of children is discussed further in chapter 5.

¹ ACT Education and Training Directorate, sub. 376; Government of NSW, sub. 435; Northern Territory Government, sub. 461; Education and Early Childhood Services Registration and Standards Board of SA, sub. 408; Department of Premier and Cabinet, Tasmania, sub. 390; Department of Education and Early Childhood Development, Victoria, sub. 418; Western Australian Government, sub. 416.

Government intervention to achieve ECEC objectives

There is a range of social and economic circumstances under which government intervention is widely accepted as necessary in order to achieve the desired community outcomes (box 1.4).

Box 1.4 Rationales for government intervention in ECEC

Circumstances under which governments may need to take action to achieve ECEC outcomes consistent with their objectives include when:

- Use or provision of ECEC services results in benefits or costs being imposed on others in the community which (because of factors such as uncertainty about the extent of any such impacts) are not taken into account by individuals deciding how much or what type of ECEC to use or provide. For example, some use of quality ECEC may provide child development outcomes that have future benefits for the broader community, or the location of an ECEC service may cause local traffic congestion and adversely impact on neighbouring residents.
- Information on an aspect of the ECEC market — such as quality of services, the availability of places, or future demand for places — is insufficient for at least some participants. This can result, for example, in families underutilising existing services or being unwilling to pay for increases in the quality of services, or in a mismatch between demand and supply in the location of future services.
- An aspect of the operational environment for the sector confers a level of market advantage to some participants. Such advantages can arise when:
 - start-up or operating costs (such as skill acquisition or capital) necessitate a very high level of market involvement in order for a service to viably operate
 - there are prohibitively high costs for families associated with moving to an alternative ECEC provider if a service is not considered satisfactory (such as costs of locating a suitable place and resettling children)
 - there are existing government concessions, funding arrangements or requirements that favour some participants over others
 - there is a very small number of providers or users of a service, making it unviable to provide some aspect of a service or limiting options for parents to change providers.
- Communities may have social values, distributional or equity concerns, such as ensuring equality of access to ECEC opportunities and facilitating workforce participation that may only be achievable through government intervention to alter the incentives faced by families and/or providers.

The range of intervention actions that governments can (and currently do) take includes: public provision of ECEC services; regulation of quality, information provision and market entry, or the removal of barriers to these; and the use of taxes, subsidies or concessions for ECEC providers or families.

At face value, the desires of parents and providers may be largely consistent with the objectives of the broader community (as enunciated by governments). However, it is unlikely that all parents and providers will be satisfied with the choices that governments are required to make — an ECEC system for all Australian families is unlikely to be able

to cater to every individual family circumstance, and options that are affordable for every family using ECEC now may represent a considerable ongoing tax burden. Furthermore, government intervention to improve ECEC accessibility or affordability for one group may reduce accessibility or affordability for others — that is, the trade-offs required may affect the welfare of different groups.

The desirable extent of government involvement in supporting and regulating childcare is not clear cut. It may be unclear, for example, how much and what type of ECEC services for children maximise net benefits to the community in the long term. Furthermore, identification of a potential need for government action does not justify government intervention — there remains a need to weigh up the benefits of government action against the costs of intervening.

Given these desired outcomes from ECEC and the overarching consideration of having a system that is in the community's long-term interests, the Commission has developed a set of principles to guide its assessment of the appropriateness of government intervention in ECEC (box 1.5).

The Commission has not attempted in this inquiry to determine which level of government in Australia should have responsibility for the funding of ECEC policies. Principles of subsidiarity would suggest that decisions on, and delivery of, policies occur at the level of government closest to those individuals most affected (in this case families), where it is practical to do so. While local government funding and delivery of ECEC policy would likely allow greater local input into decision making and the capacity for customising of services to suit local family needs and preferences, this is unlikely to be the most efficient or effective way of ensuring national consistency in access to affordable, quality ECEC services.

The delineation of the roles of state/territory governments and the Commonwealth Government is similarly unclear — particularly ECEC in the preschool year immediately prior to the start of formal schooling (see chapter 12). The interaction of ECEC assistance policies with family welfare and income tax system (both Commonwealth Government responsibilities) and the drive for formal ECEC services to include an educational component, facilitate transition to school (both state/territory responsibilities) and be reasonably integrated — or at least coordinated — with state/territory health and community services provision compounds the complexities. The Commission considers that the appropriate role of each level of government in ECEC should be addressed in the 2015 White Paper on the Reform of the Federation.

Box 1.5 **ECEC system — guiding principles for government action**

Government interventions in ECEC should have a focus on the learning and development needs of children, particularly those who are vulnerable or at risk of poor long-term developmental outcomes, and on facilitating the workforce participation of parents. Subject to the overarching criterion of generating the greatest net benefits to the community (taking into account both efficiency and equity considerations), any government intervention in ECEC should be consistent with the following principles:

1. **Ensure safety and quality.** Governments should set and enforce minimum standards (to the point where the costs imposed, including of enforcement, do not outweigh the benefits of having the standards) to ensure:
 - the health, safety and security of children in care
 - achievement of learning and development outcomes appropriate to the type of service.
2. **Support family choice:**
 - encourage a range of ECEC options to be available (or at least not unduly restrict quality services), recognising that no single type of ECEC service will be best (or need necessarily be affordable) for all families, or all children, at all points in time
 - ensure families can readily determine what ECEC options are available and what each will cost them
 - do not discourage parental care and informal care options, unless the child is at risk from such care.
3. **Promote efficient provision:**
 - remove any barriers that may hinder the supply or type of ECEC services that families demand
 - remove any barriers, assistance or concessions that favour particular provider models
 - encourage competition among providers and promote innovation in approaches (subject to minimum quality standards)
 - enable ECEC providers to readily and seamlessly link with other children's services, including other forms of care, health services and, in particular, schools.
4. **Deliver the best value for the community.** Ensure government funding:
 - is delivered to those areas and families where the greatest net benefits to the community are likely to be generated
 - enables provision and access where the market is unable to deliver required services and there are net benefits to the community or equity reasons for delivery of services
 - recognises that, for many families, ECEC services are a continuation of the support provided through PPL to retain and enable employment and a higher income, and allows scope for families to pay for the services that they prefer
 - meets government social and financial (sustainability) objectives over the short and longer term.
5. **Evidence-based and accountable:** Any changes to government funding and regulation of ECEC should be evidence-based, with the effectiveness of all programs and requirements evaluated and justified.

2 ECEC service providers

Key points

- Early Childhood Education and Care (ECEC) services are provided both by the government regulated formal sector and the informal sector. The informal sector consists of relatives, friends, nannies, au pairs and babysitters on a paid and unpaid basis. In the formal sector there is a further distinction between ‘approved care’ and ‘registered care’.
- Approved care services (the dominant category of care) are those long day care, family day care, outside school hours care, in-home care and occasional care services approved by government as meeting the eligibility standards and requirements to provide care for the purposes of Child Care Benefit (CCB). Approved care attracts both the child care rebate (CCR) and CCB for those who are eligible. Long day care, family day care and outside school hours care are also required to satisfy the National Quality Framework.
- There are nearly 16 500 approved childcare services. Long day care accounts for just over 40 per cent and outside school hours care accounts for 55 per cent of these services. Family day care and in-home care account for less than 4 per cent of these services.
- The total number of approved services has been growing steadily over the past decade and increased by 58 per cent in the decade up to 2012-13.
- More than half of all approved ECEC providers have only the one service and a further third of providers operate 2 to 4 services. Just under 1 per cent of all providers have more than 20 services.
- Just over half of approved services operate on a for profit basis.
- Registered care is childcare provided by relatives, friends, nannies or babysitters and some childcare facilities who are registered as carers with the Department of Human Services. Children in registered care are only eligible for the CCB.
- There are over 35 000 registered care providers in Australia, but possibly considerably less than this offer services in any year, as only around 6000 had CCB claims in 2013.
- Although there are limited data on the number of services the informal sector provides — based on the proportion of children attending some type of informal care — it appears to provide a significant number of services, with grandparents providing the majority of informal care.

This chapter looks at the number and type of early childhood education and care (ECEC) services provided, their location and the growth in ECEC services in recent years. The ECEC workforce and workforce-related issues are discussed in chapter 8.

2.1 What services are being provided?

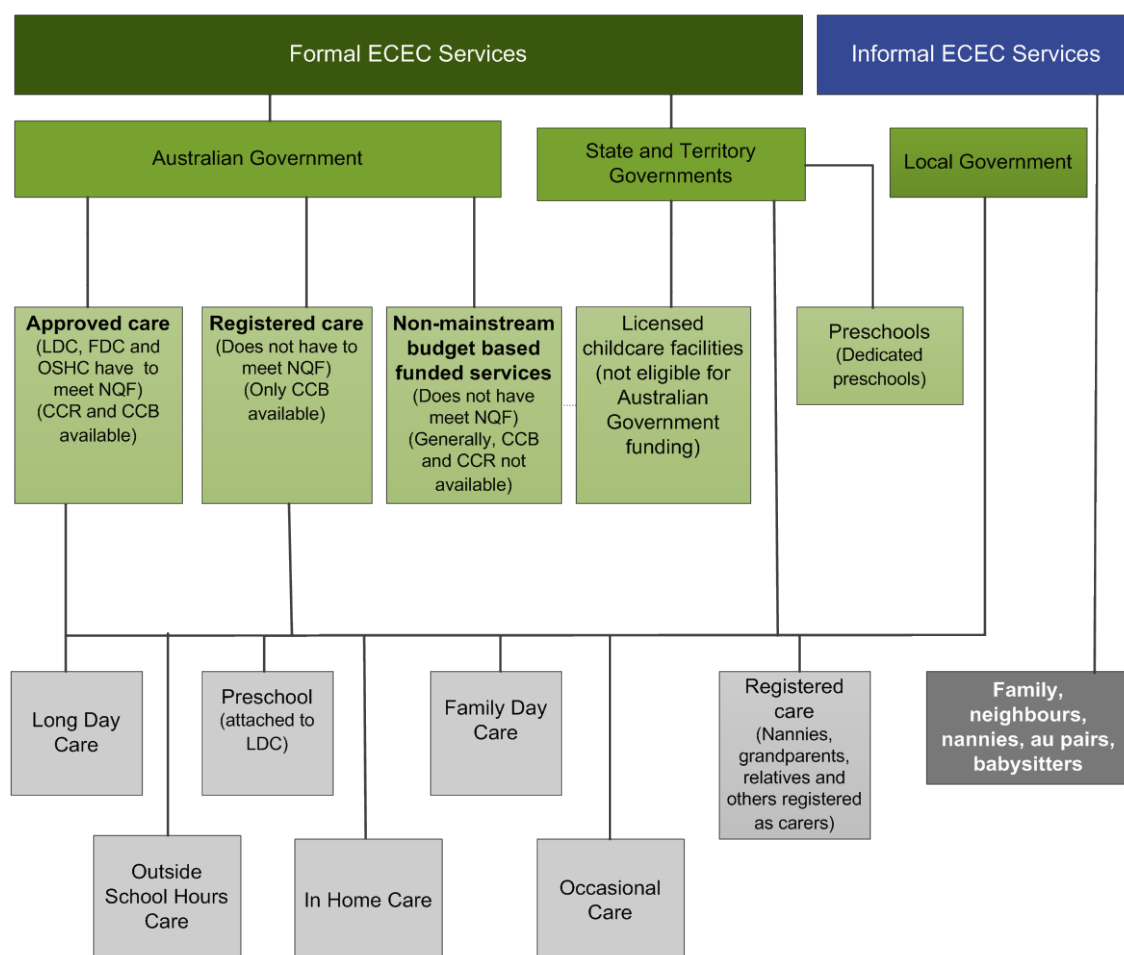
The formal sector provides non-parental care and early learning services for children. These services are government regulated and most receive public funding and/or subsidies. The informal sector includes care provided by relatives, friends, neighbours, nannies, au pairs and babysitters both on a paid and unpaid basis (figure 2.1).

Most of the services provided by the formal sector are provided away from children's homes and include:

- *Long day care (LDC)* — these are centre-based childcare services providing all-day or part-time care for children. Long day care primarily provides services for children aged 0-5 years. Some long day care may also provide preschool and kindergarten programs and care for school children before and after school and during school holidays, where state and territory government regulations allow this. The service may operate from stand-alone or shared premises, including those on school grounds.
- *Family day care (FDC)* — are those services providing small group care for children in the home of an educator. Care is primarily aimed at children aged 0-5 years, but primary school children may also receive care before and after school, and during school holidays.
- *Occasional childcare (OCC)* — comprises services usually provided at a centre on an hourly or sessional basis for short periods or at irregular intervals for parents who need time to attend appointments, take care of personal matters, undertake casual and part-time employment, study or have temporary respite from full-time parenting. These services are aimed primarily at children aged 0-5 years.
- *Outside school hours care (OSHC)* — these services provide care for school aged children to 12 years old before school, after school, during school holidays and/or on pupil free days. OSHC may use stand-alone facilities, share school buildings and grounds and/or share facilities such as community halls.
- *Preschool* — includes services that deliver early childhood education programs provided by a qualified teacher that are aimed at children in the year before they commence full-time schooling, although there are different child starting ages across jurisdictions. In 2008, the Australian Government and the states and territories agreed that by 2013, all children would have access to 15 hours of preschool education per week for 40 weeks in the year before commencing school (preschool is discussed in detail in chapter 12).
- *In-home care (IHC)* — provides a flexible form of ECEC to children where a carer provides the care in the child's home. The formal in-home care supported by the Australian Government is only available to children in certain circumstances. They include where: the child or other children in the home have a disability; the parent, guardian or their partner has a disability which reduces their capacity to care for the child; the child lives in a rural or remote area; the work hours of the child's parent or guardian or their partner are such that no other service is available; and/or the child's

parent or guardian or their partner is caring for three or more children who have not commenced school.

Figure 2.1 **Structure of ECEC services^a**



^a Non-mainstream services are generally not required to satisfy the NQF requirements and only some are licenced by state and territory governments. There are a small number (7) of Budget Based Funded services that are approved for CCB purposes and are required to satisfy the NQF requirements.

There are also other facilities that do not receive public funding, but are licenced by state and territory governments. These include some childcare facilities, such as crèches and childcare centres attached to gyms and shopping centres and other facilities that operate outside the Australian Government funding arrangements. For example, the Tasmanian Government licences 37 centres outside the Australian Government system comprising mostly play centres and neighbourhood based services, the Victorian Government licences 400 children's services, the Queensland Government regulates approximately 64 services and the Western Australian Government licences around 20 occasional care centres (sub. 390; sub. 418; sub. DR893; sub. 416). In addition, around 28 per cent of the 343 non-mainstream services provided under the Australian Government's Budget Based

Funded (BBF) Programme, which primarily provide services for Indigenous communities, are licenced by the states and territories. These services are discussed further in section 2.4.

Preschool services are discussed further in chapter 12.

2.2 Approved service providers

There is a further distinction in formal ECEC services between ‘approved care’ and ‘registered care’. Approved care is the dominant category of care with over 90 per cent of children in formal care using these services. Approved care services are those services approved by the Australian Government for Child Care Benefit (CCB) purposes in accordance with the Government’s standards and requirements. These standards and requirements relate to: the suitability of the service operator/provider and their key staff to provide the appropriate quality of care; their reporting and information obligations to the Government; governance arrangements; the attendance of school age children at particular services; the hours of operation; and compliance with applicable Australian Government legislation and regulation and the state and territory laws and regulations in which the service is located (see chapter 7 for further details). Approved care attracts both CCB and the Child Care Rebate (CCR).

Long day care, family day care and outside school hours services providing approved care must also satisfy the quality standards and operating requirements under the National Quality Framework (NQF). There are also a small number of non-mainstream services (7 services in 2013-14) operating under the Australian Government’s BBF Programme, that are approved for CCB purposes and are required to satisfy the NQF requirements.

Approved care provided through occasional care and in-home care services do not currently have to satisfy the NQF requirements. Interim standards were introduced for in-home care in 2008 with providers required to adhere to these standards until such time they are replaced by national standards. Occasional care is required to satisfy the relevant state and territory standards and regulations.

The number and type of approved services

There were nearly 16 500 approved services in operation in 2012-13 (table 2.1). Services refer to the individual locations or establishments providing the service and an approved service provider may provide services in more than one location or establishment. The providers are discussed in the following section.

Table 2.1 Number of approved childcare services by type and state and territory^a
2012-13

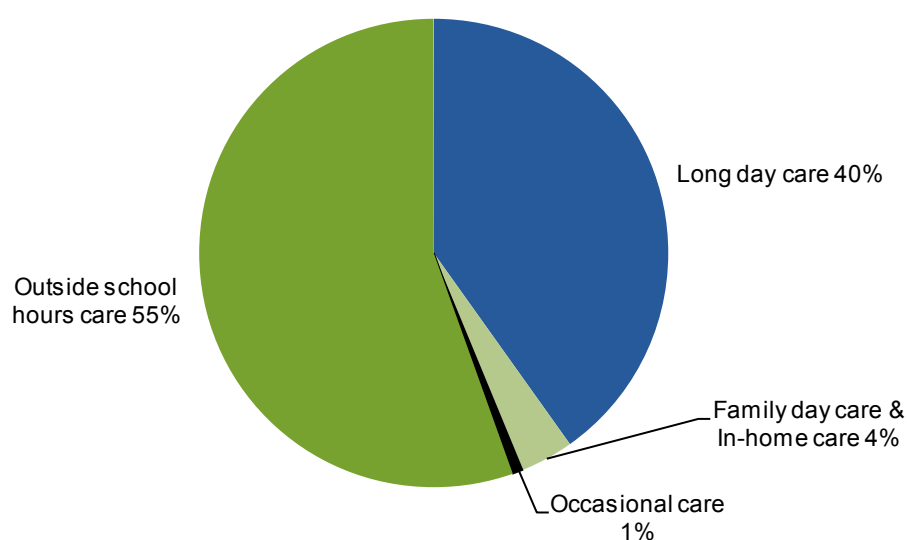
	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>	<i>Aust</i>
Long day care	2 700	1 282	1 432	325	532	118	76	120	6 585
Family day care	136	190	112	21	29	13	6	7	512
In-home care	21	17	21	<5	6	<5		<5	71
Occasional care	38	57	8	<5	11	<5		<5	123
Outside school hours care	2 682	2 244	1 969	906	844	247	108	209	9 208
- <i>Before school care</i>	818	767	593	296	255	50	9	53	2 841
- <i>After school care</i>	1 057	1 051	724	341	333	117	54	98	3 774
- <i>Vacation care</i>	807	426	652	270	256	80	45	58	2 594
Not stated									
Total	5 577	3 776	3 542	1 257	1 421	385	190	340	16 484

^a The sum of the component parts may not equal the total because of the 'not stated' component.

Source: Department of Education administrative data (2012-13).

Of the approved services, long day care and outside school hours care account for the vast majority, around 95 per cent of all approved services. Occasional care accounts for around 1 per cent and family day care and in-home care accounts for just under 4 per cent of all approved services (figure 2.2).

Figure 2.2 Approved childcare services by service type
June 2013



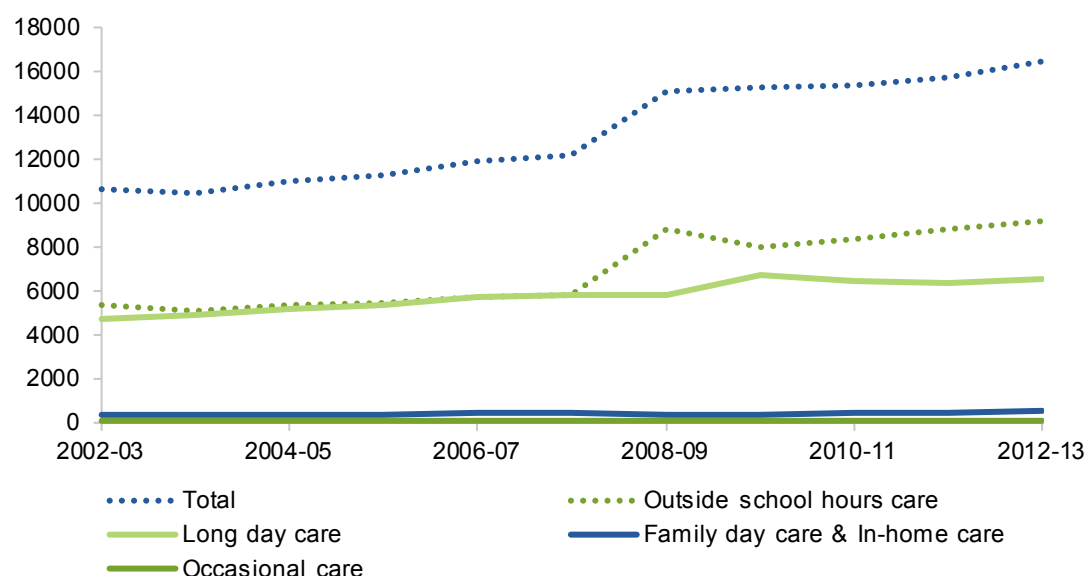
Source: Department of Education (2013b).

In every state and territory, long day care and outside school hours care make up the majority of approved services. In the states and territories with relatively smaller populations, there are only a very small number of family day care and in-home care services. With outside school hours care, there are fewer before school hours care services than after school hours care services in all jurisdictions.

The growth in approved services

There has been strong growth in the number of approved services in recent years. In the decade to 2012-13, the number of services increased by 58 per cent (figure 2.3). The strongest growth has been in long day care and outside school hours care services. Long day care services increased by 50 per cent over this period and outside school hours care just over 66 per cent. The increase in the number of outside school hours care services after 2007-08 (figure 2.3) follows changes to the way in which the number of outside school hours services were counted (prior to this, before school care and after school care had been counted as a single service). There were also changes to the CCR to provide 50 per cent of out-of-pocket expenses up to a maximum limit for approved care in July 2008. The changes to the CCR arrangements are discussed in chapter 4.

Figure 2.3 Number of approved childcare services^{a,b}



^a Occasional care places and in-home care places are capped by the Australian Government. ^b The increase in the number of outside school hours care services after 2007-08 follows changes to the way the number of OSHC services were counted (prior to this before school and after school care had usually been counted as a single service). There were also changes to the child care rebate in July 2008 to provide 50 per cent of out-of-pocket expenses for approved care up to a maximum limit.

Source: Department of Education administrative data (2012-13).

Most outside school hours care services provide both before school and after school care. Nearly three-quarters (72 per cent) provide both before and after school care, just over a quarter (27 per cent) only offer after school care and less than 1 per cent only offer before school care. The small number of occasional care services declined slightly over the period and the number of family day care services remained flat. However, there was a substantial increase in approved family day care services from 512 to 735 services in the 12 month period to 2013-14, an increase of just over 40 per cent (Data from ACEQA).

In-home care and occasional care service places have been capped by the Australian Government since 2000. Once services or locations with allocated places are closed, the places are considered for reallocation by the Department of Education at a later date. The most recent allocation of these places was in the second half of 2012. At that time, 779 in-home care places were available for allocation, an increase of around 18 per cent and 877 occasional care places were available for allocation, an increase of 22 per cent (DEEWR 2013b). The number of children using the different types of services is discussed in chapter 3.

Who are the providers?

Approved services are provided by a diverse group and include community groups, such as church or other not for profit community groups, local governments, large corporate entities operating multiple services as well as sole operators providing family day care services in their own home. Local governments may provide services and there are also on-site services funded or subsidised by employers for the children of their employees.

Some provide multiple services

A number of these providers have multiple services (table 2.2). However, more than half of all providers have only a single service and nearly a third provide two to four services. Less than one per cent of all providers have more than 20 services. Most of the recent growth in services has been in single service providers.

Profit and non-profit service providers

ECEC services are provided both by government, profit and not for profit businesses. Around 50 per cent of approved services are provided on a for profit basis. For profit service providers dominated the provision of long day care, accounting for nearly two thirds of all long day care services. However, for occasional care and in-home care most services were provided on a not for profit basis. Around 25 per cent of family day care services were provided by government. With outside school hours care, around 60 per cent of services were provided by not for profit providers (table 2.3).

Table 2.2 Number of approved services per provider

	2009-10	2010-11	2011-12	2012-13
Number of services per provider				
1 service	3 455	3 616	3 678	3 823
2 to 4 services	2 098	2 058	2 061	2 046
5 to 8 services	177	196	197	186
9 to 12 services	54	58	58	52
13 to 20 services	45	44	45	47
21 to 30 services	22	26	23	23
Over 30 services	32	31	32	34
Total providers	5 883	6 029	6 094	6 211

Source: Department of Education administrative data (2012-13).

Table 2.3 Number of approved services by ownership status
2011-12

	Not for profit	For profit	Government	Percentage for profit
Long day care	1740	4 266	409	66.5
Family day care	115	151	121	39.0
In-home care	32	24	11	35.8
Occasional care	46	9	27	11.0
Outside school hours care	3517	3 477	1839	39.4
Total	5450	7 928	2407	50.2

Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

Family day care coordination units

Family day care coordination units are an integral part of family day care services and are used to coordinate, support and monitor the family day care educators working under that service. The coordination unit assists the family day care educators to satisfy the NQF and other government requirements, assist educators in booking clients and provide advice and information to families in selecting a family day care service. There were 736 family day care coordination units in Australia as at June 2014 (Family Day Care Australia, pers. comm., 11 June 2014).

Inclusion support agencies and inclusion support facilitators

Although not involved in the provision of childcare services, inclusion support agencies provide practical support to eligible ECEC services to build their capacity to provide a quality environment for children with additional needs. They employ inclusion support facilitators to work directly with the service to identify existing strengths and areas in which additional support may be required. There are 29 of these agencies nationally, employing 294 inclusion support facilitators (information provided by Department of Education). The funding of these arrangements is discussed in chapter 4.

2.3 Registered care providers

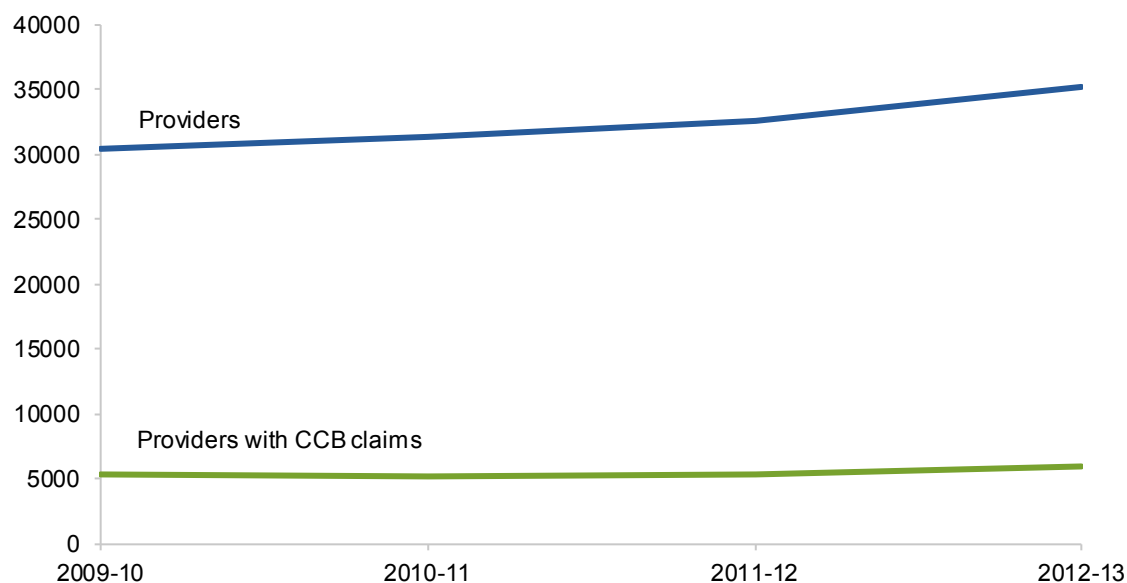
Registered care is child care provided by grandparents or other relatives, friends, neighbours, nannies or babysitters who are registered as carers with the Department of Human Services. In some circumstances it can also include registered care provided by individuals in private preschools and kindergartens, some occasional care services and some outside school hours care services. Registered care providers also have to meet state and territory standards and regulations, but do not have to (but may nevertheless choose to) satisfy the NQF.

Families using either registered care or approved care are eligible for the Child Care Benefit (CCB), but only families using approved care are eligible for the Child Care Rebate (CCR). These measures are discussed further in chapter 4.

There were over 35 000 registered care providers in Australia in 2013. Of these, only a small number (around 6000) provided care during the year (and had parents who lodged claims for reimbursement of CCB for that care), as evidenced by the number of registered care providers that had CCB claims against them over the 2012-13 financial year. The number of registered care providers has increased slightly in recent years. In the period between 2009-10 and 2012-13, the total number of registered care providers increased by around 16 per cent and the number of registered care providers with CCB claims against them increased by just over 12 per cent (see figure 2.4).

The majority (around 78 per cent) of registered care providers are located in New South Wales, Victoria and Queensland, which is closely in line with the relative size of their population. In these jurisdictions, between 14 and 19 per cent of the providers had CCB claims against them in 2012-13. In the other jurisdictions, apart from Tasmania, less than 10 per cent of the registered care providers had CCB claims against them in the same period. Nationally, around 17 per cent of all registered care providers had CCB claims against them in 2012-13 (table 2.4).

Figure 2.4 Registered care providers and registered care providers with CCB claims



Source: Department of Human Services administrative data.

Table 2.4 Registered care providers and registered care providers with CCB claims by state and territory 2012–2013^a

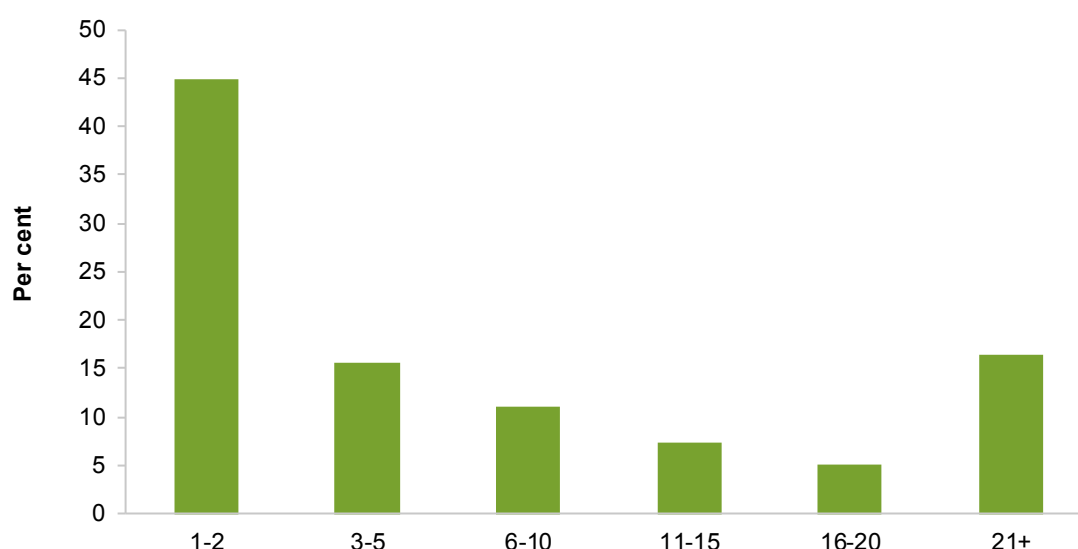
	<i>Registered care providers</i>	<i>Share of total registered care providers</i>	<i>Registered care providers with CCB claims</i>	<i>Share of registered care providers with CCB claims</i>
		%		%
New South Wales	9 823	27.9	1 865	19.0
Victoria	9 460	26.8	1 712	18.0
Queensland	8 180	23.2	1 138	13.9
South Australia	2 286	6.5	162	7.1
Western Australia	2 149	6.1	197	9.2
Tasmania	723	2.0	76	10.5
Northern Territory	318	0.9	17	5.3
ACT	779	2.2	77	9.9
Location unknown	1 542	4.4	737	47.8
Total	35 260	100	5 981	17.0

^a Registered care providers includes all active providers. Registered care providers with claims for CCB includes all active registered care providers who provided care regardless of whether or not the CCB claim was successful.

Source: Department of Human Services administrative data.

Most registered care providers only have a small number of children in their care. Nearly half (45 per cent) of registered care providers with CCB claims cared for one or two children in 2012-13 and a further 15 per cent cared for 3 to 5 children. The remaining 40 per cent cared for at least 6 children and are likely to be small centre or school based services (figure 2.5).

Figure 2.5 Registered care providers with CCB claims by number of children in their care 2012-13



Source: Department of Human Services administrative data.

2.4 Other service providers

Non-mainstream services funded through the BBF Programme

Non-mainstream services funded through the BBF Programme include mobile child care services, Multifunctional Aboriginal Children's services (MACS), Indigenous playgroups, outside school hours care, flexible services and Indigenous enrichment programs and crèches.

- Mobile services are where child care equipment and early learning staff travel to areas to provide child care and early learning sessions and support. This may include vacation care, playgroups, on-farm care, parenting support, toy libraries and parent resource libraries. Mobile services may also provide occasional or regular long day care sessions in community venues where state or territory laws permit.

-
- Multifunctional Aboriginal Children's Services deliver long day care for children not yet attending formal schooling and at least one other form of child care and early learning session or activity. This other activity typically include outside school hours care, playgroups, nutrition programs or parenting programs.
 - Flexible services provide child care and early learning sessions for full-time type hours (a minimum of five hours per day for four days per week). This may include long day care, overnight care and other services provided for full-time hours or longer.
 - Crèches provide child care, occasional care and early learning sessions for less than full-time type hours.

These services are funded through the BBF sub program in a limited number of locations where the market would otherwise fail to deliver mainstream services. These services are generally not approved to receive CCB (only seven BBF services were approved for CCB purposes in 2013-14) and the cost to families in using these services is typically minimal (chapter 4). These services are currently largely excluded from the NQF. Around a quarter of these services are licenced by the relevant state or territory government.

Following a review of the BBF Programme in 2014, the Government announced that it would be introducing an outcomes-based performance management framework for BBF services and developing a quality improvement strategy to enable these services to progressively satisfy the NQF requirements (Ley 2014b) (chapter 7).

There are around 340 of these services operating across Australia and around 80 per cent of these have an Indigenous focus. Over half of non-mainstream services are located in the Northern Territory (35 per cent) and Queensland (24 per cent) (figure 2.6).

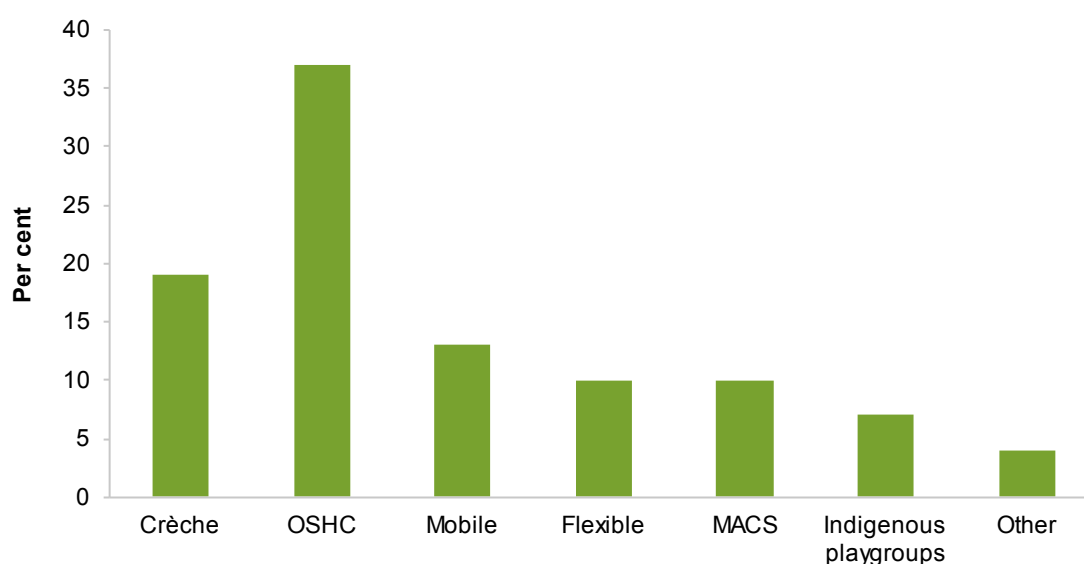
Outside school hours care accounted for around 37 per cent and crèche for around 19 per cent of non-mainstream BBF services, mobile services for around 13 per cent and MACS for around 10 per cent (figure 2.7).

Figure 2.6 Non-mainstream BBF services by jurisdiction
2013-14



Source: Department of Education administrative data (2013-14).

Figure 2.7 Non-mainstream BBF services by type^a
2013-14



^a MACs (Multifunctional Aboriginal Childrens services); Flexible (may include LDC, OSHC, occasional care, on-farm care, multi-sited care and overnight care); Other services include services such as nutritional programs and toy libraries.

Source: Department of Education administrative data (2013-14).

The informal sector

The informal sector comprises family, friends, neighbours, nannies, au pairs and babysitters providing care on a paid and unpaid basis. Although there are limited data on the number of child care services the informal sector provides — based on the proportion of children attending some form of informal care — it appears to provide a significant number of services. As at June 2011, 39 per cent of children aged 0 to 12 years usually attended some type of informal care (ABS 2012b). Furthermore, 1.4 million people identified themselves in the last Census as providing unpaid care for children other than their own (ABS 2013b).

Grandparents

The majority of informal care is provided by grandparents. Nearly two-thirds of the children aged 0 to 12 years who usually attended some type of informal care were cared for by grandparents (ABS 2012b). These services are not provided exclusively, with most families utilising a mix of formal and informal care (chapter 3).

The Council on the Ageing (sub. 412) commented that there appeared to be a preference for grandparents to provide outside school hours care with 425 000 children aged between 6 and 12 cared for by grandparents outside of school hours compared to 237 000 in formal outside school hours care. This may also indicate a preference on the part of grandparents to provide informal care to older children.

Nannies and au pairs

There are limited data on the number of nannies providing ECEC services. According to the most recent ABS census, around 6500 individuals identified themselves as being employed as a nanny in 2011, although this figure is likely to be an underestimation. The Australian Nanny Association estimated that there were approximately 30 000 nannies currently working in Australia (sub. 254). The Australian Nanny Association said that nannies, in limited numbers, were providing subsidised services such as in-home care and services funded through the special child care benefits scheme. However, as these placements are limited to around 7000 nationally, the majority of nannies were working in private arrangements for families. These nannies are employed on full-time, part-time or casual basis either directly by a family or through an agency (sub. 254). While many are employed through an agency, a large, but unknown proportion are employed directly by families often on a 'cash in hand' basis. The scope for use of nannies to provide flexibility in care arrangements for families is discussed in chapter 10.

Au pairs are usually from outside Australia, frequently as part of a cultural exchange and reside with the host family. Au pairs are often in Australia on a working holiday visa (visa subclass 417) or a work and holiday visa (visa subclass 462) which requires them to change employers or families after six months of employment. They provide care for the children in the family in exchange for board and some payment. There are estimated to be around 10 000 au pairs currently working in Australian homes (AuPair World, sub. 446).

3 Family use of ECEC

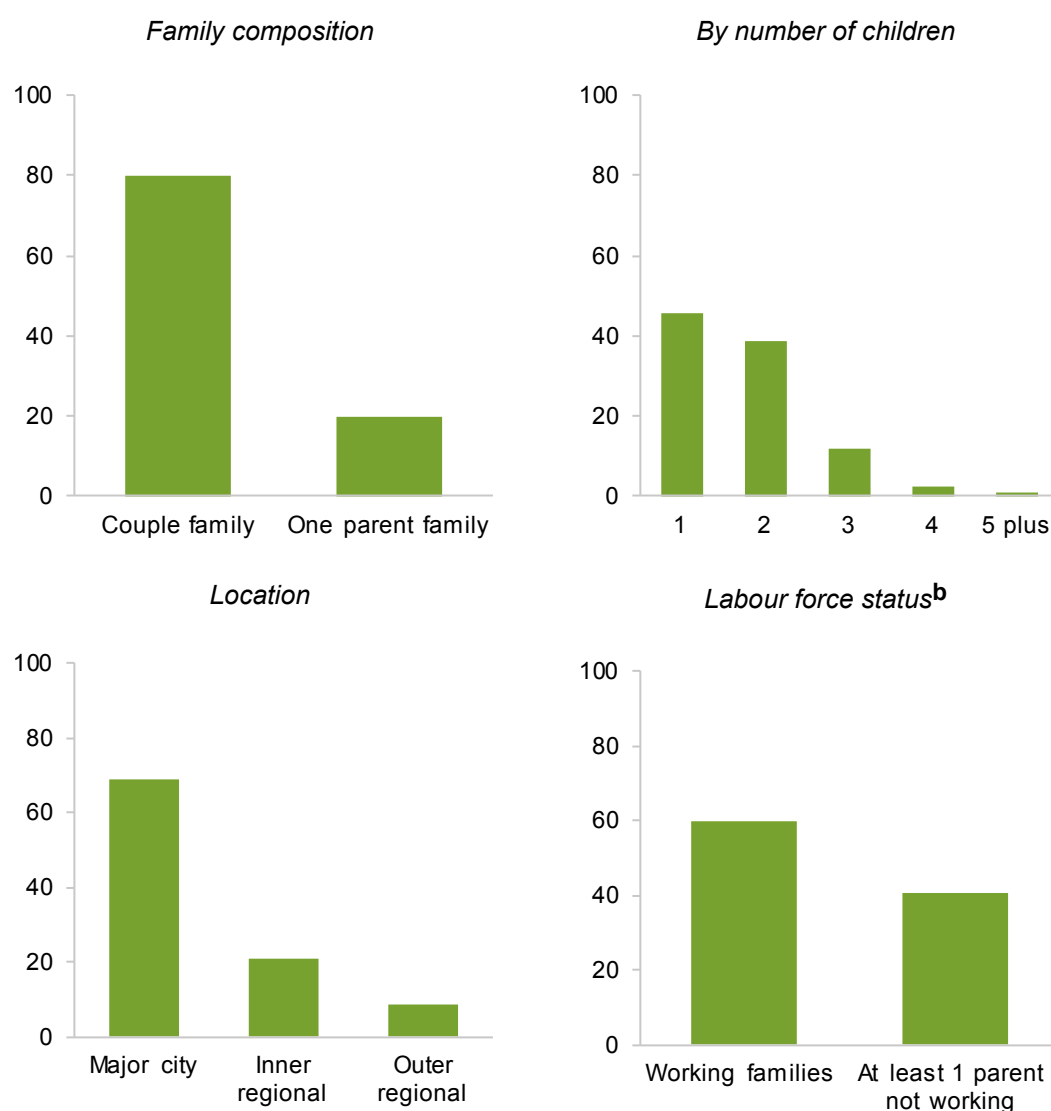
Key points

- In Australia, there are around 3.8 million children under 13 years old, living in over 2 million families. Around half of these children use some form of non-parental care that is either formal, informal or both.
 - With the growth of the formal early childhood education and care (ECEC) sector (chapter 2) combined with the rise in female workforce participation (chapter 6), families have increasingly relied on formal childcare arrangements, especially long day care (LDC). About 30 per cent of children attend formal ECEC services.
 - Informal arrangements (primarily family members, friends or nannies) still play a crucial role in the provision of non-parental care for children with around 40 per cent of children utilising this type of care.
 - Some children attend formal ECEC services as well as being cared for under informal arrangements.
- Children largely spend time in non-parental care so parents can work, particularly school-aged children. Nevertheless, a sizable proportion of children not yet at school attend formal ECEC as their parents consider that it can help their development and transition to school.
- Age is the primary factor affecting the type of formal ECEC services children attend.
 - Children under one year old tend not to go to formal ECEC. Attendance rates increase thereafter, peak at 4 years old and drop significantly once children reach school age.
 - The vast majority of children aged 4–5 years attend a dedicated preschool or a preschool program in a LDC.
 - While playing a pivotal role in facilitating parents going to work, only 15 per cent of school-aged children attend before and/or after school care — typically for around 5 hours per week.
- Reflecting the age distribution of children participating in formal ECEC services, the majority of children in Australian Government approved ECEC attend LDC services — typically for around 16 hours per week.
- Grandparent care is by far the most dominant type of informal care with around 26 per cent of children cared for by their grandparents. Only 2 per cent of children are under the care of nannies or babysitters.
- Future demand for non-parental care of children is likely to increase as the population grows. Just over 100 000 additional full-time formal ECEC places will be needed by 2026.

3.1 The nature of non-parental care in Australia

In Australia, there were approximately 3.8 million children aged between 0 and 12, living in over 2 million families in June 2013 (ABS 2012b, 2014a). Most families with children are couple families with one or two children, living in a major city, in ‘working families’ (figure 3.1).

Figure 3.1 Families in Australia
Per cent of families with children^a

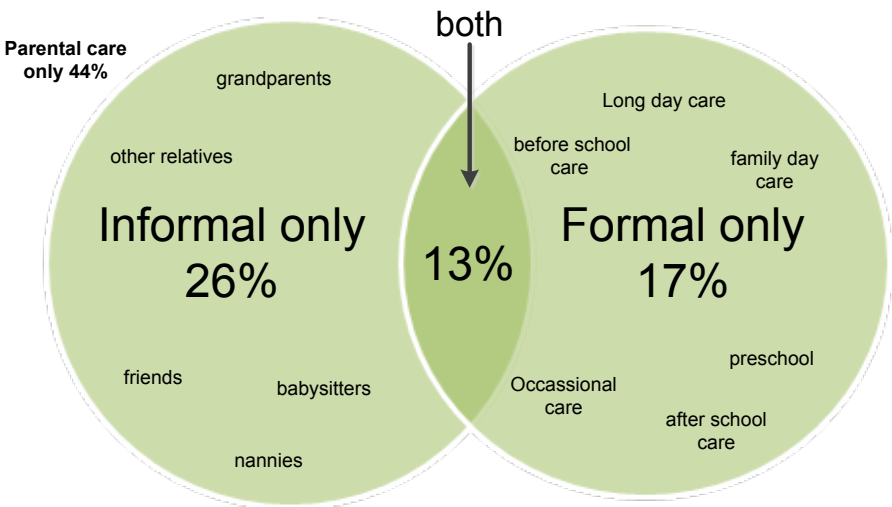


^a Children aged 0–12 years as at June 2011. ^b ‘Working families’ refers to couple families with both parents employed or an employed single parent.

Source: ABS (2012b), Table Builder.

Non-parental care of children helps families function, balancing the needs of children to learn and develop and parents to work or study, go shopping or attend appointments and social activities. Just over half (around 2 million children or 56 per cent) of all children under 13 years old attend services provided by the formal ECEC sector and/or were cared for by other family members, friends or nannies. Around 13 per cent of children are using both types care (figure 3.2).

Figure 3.2 Children in non-parental care by sector type^a
Per cent of all children aged 0 to 12 years



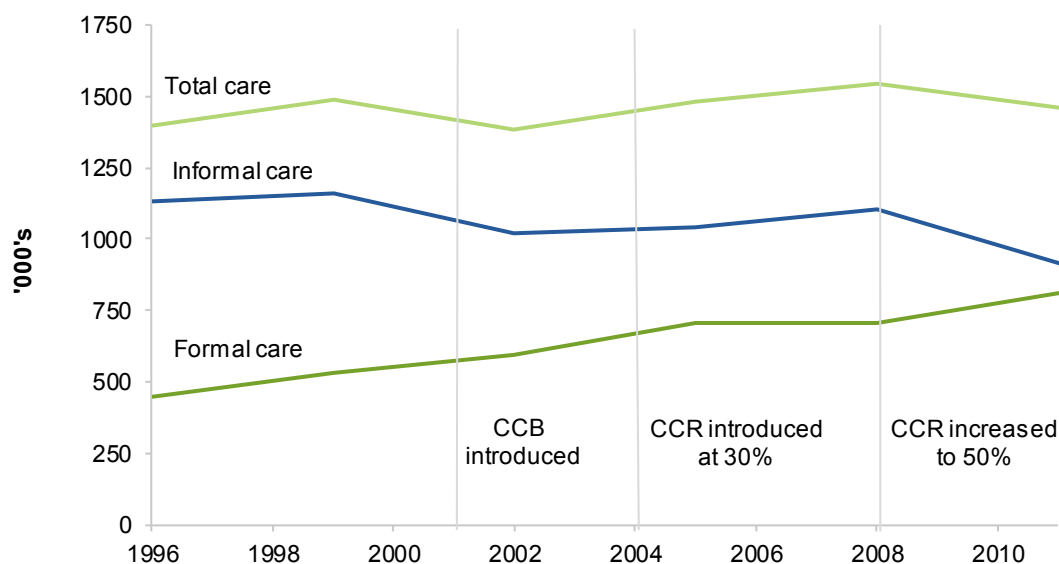
^a Children aged between 0 and 12 and type of care usually attended as at June 2011. The classification of care into formal and informal is based on the ABS definitions. Formal care is defined as regulated care away from the child's home while informal care is unregulated care either in the child's home or elsewhere. For the purposes of this inquiry, children who usually attend preschool are also counted as attending formal care reflecting the increasingly blurred distinction between preschool and other forms of formal education and care.

Source: ABS (2012b), Table Builder.

Over the 15 years to 2011, there has been an almost doubling in the number of children attending formal ECEC services — far in excess of the growth in the population of children (figure 3.3). The number of children being cared for informally has declined by almost 20 per cent over the same period.

Figure 3.3 Children in non-parental care^a

Children aged 0 to 11 years



^a Due to changes in data collection, time-series data are only available for: (i) type of care attended in the week prior to the collection in each year surveyed, and (ii) for children aged 0-11 years. Data for March 1996 and June for 1999, 2002, 2005, 2008 and 2011. Intervening years have been interpolated. Preschool is not included in formal care for time-series analysis as the data are not available. Some children attend both formal and informal care and will be counted in each sector. However, children are counted once in 'total care'.

Source: ABS (2012b).

Who is attending formal early childhood education and care?

The decision to send children to ECEC services and the choice of a particular type of ECEC service is often influenced by workforce participation, family composition, demographic characteristics and the type of care parents feel is appropriate for their children at different ages. For example, parents who prefer their children to be cared for and educated in a home environment may favour services such as family day care (FDC) or nannies. Ultimately, the observed use of formal ECEC is the outcome of the services offered by providers (supply), parents' preferences (demand) and any trade-offs parents are willing to make to accept the services available. Chapters 10 and 11 discuss issues associated with accessibility and affordability of ECEC.

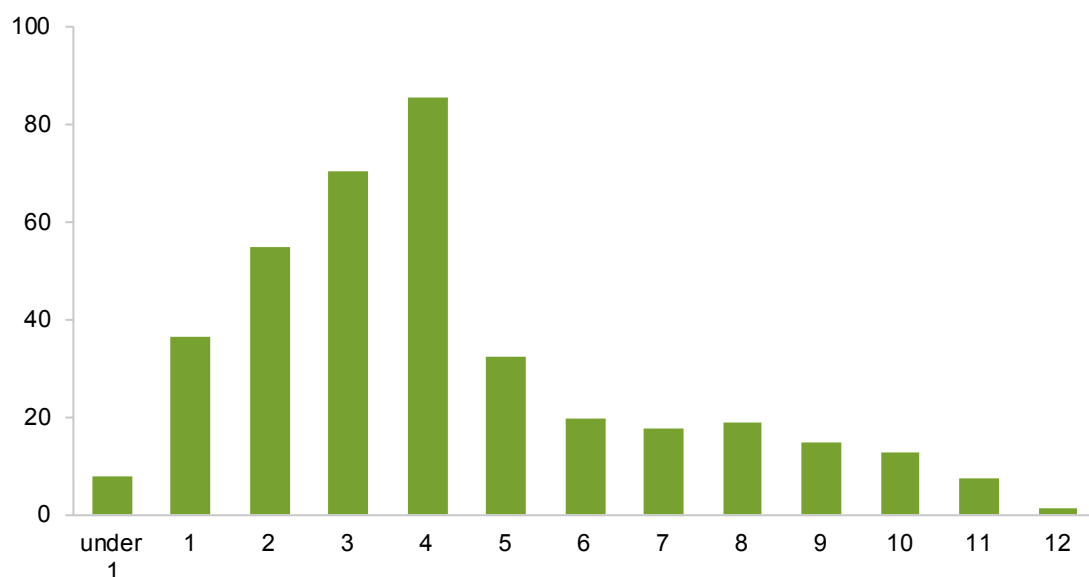
Age of children in ECEC

Age is the primary factor affecting a child's ECEC arrangements. This is, in part, because of the role that early childhood education and school play as children get older, and because of preferences regarding which forms of care are considered appropriate for children of different ages (Baxter 2013a).

Children under one tend not to go to formal childcare, with attendance rates increasing from one year, peaking at 4 years (preschool year), and dropping significantly once children reach school age (figure 3.4).

While there are strong family preferences in Australia for babies to be cared for by their parents, among those who do require formal care, participants highlighted the difficulty of accessing childcare for very young children (chapter 10).

Figure 3.4 Children using formal ECEC services by age^a
Per cent of age group



^a Children aged between 0 and 12, type of care usually attended, including LDC, FDC, occasional care, preschool and before and after school care, as at June 2011.

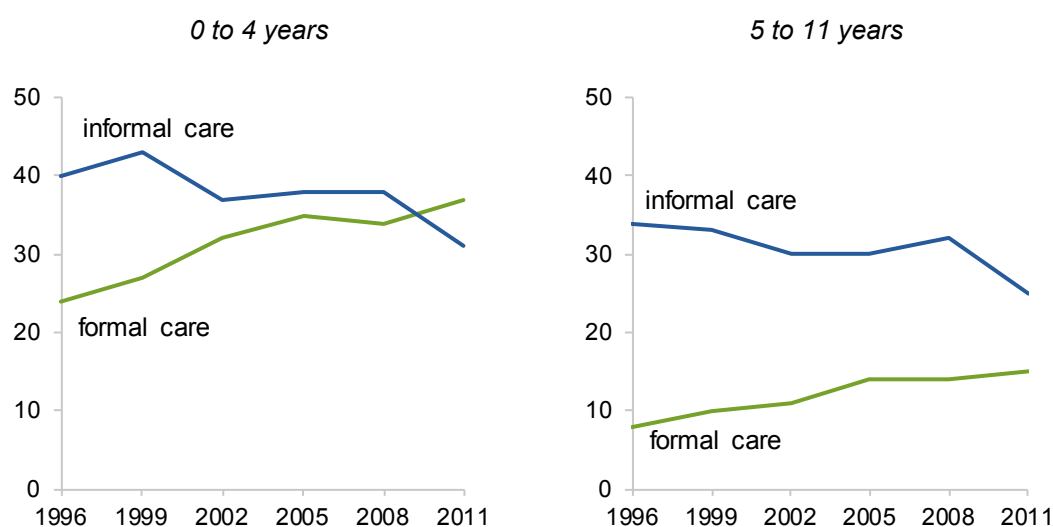
Source: ABS (2012b), Table Builder.

For children aged 0 to 4 years, there has been no growth in the proportion of children spending time in non-parental care (ABS 2012b). However, there has been an increased reliance on formal care (primarily LDC) with a corresponding fall in the proportion of children in informal care (figure 3.5).

While there has been a growth in the proportion of 5 to 11 year olds attending formal services, overall attendance rates remain lower than the 0 to 4 age group (figure 3.5).

Figure 3.5 Children in formal and informal care^a

Per cent of age group



^a Due to changes in data collection, time-series data are only available for: i) type of care attended last week, and ii) for children 0-11 years. Data for March 1996 and June for 1999, 2002, 2005, 2008 and 2011. Intervening years have been interpolated. Formal care does not include preschool for time-series analysis. Some children attend both formal and informal care and will be counted in each sector.

Source: ABS (2012b).

Type of ECEC services used

Reflecting the age distribution of children participating in formal ECEC services, the majority of children in Australian Government approved ECEC attend LDC services (table 3.1). FDC, in-home care and occasional childcare (OCC) services play a much smaller role in providing non-parental care for children. The number of FDC places were historically capped by the Australian Government, while in-home care and OCC services continue to be capped (chapter 2). Preschool — targeted at children in the year or two prior to starting school — plays a key role for children aged 3 to 5 years old, with almost 300 000 children enrolled in preschool. Before and after school care and vacation care, the predominant types of formal care for school aged children, cater for about 33 per cent of children aged 5 to 12 years in Australian Government approved ECEC services (table 3.1).

Table 3.1 Children enrolled in ECEC by service type

<i>Type of care</i>	<i>Number of children</i>	<i>Per cent of target age group^a</i>
Approved care services ^b		
Long day care	831 690	38
Family day care and In-home care	191 260	9
Occasional care	13 080	1
Outside school hours care ^c	462 100	33
before school care	180 150	13
after school care	370 200	26
vacation care	274 020	19
<i>Total number of children enrolled in at least one type of approved care service^d</i>	1 366 670	38
Preschool enrolments ^e	272 810	98
Budget Based Funded services ^f	17 700	1
Registered care ^g	52 100	1

^a Target age group refers to the age group most likely to attend an ECEC service type. ^b Data for 2012-13. ^c Outside school hours care includes before school care, after school care and vacation care. ^d Children may attend more than one type of service and will be counted once in each service type but counted only once in the total. Consequently, the type of care components will not sum to the total. ^e Data for 2013. Preschool enrolments in the year before full-time schooling from dedicated preschool providers and preschool programs in LDC. ^f Data for 2012-13 ^g Data for 2011-12. Information on use of registered care by type of care is not available.

Source: Department of Education administrative data (2012-13); ABS (2014j); Department of Human Services administrative data (2011-12); Deloitte Access Economics (Forthcoming).

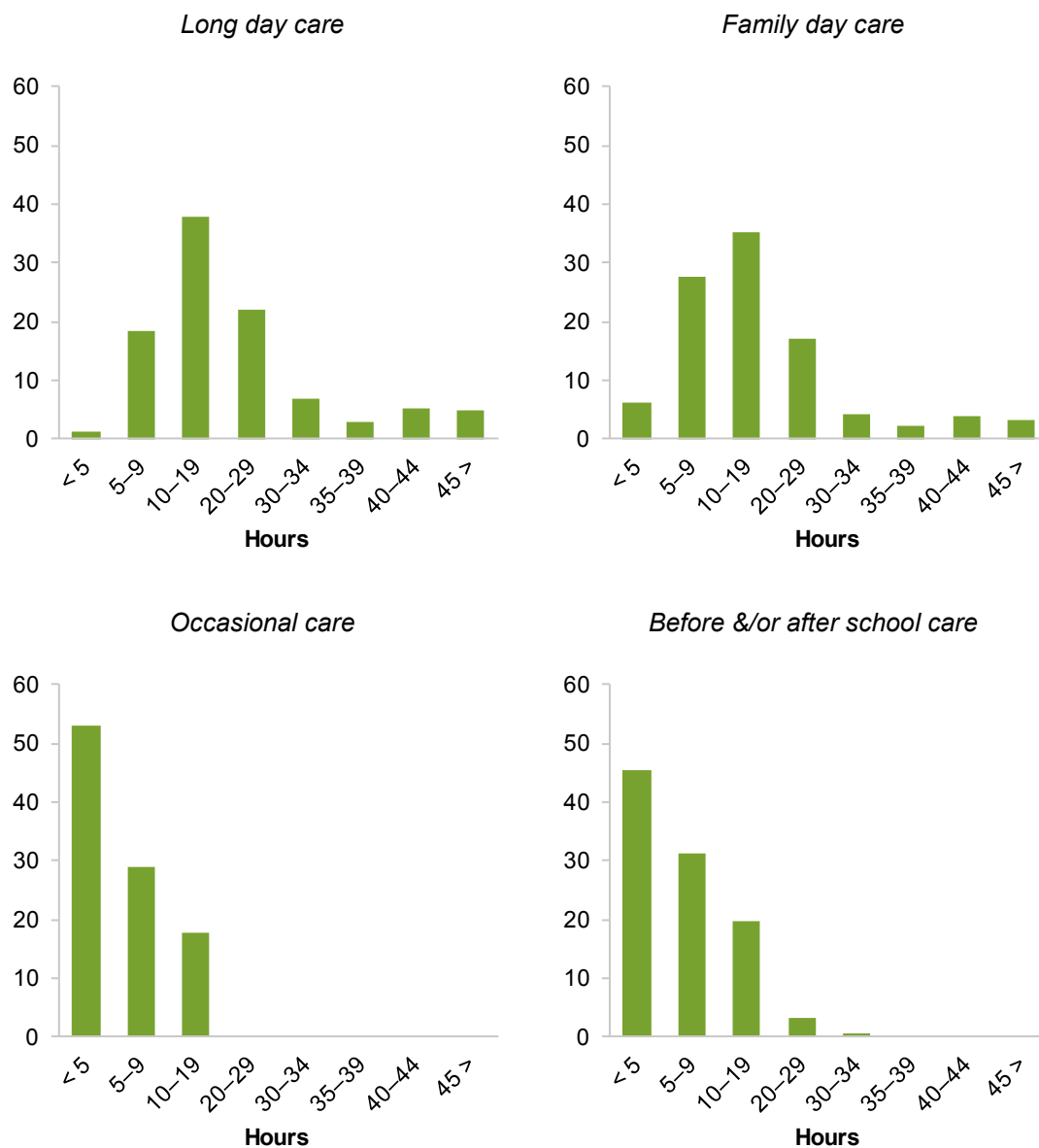
Hours of ECEC

The hours of attendance at ECEC services vary depending on the type of service attended (figure 3.6).

- The median hours of attendance at LDC and FDC is 16 and 14 hours per week respectively (ABS 2012b).
- The median hours of attendance at OCC is only a few hours of care per week (less than 5) (ABS 2012b).
- As before and after school care is supplementary care at the beginning and/or end of the school day, the majority of children (77 per cent) who attend before and/or after school care do so for less than 10 hours per week, with children attending for roughly 5 hours per week. This equates to about two afternoon sessions per week.

Children enrolled in preschool generally attend for 15 hours or more, corresponding to the commitment made by state and territory governments under the national partnership agreement (chapter 12).

Figure 3.6 Children by type of care and weekly hours of care^a
 Per cent of the population attending each type of care by hours per week



^a Children aged 0–12 years who usually attended care.

Source: ABS (2012b), Table Builder.

Who is using informal care?

Informal care — consisting of grandparents, a non-resident parent, other relatives, friends, babysitters and nannies looking after children — plays a very significant role in the provision of non-parental care (table 3.2). The importance of this sector is reflected in its size — approximately 1.4 million children (39 per cent of all children) have regular informal care arrangements:

- there are almost 1 million children in informal care only (26 per cent of all children) — compared with 630 000 children attending formal care only
- an additional 370 000 children combine formal and informal care (13 per cent of all children).

Table 3.2 Children cared for in the informal sector^a
Per cent of all children 0 to 12 years

<i>Informal care</i>	<i>%</i>
Grandparent	26
Non-resident parent	7
Other relative	7
Other person	6
Total informal care^b	39

^a Children aged 0–12 years who usually attended care as at June 2011. ^b Children may use more than one type of informal care and will be counted once in each service type. Consequently, the type of informal care components will not sum to the total. Around 13 per cent of children in informal care arrangements also attend formal care. These children are counted in the above table.

Source: ABS (2012b), Table Builder.

Many families have a preference for informal care, in part because it means their children are generally cared for by someone they already know, in a home environment, allowing for more flexible hours than formal ECEC services and usually at no cost (92 per cent of informal care is unpaid care) (Baxter 2013a). Informal care can also be a ‘fall-back’ option for parents who are not able to get care or sufficient care in formal ECEC.

Children in grandparent care

Grandparent care is by far the main type of informal care with around one-quarter of children cared for by their grandparents (table 3.2 and box 3.1). In comparison to formal ECEC services:

- the proportion of children in ‘grandparent care’ is relatively consistent across child ages
- children are usually cared for by their grandparents for a small number of hours per week, with children under 4 years old cared for by their grandparents for longer hours (7 hours median) than children that attend school (3 hours median) (ABS 2012b).

Box 3.1 **The importance of grandparents in providing care to children**

Grandparent care is often used by parents to help reduce childcare costs as well as help their children develop connections with their grandparents. The Commission received the following comments through the inquiry website:

... it is beneficial for many children to have a mix of care - grandparents encourage respect for the elderly and also allow children to see complex family relationships and interactions. (comment no. 52, ECEC worker and user)

... many families are heavily supported by grandparents/aunts, etc for childcare. Of course often out of love. (comment no. 103, ECEC user)

I need to work but find it hard to afford childcare I use my mum 1 day a week so I can afford to go back to work. (comment no. 361, ECEC user)

... my Mum suggested about a year ago that she go part time to work 4 days a week so she can look after my youngest daughter all day and get my eldest daughter to school. We jumped at the chance to save the money and so they could have quality time together. (comment no. 166, ECEC user)

On alternate days my children are cared for by grandparents and my partner stays home 1 day a week. (comment no. 291, ECEC user)

Submissions also highlighted the pivotal role of grandparents:

My wife and I made a substantial commitment to assist in the care of our two grandchildren over the last three years. For one year we moved from Newcastle to live with our son in Canberra – solely to assist with childcare. And for two years my wife travelled to Canberra for one week every a month – solely to assist with child care. (Council of the Ageing, sub. 412, p. 4)

... informal care, such as grandparents and extended families, is still in use by many families, often to complement formal care in order to minimise costs. (Local Government Children's Services Reference Group, sub. 240, p. 13)

In Aboriginal communities in this region often grandparents take on significant roles in caring for their grandchildren. ... Often grandparents are the strong, protective people for children. (Good Beginnings Australia, sub. 340, p. 11)

Without grandparent support, it would be very difficult for their mother to either work or study while the boys were under school age. This would disadvantage both mother and child because the set-back in the mother's career reduces the benefits she can offer her child over the longer period. (Business and Professional Women Australia, sub. 85, p. 6)

Grandparents, especially, are now becoming a common part of the mix in supporting parents return to work plans where childcare is unaffordable, not accessible or where the parents prefer extended family to participate in the child's overall development and wellbeing. (Playgroup Association of Queensland Inc sub. 265, p. 3)

Children in nanny care

Around 6 per cent of children are usually cared for by non-relatives (table 3.2). This group of carers is a diverse group including friends, neighbours, nannies and babysitters, and who care for children for a variety of reasons. For example, this care may be for a few hours while a parent is attending appointments or goes shopping (and is unpaid) or for an extended number of hours while parents work (and is paid care).

Nannies, employed by parents to care for their child or children in their own home, are counted within the informal care sector as they are generally outside the scope of government regulations or subsidies (with the exception of approved in-home care, see chapters 2 and 4). Around 2 per cent (or 80 000) of children in an estimated 45 300 Australian families are usually cared for by nannies and babysitters (ABS 2012b). While usage at any point in time is much lower than other forms of care, many other families have expressed a desire to use nannies, but find the cost prohibitively expensive. Many parents have called for government subsidies to be extended to this form of care (chapter 11).

Qualitative information submitted to the Commission indicates that nannies are largely used to free up time for parents to work (box 3.2). For some parents, nannies are a short-term arrangement until a preferred ECEC service is available. For other families, nannies are used because parent working arrangements (such as shift work or long hours) do not fit within the standard operating hours of LDC or FDC and and/or families prefer children, especially very young children, to be cared for at home. Parents of multiple children have also highlighted the logistical benefits of having a nanny care for children at home, allowing them to better manage being in the workforce, including traveling to and from work. Chapter 10 discusses flexibility of current ECEC services.

Box 3.2 **Reasons why parents use nannies**

Working extended hours, irregular hours or shift work

As a permanent firefighter I am a shift worker. My roster is an 8 day rolling roster so though I can tell which days and nights I am working for the next 10 years they are different days and nights every week. Therefore, regular childcare where I have to nominate a day each week is not an option. (comment no. 23, person not involved in ECEC)

I use family long daycare and nanny 1-2x per wk. ... nanny for weekend work as daycare not available then. (comment no. 246, ECEC user)

... they don't open early enough and are always booked out so therefore I resort to friends and nannies as I don't have relatives here ... I am a nurse ... (comment no. 279, ECEC user)

I use a nanny to look after my children at home because I work irregular hours ... (comment no. 346, ECEC user)

Since 7 months of age we have paid for a full time Nanny ... Day care even if available would struggle to meet our needs as my husband is a medical professional who easily works a 12 - 14 hour shift therefore not fitting into most day care hours of 7am - 6pm. (comment no. 378, ECEC user)

Short-term use due to lack of formal care

I had no childcare place after 12 months of maternity leave, despite putting my daughter on waiting lists while pregnant. ... It forced me to use a private nanny at large expense for the first 6 months of returning to work. (comment no. 57, ECEC user)

I recently employed a temporary nanny to cover while I was waiting to change my daycare days ... (comment no. 163, ECEC user)

I have had to rely on a nanny from 6 months of age despite having my son listed at a dozen child care centres from when he was in utero. (comment no. 258, ECEC user)

I had to return to work during that time so we had to employ a nanny. (comment no. 358, ECEC user)

... all I have managed to get in terms of child care is one day per week which will commence in January 2014. In the meantime I've used family (who have very limited availability) nannies (very expensive) and occasional care via my local council (very limited and not easy to get a place). (comment no. 413, ECEC user)

My main concern at the moment is after school care. My child has been on the waiting list now for 2 years yet has not been given a place for after school next year. ... I am forced to look for a nanny for 3 days of after school care. (comment no. 327, ECEC user)

Preferred form of care

I don't like the idea of very young children being looked after in a mass care environment.

... I prefer for my children to be looked after in their home environment by someone I know and trust, and for whom I set the ground rules. (comment no. 346, ECEC user)

[My children] prefer to have nanny support so that they can spend more time at home than in an after-school environment. (comment no. 368, ECEC user)

Logistics

The nanny option is very expensive but offers a level of dependability and ease as they come to you and you can focus on getting yourself to work. (comment no. 413, ECEC user)

3.2 Why is non-parental care needed?

While parents use childcare for a range of reasons, ‘work’ is the overwhelming reason (figure 3.7).

- Prior to starting school, the main reason parents use formal care for their children is work-related reasons (64 per cent).
- Parents of school age children almost solely send their children to before and after school care for work-related reasons (90 per cent).
- Informal care is also mainly used for work-related reasons (for both children not attending school and school age children).

There is, however, a sizable proportion of children in formal ECEC services for child development reasons and a substantial proportion of children have informal care arrangements so parents can attend to personal needs (figure 3.7).

In particular, around one-quarter of children are in informal care for parent related reasons — largely with grandparents and for less than 5 hours per week. A small proportion of children (9 per cent) are enrolled in formal ECEC services for reasons related to their parents’ non-work needs (ABS 2012b).

Use of non-parental care to facilitate workforce participation

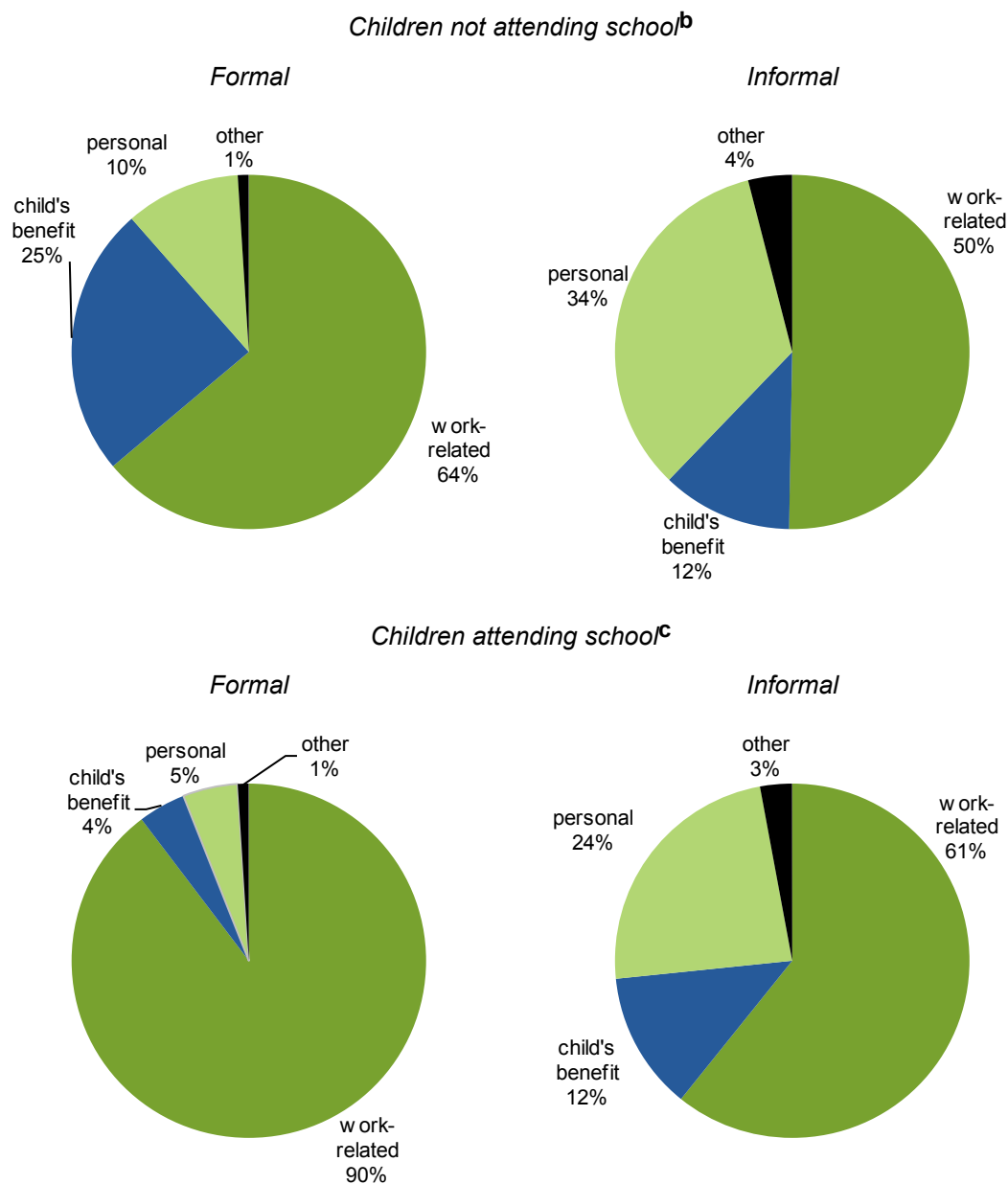
‘Working families’ — couple families with both parents working and employed single parent families — are more likely to use non-parental care (both formal and informal) across all age groups than families that have at least one parent not working (figure 3.8).

Nevertheless, use of non-parental care varies by age when mothers are employed — with low use of childcare for very young children or school age children:

- Around 20 per cent of children aged zero to two years old — with both parents working — are cared for solely by their parents. Gray, Baxter and Alexander (2008) found the situation of both parents working, but not using non-parental care, was more likely when the mother worked short hours (1-15 hours per week), was self-employed and the child was being breastfed. These mothers seem to manage their work around their caring responsibilities so that they can be the primary carer.
- Parents of older children have greater scope to participate in the work force as children attend school for approximately 6 hours per day. If it is possible for parents to work only school hours then they may not need to use non-parental care. Nevertheless, comments were received from parents claiming a shortage of before and/or after school care at least in some locations and most working parents need some form of non-parental care for their children during the (typically) 12 weeks per year of school vacations (chapter 10).

Figure 3.7 Main reason for using care by type of care^a

Per cent of children in each type of care and age group

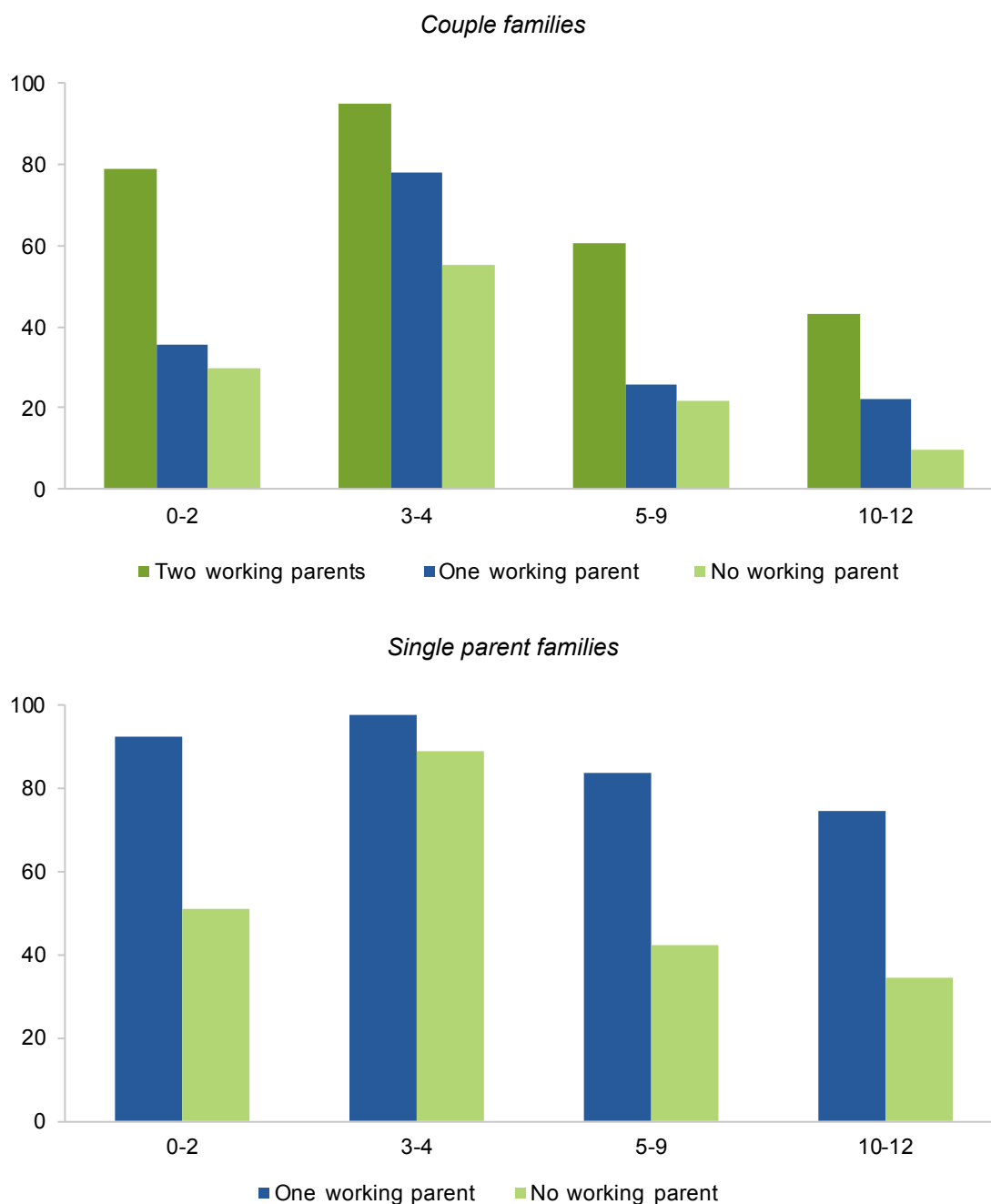


^a Type of care usually attended as at June 2011. 'Other' refers to other reasons not classified elsewhere. Informal care provided by non-residential parent excluded. ^b Children aged between 0 and 4, excludes children attending preschool only. ^c Children aged between 5 and 12.

Source: ABS (2012b), Table Builder.

Figure 3.8 Non-parental care by child age group and parental employment status^a

Per cent of children by age group and employment status of parents



^a Children aged between 0 and 12, type of care usually attended as at June 2011, includes preschool.

Source: ABS (2012b), Table Builder.

Hours of non-parental care

As mothers' attachment to the labour market increases — by working a greater number of hours — the increased need for non-parental care is greater and is principally met through children attending formal ECEC (either formal only or formal combined with informal). The proportion of children in informal care does not increase with mothers' working hours with the exception of school aged children (6–11 years) (Australian Institute of Family Studies (AIFS), sub. 391).

Most children attend formal ECEC for fewer hours than their mothers' are in paid employment (ABS 2012b). This may reflect the significant role informal care plays in making up the remainder of the hours and, for couple families, the role of fathers in caring for children while the mother works. Gong and Breunig (2012b) found that over 30 per cent of households used fewer hours of formal childcare than the number of hours worked by mothers among partnered women with children aged 0 to 5 years.

Use of non-parental care for developmental reasons

As noted above, for some parents their child's development is their primary motivation for using non-parental care, particularly for children not yet attending school. Higher rates of attendance in formal ECEC for 3–4 year olds (figure 3.4), even among children of non-employed mothers, reflects that as children grow out of infancy, parents increasingly believe the experience of ECEC is good for children's development (Baxter 2013a).

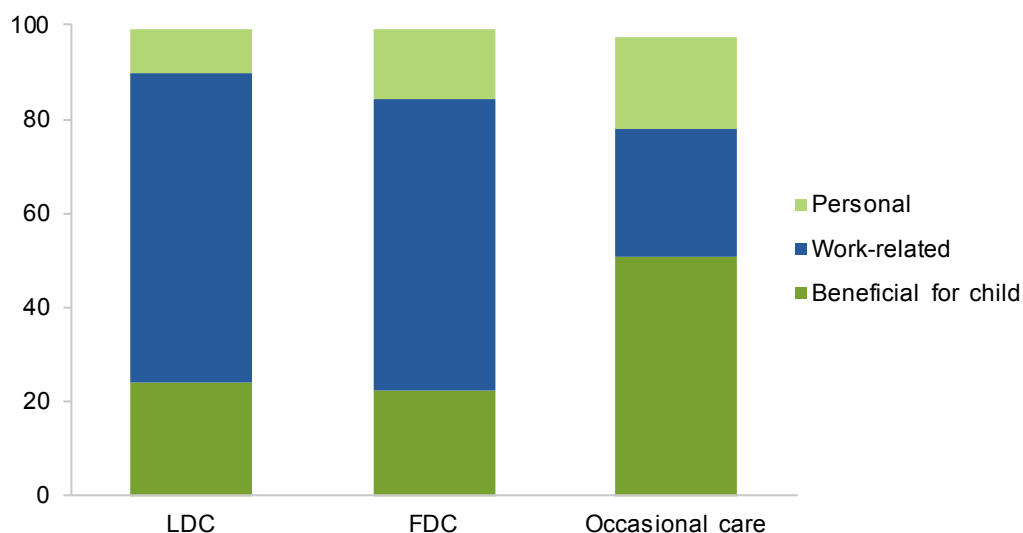
While many parents state they primarily use non-parental care to facilitate workforce participation, they also recognise ECEC services can help their child's development and transition to becoming 'school ready' (ABS 2012b).

The demand for formal ECEC services for child development reasons is facilitated by preschool programs in each state and territory. The vast majority of children aged 4–5 went to preschool or attended a preschool program. Further details of child attendance at preschool is discussed in chapter 12.

For various reasons, some children do not attend a preschool program, including not being old enough or because services are not available. Around one quarter of parents indicated that 'child development' was the main motivation for sending their child (who is not yet at school) to formal ECEC services. Parents are more likely to use occasional care for the child's benefit than other types of care, potentially reflecting the sessional nature of services available (short days), and flexibility of days and times (figure 3.9).

Figure 3.9 **Main reason for using formal ECEC^a**

Per cent of children by type of care^b



^a Children not yet at school, type of care usually attended as at June 2011. ^b Does not sum to 100 per cent as other reasons not classified elsewhere are not included.

Source: ABS (2012b), Table Builder.

3.3 Future demand for ECEC services

With growth in the child population, demand for ECEC services is expected to increase over time. Population projections can be used to illustrate the potential demand for ECEC over the next two decades. These projections presented in this section do not take account of any future policy changes (box 3.3).

Over the fifteen years from 2011 to 2026, the population of children under 13 years old is projected to grow by 23 per cent (or around 833 000 children) (figure 3.10). Based on current utilisation rates, such a growth in the child population will require around additional 113 000 full-time places in formal care (LDC, FDC, OCC, OSHC and VAC). These places will be used by more than 113 000 children as most children attend approved care for less than a full-week.

Box 3.3 **Population and ECEC demand projections**

The Commission's population projections are based on the Department of Health projections by single year of age and sex by Statistical Local Area which are customised projections prepared for the Australian Government Department of Social Services by the ABS (Department of Health 2013). The projections have been produced using the 'cohort-component method' which projects the population by calculating the effect of births, deaths and migration within each age-sex group to the specified fertility, mortality and migration assumptions.

ECEC future demand projections

Administrative data from the Department of Education form the basis of the projections of future use of formal childcare. Specifically, data on the number of children using approved care and the number of hours charged over 2011-12 were applied to the 2011 Census population to estimate the current rate of use of approved services by region, age and service type (including LDC, FDC, before and after school hours care, vacation care (VAC), OCC and in-home care). These projections only account for preschool provided in an LDC. The demand for approved ECEC services is projected out by applying the 2011 age, service type and region-specific utilisation rate to the projected population assuming that the utilisation rates do not change over the period.

Projections of use of ECEC based on counts of children in each type of approved care will overstate the future need for formal ECEC places as:

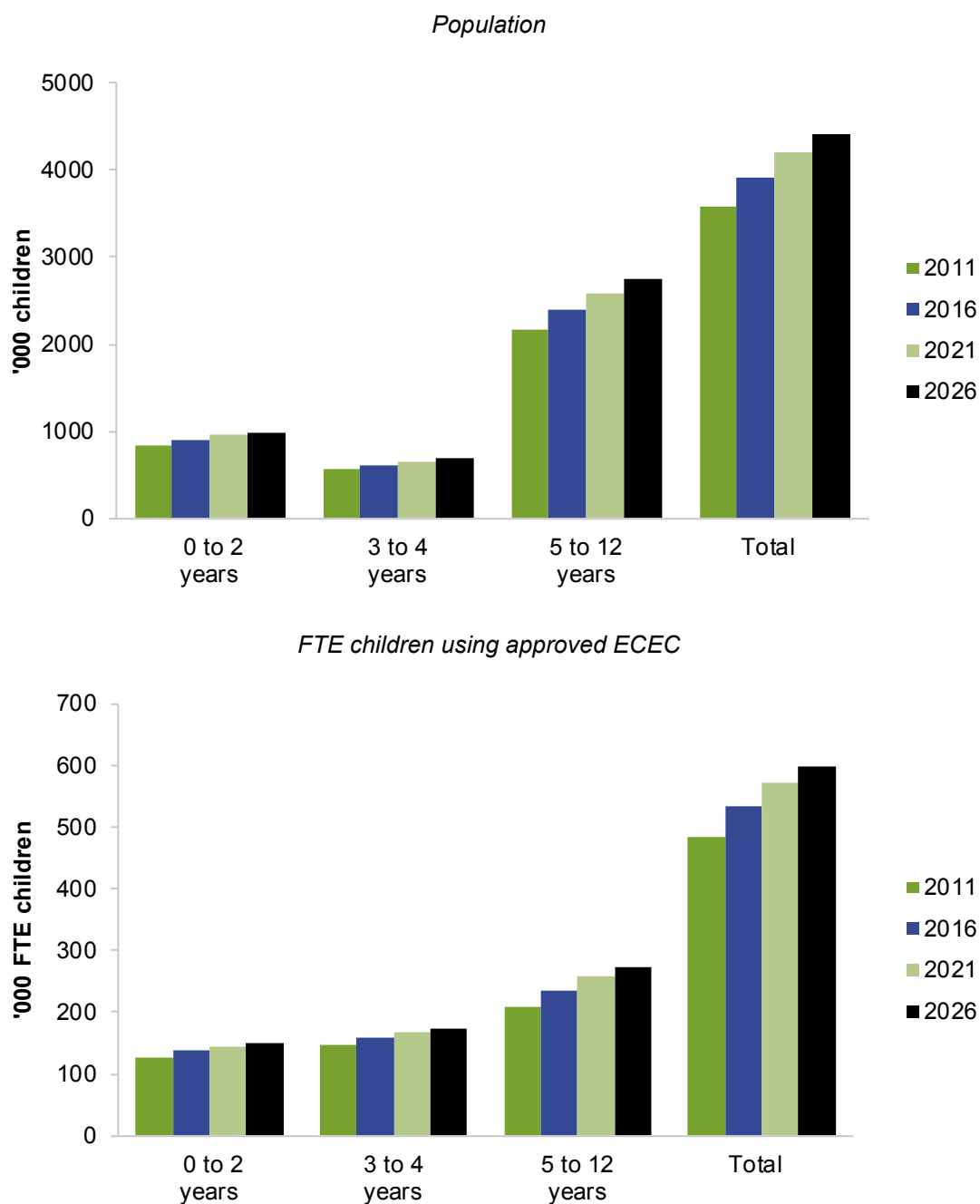
- many children attend multiple service types. For example, children often attend outside school hours care (OSHC) during school term and vacation care during school holidays
- it is common practice for children to attend care on a part-time basis.

Full-Time Equivalent (FTE) number of children in approved care

The FTE number of children using approved care is an alternative measure of future demand for places that is based on the number of hours children are charged for, rather than the count of children using care. Specifically, it is a measure of the number of children attending a service type assuming that all children attend on a full-time basis. In this context, the FTE number of children is a more informative measure of the future pressure that population growth may place on the formal ECEC system.

The FTE number of children using approved care is calculated as the number of hours of approved care used by all children divided by the number of hours of a full-time place. The number of hours for a full-time place was adjusted depending on the service type and the age of the child, taking account of whether or not a child was school aged and the number of weeks over a year a service would typically operate. For example, consider two children attending LDC — one child for two days a week (charged for 20 hours per week) and the other for three days a week (charged for 30 hours per week). Assuming that a full-time place is 50 hours per week, there is one FTE child attending the LDC. If both children were attending for three days per week (charged for a total of 60 hours per week), there would be 1.2 FTE children attending the LDC.

Figure 3.10 **Child population projections and the full-time equivalent number of children using approved ECEC^a**
2011 (base year) to 2026

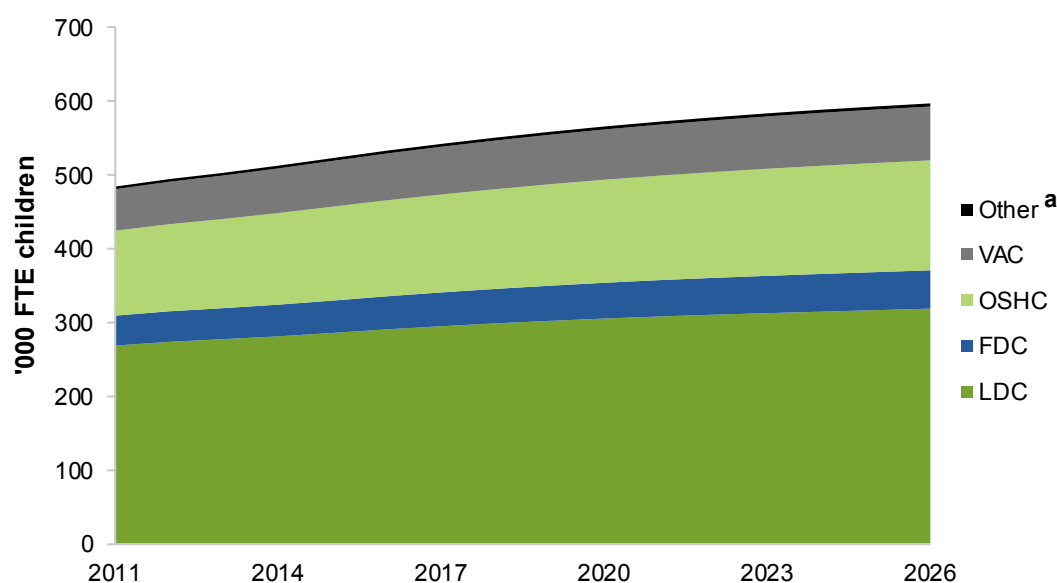


^a Children aged 0-12.

Source: Productivity Commission estimates based on customised projections prepared for the Australian Government Department of Social Services by the ABS (Department of Health 2013); ABS 2011 Census (2013b); and unpublished Administrative data provided by the Department of Education.

The demand for all types of approved care is projected to grow (figure 3.11). It is projected that an additional 50 000 LDC (full-time) places will be needed to accommodate the population growth in children and the subsequent demand for childcare. FDC, OSHC and VAC are also projected to grow strongly (around 30 per cent) over the next 15 years, but off a somewhat lower base.

Figure 3.11 Projections by type of approved care
2011 (base year) to 2026



^a 'Other' includes in-home and occasional care.

Source: Productivity Commission estimates based on customised projections prepared for the Australian Government Department of Social Services by the ABS (Department of Health 2013); ABS (2013b); and Department of Education administrative data (2011-12).

4 Government assistance to ECEC

Key Points

- Governments provide funding to the ECEC sector to meet the objectives of workforce participation, child development and equity of access. The importance of each of these policy objectives has evolved over time.
- Under these overarching objectives, goals of the current ECEC policy agenda include, affordability and accessibility of services for families, quality and flexible ECEC service provision, increased participation in ECEC services for vulnerable and disadvantaged children, universal access to preschool services and support for non-mainstream services.
- Programs to support this agenda draw on substantial public funding.
 - Australian and state and territory government expenditure on ECEC has increased substantially in recent years — increasing by 80 per cent, or \$3 billion in real terms, between 2007-08 and 2012-13.
 - In 2014-15, these governments are expected to spend more than \$8 billion on assistance to the ECEC sector.
 - In addition, local governments also plan, fund and deliver ECEC services, in response to the needs and priorities determined for their community.
- Methods of delivering government assistance to ECEC include fee assistance to families, block grants to providers and the direct delivery of some services.
- The majority of ECEC assistance is funded by the Australian Government and provided to families to help cover fees for approved or registered childcare through the means-tested Child Care Benefit and the non means-tested Child Care Rebate. In 2012-13, \$4.8 billion was provided in fee assistance to over 950 000 families; And in 2014-15, outlays for fee assistance are expected to increase to \$6.4 billion.
- Assistance to providers can take a number of forms including establishment grants, viability grants, regional travel assistance, assistance for staff training and professional development, ongoing operational subsidies and concessions, and assistance to enable providers to better include vulnerable and disadvantaged children in their services. In 2012-13, \$365 million was provided to fund programs to support ECEC services and quality measures and in 2014-15 this funding is expected to exceed \$547 million.
- State and territory governments are primarily responsible for preschool services, spending over \$1.1 billion on preschool services in 2012-13 (including funding from the Australian Government under the *National Partnership Agreement on Early Childhood Education*).
- Common forms of ECEC assistance by local governments include: the direct delivery of services; coordination and planning of ECEC services; the contribution of land and community buildings; peppercorn rents; targeted services for vulnerable and additional needs children and subsidised transport to ECEC services.

Governments in Australia provide assistance to ECEC through a mix of payments to families, support for providers and the direct provision of services. This chapter discusses the objectives of ECEC assistance and provides estimates of total Australian, state and territory government expenditure on ECEC (section 4.1). It then provides a summary of ECEC programs currently provided by the Australian Government (section 4.2), state and territory governments (section 4.3) and local governments (section 4.4). These are evaluated in chapters 10, 12 and 13. Chapter 14 also discusses non-budgeted forms government assistance such as taxation exemptions for employer funded ECEC services. And appendix B provides more detail about assistance programs.

4.1 Funding to meet the objectives of ECEC

In Australia, all three levels of government have a role in providing assistance to ECEC. Historically, the Australian Government has controlled funding arrangements while state and territory governments were both regulators and providers, and local governments were land use planners and providers of specific services required by their communities.

The Australian Government first provided financial assistance for childcare in 1972. Initially, support was provided only for not-for-profit centres then subsequently extended to private centres. Over time, the Australian Government has frequently altered the funding structure for ECEC as the emphasis between the objectives of child development, workforce participation and equity of access has changed.

Throughout the 1970s and 1980s, the Australian Government was focused on funding services to increase the number of places in ECEC to meet the demand of the increasing numbers of women entering the workforce. In the 1990s, the affordability of work-related care increasingly became a community-wide issue and the Australian Government responded by providing fee assistance directly to families in addition to the assistance it was already providing to some services (box 4.1).

More recently, increased evidence of the significance of the early years of a child's life for their future wellbeing, has shifted the objectives of governments towards child development and ensuring that ECEC services are of high quality. The Australian Government has also become focused on providing extra assistance for ECEC services in rural and remote areas and to vulnerable and disadvantaged children, under the objective of equity of access.

Box 4.1 **Government ECEC assistance, an historical context**

- Australian Government funding for ECEC commenced in 1972 with the introduction of the *Child Care Act*. Funding was provided to not-for-profit services to operate centre-based long day care (LDC) for children of working and sick parents. Funding included capital, recurrent and research grants.
- In the mid 1970s, funding was broadened to include pre-schools, Family Day Care (FDC) and Outside School Hours Care (OSHC).
- Between 1983 and 1985, the Australian Government and state and territory governments provided funding for an additional 5000 LDC and 1120 OSHC places.
- In 1984, standardised fee relief for not-for-profit centre based LDC services was introduced. Its goal was to enable centres to contain fees so that ECEC services could be accessible to low and middle income earners. This fee relief was later called Child Care Assistance (CCA).
- Between 1985 and 1987, Australian and state and territory funding provided an increase in 11 000 LDC, 2400 Occasional Care, 5650 FDC and 1000 OSHC places.
- In 1988, the Australian Government announced the National Childcare Strategy with an objective of providing an additional 30 000 childcare places through cost sharing with state and territory governments.
- In 1990, the National Childcare Strategy was expanded to allow for a further 50 000 places by the end of 1996-97. Also, in 1990, CCA was extended to families using for-profit childcare. Like CCA for not-for-profit services it was paid directly to services. This resulted in a large increase in LDC places.
- In 1994, a non-means tested Childcare Cash Rebate Scheme (CCRS) was introduced to provide additional childcare support to families. After paying an initial contribution (\$16.50 per week) families could claim either a 20 per cent or 30 per cent rebate (depending on income) for the remaining fees. Its objective was to help meet ECEC fees for work-related care and could be claimed for formal or informal care (including nannies). Also, in 1994, the Australian Government's New Growth Strategy provided funding to local government and community organisations to increase childcare places.
- In July 1996, changes included the removal of operational subsidies for community owned LDC services, limiting CCA to 50 hours per week, freezing CCA and CCRS ceilings for two years and the reduction of the CCRS from 30 per cent to 20 per cent for families whose incomes were above the Family Tax Initiative income cut off.
- The 1997-98 federal budget allowed for the provision of additional FDC places, particularly in rural and remote areas and introduced a limit on CCA of 20 hours per week for families using childcare for non-work related purposes.
- In July 2000, the dual benefit system (CCA and CCRS) was replaced with a single benefit system with the introduction of the means tested Child Care Benefit (CCB) for up to 50 hours of approved care per week. And Family Tax Benefit (FTB) was introduced as part of a *New Tax System*. FTB Part A was established to help families with the costs of raising children and FTB Part B provided extra help for families with one main income.
- Also in July 2000, new childcare initiatives were introduced with an emphasis on flexibility including the In-Home Care Initiative (for families unable to access mainstream services) and the provision of FDC and OSHC in areas of need.

(continued next page)

Box 4.1 (continued)

- In July 2001, incentives were introduced for private operators to establish ECEC services in rural areas where there was unmet demand.
- In 2003, the Budget Based Funded Programme was introduced to streamline the administration of funding to non-mainstream ECEC services that had been established through a series of measures from the 1970s.
- In 2004, following pressure from families who were excluded from CCB (by the means test), the non-means tested Child Care Tax Rebate (CCTR) was introduced. It allowed families with a tax liability to offset up to 30 per cent of out-of-pocket ECEC expenses (from 1 July 2004) up to an indexed cap of \$4000 per child per year.
- In July 2005, the Jobs, Education and Training (JET) program was relabelled Jobs, Education and Training Child Care Fee Assistance (JETCCFA) as part of the measures to support Welfare to Work policy changes.
- In July 2006, CCTR was removed from the tax system and delivered as a family assistance payment through Centrelink. Families with no or low tax liability could receive the payment. The cap on the number of OSHC and FDC places was removed (previously OSHC and FDC places were set by the Australian Government based on areas of demand) and the Inclusion Support Subsidy replaced the Special Needs Subsidy Scheme and Disabled Supplementary Services Program.
- In July 2007, the Australian Government announced funding for the delivery of the Home Interaction Program for Parents and Youngsters to 50 communities.
- In July 2008, the CCTR was increased to 50 per cent of out-of-pocket costs with an indexed cap of \$7500 per child per year.
- In 2008, the Australian Government and state and territory governments signed the National Partnership Agreement on Early Childhood Education which implemented reforms (from 2009 to 2013) aimed at providing universal access to quality ECEC in the year before full time school and the National Partnership Agreement on Indigenous Early Childhood Development to improve outcomes for Indigenous children in their early years (expiring in June 2014).
- In July 2009, the CCTR was renamed the Child Care Rebate (CCR) in recognition that the rebate was no longer a tax offset.
- In July 2011, the CCR cap was reduced to \$7500 (after reaching \$7941 in 2010-11) and indexation was paused for three years until June 2014.
- In 2012, the National Quality Framework for Early Childhood Education and Care was introduced.
- In 2013, a new National Partnership Agreement on Universal Access to Early Childhood Education was effected for the period July 2013 to December 2014 supporting increased participation in ECEC in the year before school with a focus on vulnerable and disadvantaged children.

Source: Brennan and Adamson, (sub. 420); McIntosh and Phillips (2002); Department of Human Services (2013a).

The role of state and territory governments in ECEC is primarily as a regulator and provider of preschool services. The NSW Government stated:

Traditionally the Commonwealth has responsibility for workforce participation and supports parents to return to work primarily through the Child Care Benefit and Child Care Rebate, available for Australian Government approved care, and which excludes most stand-alone preschools.

The State has responsibility for education, including early childhood education, and provides funding subsidies primarily to community-based preschools to support access to early childhood education in the year prior to school. (sub. 435, p. 8)

However, inconsistencies in ECEC policies between state and territory governments has resulted in the Council of Australian Governments (COAG) stepping into the policy arena, with the aim of creating a nationally consistent policy framework for ECEC services. The Australian Government Department of Education explained:

The Australian Government works collaboratively with states and territories to develop national policies. Historically, child care has been the responsibility of the Commonwealth while early childhood education has been the responsibility of states and territories.

Increasingly, however, these boundaries are becoming less defined as services – responding to consumer demand and government policy – are integrating education and care. In these cases, policies are commonly developed through COAG or the ministerial Standing Council on School Education and Early Childhood.

The Australian Government has a role in providing national leadership and setting national policies. The Government sets national policies and procedures through the Department of Education, especially relating to the Australian Government's child care fees subsidies and related support programmes. (sub. 147, p. 19)

Local governments also plan, fund and deliver ECEC services. The range of ECEC services provided by local government is generally in response to the needs and priorities determined by the local community and as a result ECEC assistance varies significantly between local governments. The City of Boroondara stated:

The benefits of early childhood education and care are shared between all levels of government and as such each has a role to play in the facilitation of ECEC in Australia. The Australian government has a clear mandate in the universal provision of funding for childcare and early childhood learning. The Victorian State Government has a clear role in the funding and provision of kindergarten education. Each local government area's role in relation to the provision and or facilitation of early years services varies and is developed within the context of their respective community, key priorities and resources. (sub. 216, p. 7)

Under the over-arching, high level objectives of workforce participation, child development and equity of access, current government assistance programs have a number of key (implementation) objectives including:

- affordability of services for families
- quality ECEC service provision

-
- increased participation in ECEC services for vulnerable, disadvantaged and additional needs children
 - universal access to preschool services
 - support for flexible non-mainstream ECEC services, particularly in rural and remote areas.

The total amount of government expenditure on ECEC

Substantial funding is required to support the multiple government objectives of ECEC. The Productivity Commission *Report on Government Services 2014* (ROGS) estimated that in 2012-13 total Australian and state and territory government expenditure on ECEC amounted to \$6.8 billion. In 2014-15 total government expenditure on ECEC is expected to exceed \$8 billion¹.

This is the equivalent of Australian and state and territory governments spending an average of \$6100 (in 2012-13), on ECEC for every child in formal care². However, it is important to note that average estimates do not provide information on how much each individual child is receiving in government assistance — this is dependent on individual circumstances. For example, governments spend considerably less ECEC assistance on a child from a high income family in a metropolitan after school care service than a child from a low-income family in full time LDC in a regional area.

Of the \$6.8 billion expenditure in 2012-13, about 80 per cent, or \$5.4 billion, was provided by taxpayers through the Australian Government. However this (\$5.4 billion) does not include Australian Government funding directed to state and territory governments through the *National Partnership Agreement on Early Childhood Education* (section 4.2). This funding is, however, included in the \$1.4 billion ECEC ROGS expenditure estimate for states and territory governments in 2012-13 (SCRGSP 2014).

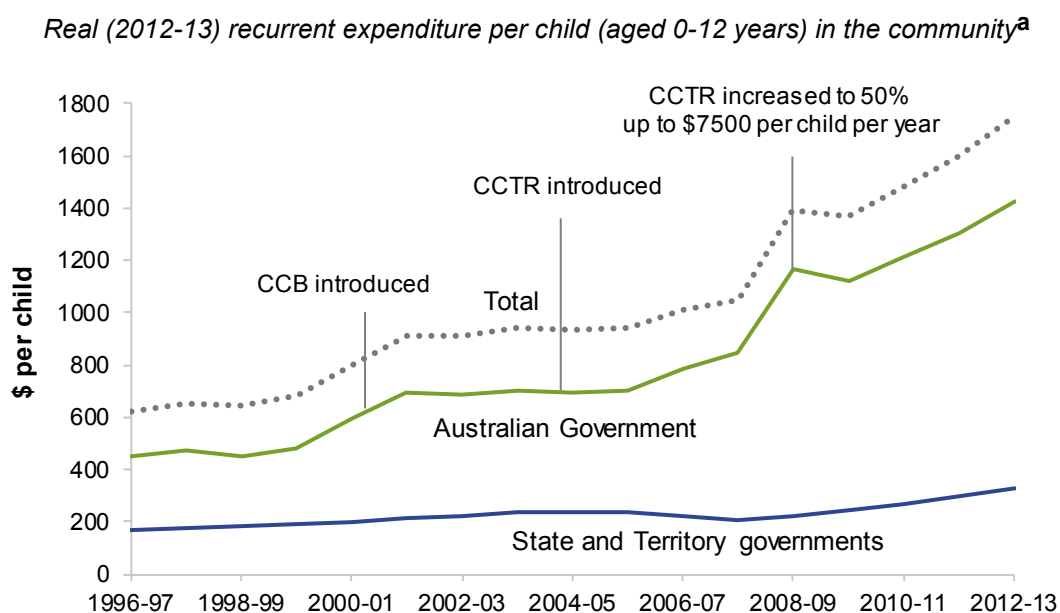
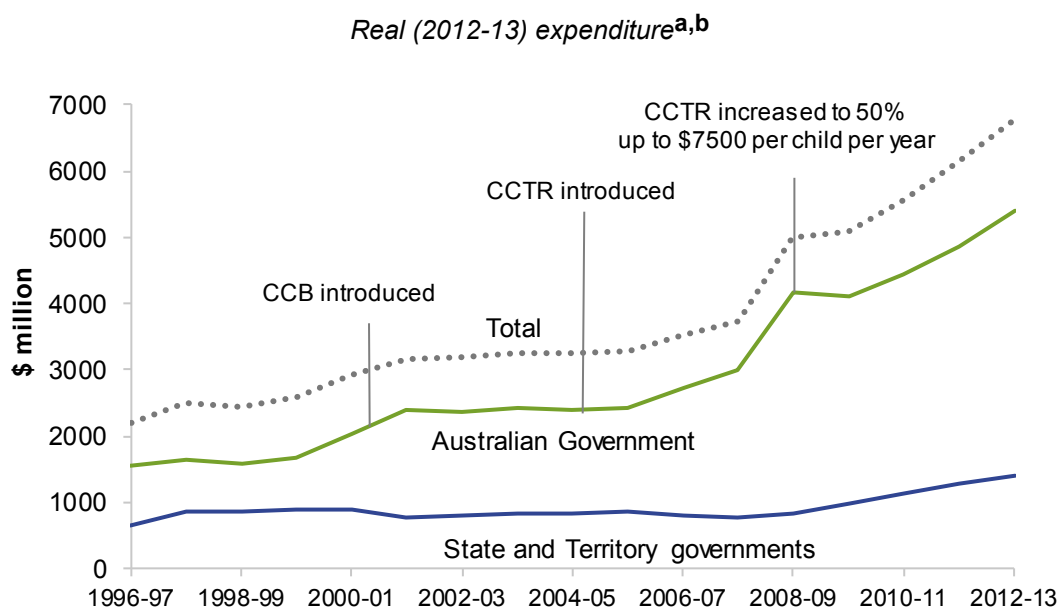
Over time, governments have become increasingly invested in ECEC. Australian and state and territory government expenditure has risen significantly (in real terms) from \$2.2 billion in 1996-97, to \$3.2 billion in 2004-05 and reached \$6.8 billion in 2012-13 (figure 4.1).

Figure 4.1 shows that much of this recent increase in expenditure was associated with the Child Care Tax Rebate (CCTR), which later became the Child Care Rebate (CCR). For example, government expenditure on ECEC increased 80 per cent, or \$3 billion in real terms, between 2008-09 (when the CCTR was increased to 50 per cent of out-of-pocket costs up to a maximum of \$7500 per child per year) and 2012-13.

¹ Based on projections of Australian Government expenditure in 2014-15, see table 4.1.

² The number of children in formal care (including OSHC, LDC, FDC, Occasional Care, and preschool) based on ABS (2012b).

Figure 4.1 **Government expenditure on ECEC**



^a Includes recurrent and net capital expenditure. ^b Expenditure adjusted to 2012-13 dollars using the General Government Final Consumption Expenditure chain price deflator.

Source: SCRGSP (2014) and various SCRGSP Reports on Government Services.

Recurrent ECEC expenditure per child in the community has also been rapidly increasing. In 2012-13, Australian and state and territory recurrent expenditure was \$1752 per child (aged between birth and 12 years) compared with \$941 per child in 2003-04 and \$622 per child in 1996-97 (figure 4.1). This, of course, does not include other expenditure on children and families such as through Family Tax Benefits, education and health funding, and Paid Parental Leave (chapter 11).

Local governments also provide ECEC funding but because of the large number of local governments, differences in the ECEC services they provide and data limitations, estimates are not available on the total value of the contribution that local governments in Australia are making to ECEC.

4.2 Australian Government assistance

The rapid growth in Australian Government ECEC expenditure in recent years is forecast to continue. The Department of Education forecasts that ECEC funding will grow to over \$8.5 billion in 2017-18 (table 4.1).

The Australian Government's key roles and responsibilities for assistance to ECEC include:

- payments to families to assist with ECEC fees
- operational and capital funding to some ECEC providers and supporting quality service provision
- providing funding to state and territory governments through National Partnerships.

Payments to assist families with ECEC fees represent the bulk of Australian Government funding for ECEC, comprising 87 per cent in 2014-15. The remaining funding is directed to National Partnerships (6 per cent) and services and quality assistance (7 per cent) (table 4.1).

Growth in assistance funding for ECEC has primarily been driven by growth in fee assistance. The Department of Education explained:

child care fee subsidies constitute one of the fastest growing major Australian Government outlays, driven principally by increased numbers of children in care, increased hours in care and rises in fees. CCR and CCB constitute around 90 per cent of total CCECL [childcare and early childhood learning] outlays, and both have grown rapidly in recent years, and are expected to continue to do so in the forward estimates. (sub. 147, p. 27)

In contrast to the rapid growth in family fee assistance, targeted funding to services has remained relatively constant over recent years (sub. 147).

Table 4.1 Australian Government funding, ECEC

<i>Program</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Fee assistance</i>						
Child Care Benefit	2 589 308	2 903 980	3 140 717	3 294 464	3 494 066	3 721 701
Child Care Rebate	2 179 853	2 708 235	3 163 979	3 524 775	3 918 371	4 319 187
JETCCFA	108 906	110 857	117 249	112 530	138 061	159 831
Total	4 878 067	5 723 072	6 421 945	6 931 769	7 550 498	8 200 719
<i>Provider assistance and quality measures</i>						
ECEC Services Support ^a	364 550	416 878	449 968	298 325	294 251	301 711
Early Years Quality Fund	-	134 833	97 486	67 487	-	-
Total	364 550	551 711	547 454	365 812	294 251	301 711
<i>National Partnerships</i>						
Universal Access ^b	461 700	407 000	234 900 ^c	-	-	-
Children and Family Centres ^d	55 589					
TAFE Fee Waivers for Child Care Qualifications	16 192	21 213	11 496	-	-	-
National Quality Agenda	21 328	19 080	19 080	NP	NP	NP
National Occasional Care	-	-	3 075	3 124	3 174	3 228
Early Learning Languages in Australia	-	-	6 543	2 464	-	-
Universal Access (retained funds)	2 889	3 000	1 500	-	-	-
Total	557 698	450 293	276 594	5 588	3 174	3 228
Total ECEC	5 800 315	6 725 076	7 245 993	7 303 169	7 847 923	8 505 658

^a Currently includes the Child Care Services Support Program [Community Support Programme, Budget Based Funded Programme, Inclusion and Professional Support Program and funding to the Australian Children's Education and Care Quality Authority (ACECQA)] the Australian Early Development Census (AEDC) and the Home Interaction Program for Parents and Youngsters. In 2012-13, the Australia Government provided \$5.9 million in funding to ACECQA. AEDC data collections take place every three years (the last collection was in 2012), with an ongoing funding commitment from the Australian Government of about \$28 million for each collection cycle. ^b The Australian Department of Education estimates include funding under the National Partnership Agreement on Universal Access to Early Childhood Education. Productivity Commission, ROGS estimates (figure 4.1) include expenditure under the National Partnership Agreement on Universal Access to Early Childhood Education in state and territory expenditure data. The Australian Department of Education estimates are more recent than ROGS expenditure estimates. ^c The Australian Government has extended current National Partnership funding arrangements for preschools for a further 12 months after the agreement expires in December 2014, an additional \$406 million over 2014-15 and 2015-16. ^d In 2013-14 this program was transferred to the Department of Prime Minister and Cabinet through Machinery of Government changes.

NP - Not published; - program not funded.

Source: Information provided by the Australian Government Department of Education.

Fee assistance for families

The Australian Government provides three types of payments to assist families with ECEC fees.

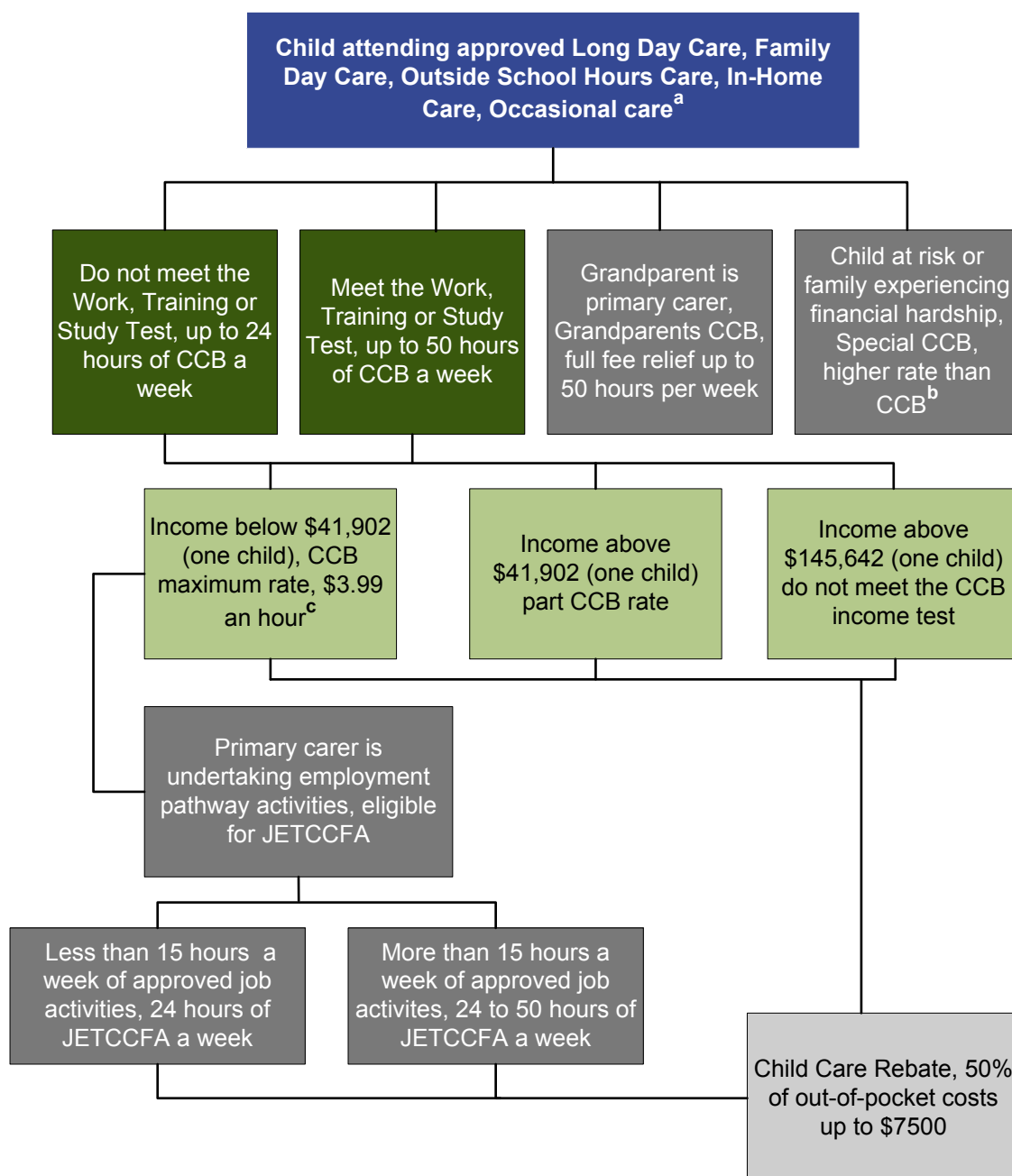
- Child Care Benefit (CCB) is a means tested benefit targeted towards low to middle income families. The CCB that each family receives is primarily dependent on the number of hours families participate in work related activities, the number of children in care and whether they are attending school, the type of service (approved or registered) attended and family income. Grandparent CCB (GCCB) is available for grandparents in receipt of an income support payment and who are primary carers of children attending ECEC services. Special CCB (SCCB) is available for families experiencing financial hardship or for children at risk.
- Child Care Rebate (CCR) is a non-means tested payment which provides additional assistance for families using approved care. CCR provides up to 50 per cent of a family's out-of-pocket childcare costs after any CCB is deducted, up to a maximum of \$7500 per child per year.
- Jobs, Education and Training Child Care Fee Assistance (JETCCFA) provides assistance to eligible parents who qualify for the maximum rate of CCB. It pays some of the gap fee not covered by CCB while the primary carer is working, studying or training (Department of Education 2013i).

Figure 4.2 summarises the types of fee assistance available for families who use approved care. Families using registered care may also be eligible for a CCB payment but at a significantly lower maximum rate than CCB for approved care (appendix B).

Currently, CCB is the largest ECEC fee assistance measure. However, expenditure shares between the payments have been changing. By 2014-15 the Australian Government Department of Education forecasts that CCR will overtake CCB as the largest ECEC assistance measure (table 4.1).

In 2012-13, childcare assistance payments were provided to over 950 000 families. The majority, 61 per cent of recipients, were families receiving CCB and CCR, and a further 22 per cent were families receiving only CCR. Relatively few families were in receipt of GCCB and SCCB (table 4.2).

Figure 4.2 Australian Government fee assistance, approved care



^a A small number of BBFs are also CCB approved (7 of the 343 BBFs); ^b SCCB for financial hardship is restricted to the weekly limit for CCB (50 hours); SCCB for a child at risk may be approved for more than 50 hours per week. SCCB may also be paid for a period of 24 hour care if either work related reasons or exceptional circumstances apply (appendix B). ^c CCB assistance rates also vary for the number of children in the family using subsidised care, the age of these children, the type of care used and whether the care is full or part time.

Table 4.2 ECEC assistance payments to families, summary statistics
2012-13

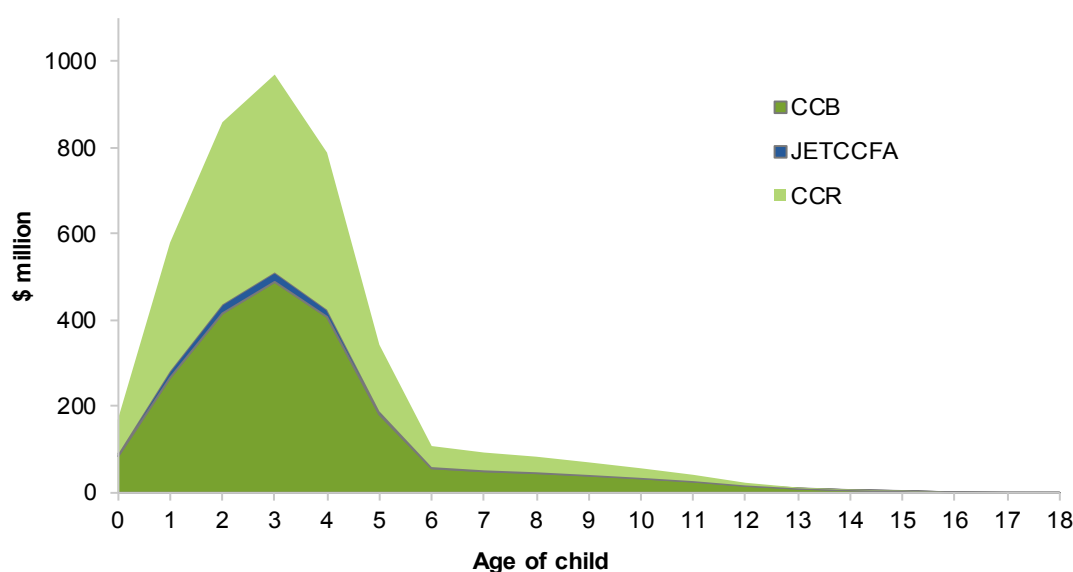
<i>Payment</i>	<i>Number of recipients</i>
Child Care Benefit and Child Care Rebate ^a	583 413
Only Child Care Benefit ^b	76 093
Only Child Care Rebate	212 313
Special Child Care Benefit	18 096
Grandparent Child Care Benefit	4 098
JETCCFA	32 332
Only registered care	24 459
Total	950 804

^a If a recipient receives any combination of SCCB, GCCB or JETCCFA during the reporting period, they will be counted in these payment types but not in CCB or CCR; ^b Includes families who fail the Work, Training, Study Test (who receive up to 24 hours of CCB but do not qualify for CCR) and families whose CCB is pays 100 per cent of ECEC fees.

Source: Information provided by the Australian Government Department of Human Services.

By age of child, figure 4.3 shows that the funding required for ECEC fee assistance increases progressively until children reach three years of age — 23 per cent of ECEC fee assistance is provided to families with children aged three years. When children reach school age, families require significantly fewer hours of childcare and accordingly, Australian Government fee assistance is relatively small for families with children six years and older (figure 4.3).

Figure 4.3 Australian Government ECEC fee assistance by child age^a



^a Age of child on 1 January 2012.

Source: Department of Education administrative data (2011-12).

Provider assistance and quality measures

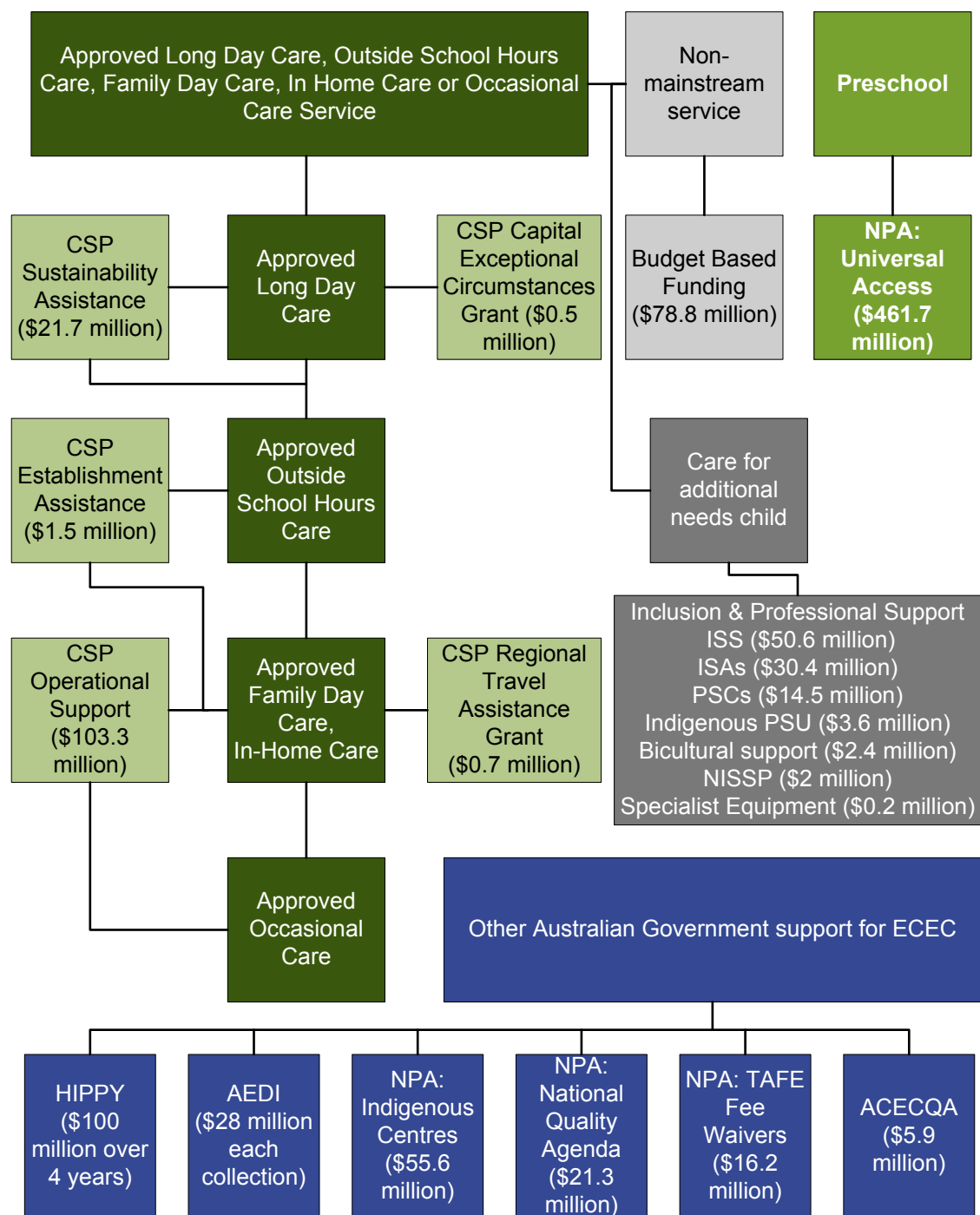
The Australian Government has assumed primary responsibility for providing funding assistance to ECEC providers though it does not engage in the provision of ECEC services. Assistance to providers takes a number of forms including: establishment grants, viability grants, regional travel assistance, non-mainstream support and inclusion support for vulnerable and disadvantaged children.

The Australian Government also provides assistance to improve and measure the quality of ECEC services through a number of initiatives, including the Australian Early Development Census and Early Years Quality Fund. Figure 4.4 provides a summary of Australian Government provider assistance and quality measures in 2012-13. It also includes funding for ECEC under National Partnership Agreements. These are discussed later in this chapter.

The Australian Government ECEC services support program (\$365 million in 2012-13) currently includes:

- the Child Care Services Support Program (CCSSP) which provides a range of payments to eligible providers of ECEC services — aimed at increasing the accessibility of ECEC services for families — through the establishment of new services and maintenance of services especially in areas where the market may otherwise fail to provide. CCSSP includes the Community Support Programme (CSP), Budget Based Funded (BBF) Programme, Inclusion and Professional Support Program (IPSP) and the Australian Government's funding contribution to the Australian Children's Education and Care Quality Authority (ACECQA)
- funding that supports child and family development programs including the Australian Early Development Census (AEDC) and the Home Interaction Program for Parents and Youngsters (HIPPY).

Figure 4.4 **Australian Government ECEC provider and quality support**
2012-13



CSP Community Support Programme; NPA National Partnership Agreement; ISS Inclusion Support Subsidy; ISA Inclusion Support Agency; PSC Professional Support Coordinator; NISSP National Inclusion Support Subsidy Provider; HIPPY Home Interaction Program for Parents and Youngsters; AEDI Australian Early Development Index; ACECQA Australian Children's Education and Care Quality Authority.

Source: Information provided by the Australian Government Department of Education.

The Community Support Programme

The CSP provides a range of assistance payments to eligible ECEC providers including establishment and sustainability assistance, operational support, the Long Day Care Capital Funding Exceptional Circumstances Grant and the Regional Travel Assistance Grant. The objective of the CSP is to:

assist child care providers to establish or maintain viable services in parts of the country where they might not otherwise be viable or able to meet the unique requirements of the community, such as in disadvantaged or regional and remote areas. (Australian Government Department of Education, sub. 147, p. 29)

CSP eligibility and the amount of funding each service receives is determined by a number of factors including type of service (LDC, FDC, in-home care, OSHC or occasional care), remoteness category, level of socioeconomic disadvantage and the number of children attending the service (appendix B). The CSP provided almost \$130 million to over 2000 providers in 2012-13 (table 4.3).

Table 4.3 Number of providers receiving CSP assistance^a
2012-13

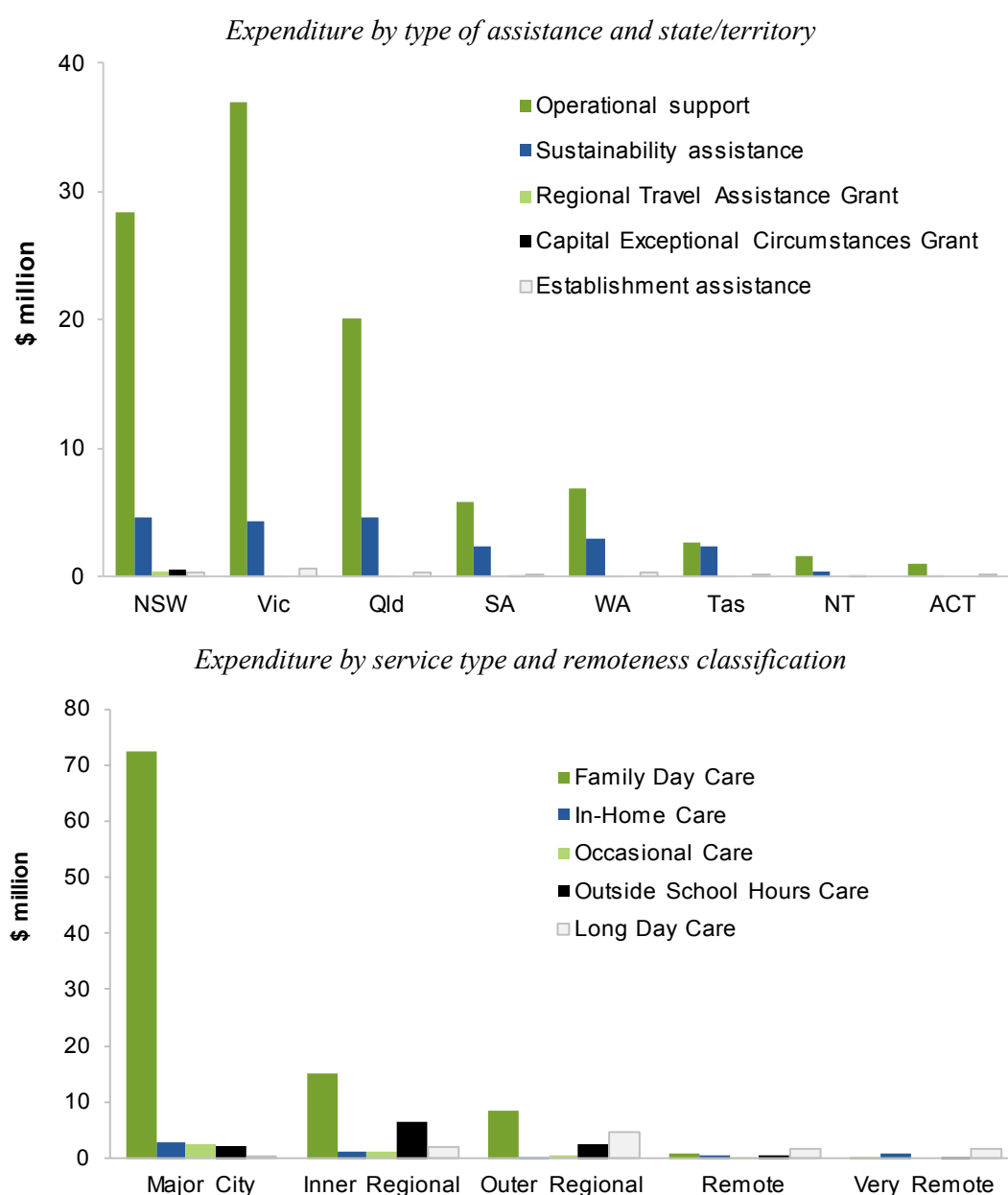
<i>Service Type</i>	<i>Payment type</i>	<i>Number of providers</i>
Family Day Care	Operational Support	429
	Establishment Assistance	92
	Sustainability Assistance	17
	Regional Travel Assistance Grant	70
In-Home Care	Operational Support	72
	Establishment Assistance	1
	Sustainability Assistance	1
	Regional Travel Assistance Grant	15
Long Day Care	Sustainability Assistance	200
	Capital Funding Exceptional Circumstances Grant	7
Occasional Care	Operational Support	144
Before School Care	Establishment Assistance	16
	Sustainability Assistance	294
After School Care	Establishment Assistance	41
	Sustainability Assistance	442
Vacation Care	Establishment Assistance	42
	Sustainability Assistance	328
Total Providers^b		2 122

^a Services that receive establishment funding subsequently receive sustainability or operational support funding; Services that receive the Regional Travel Assistance Grant also receive sustainability funding, and some of these would also receive establishment funding (if new). ^b The sum of providers receiving CSP assistance by service type exceeds the total number of providers receiving CSP assistance because some providers deliver multiple service types.

Source: Information provided by the Australian Government Department of Education.

The majority (about 80 per cent) of funding was provided as operational support (to FDC, in-home care and occasional care services) and 17 per cent was for sustainability assistance (to LDC and OSHC). The most populous states New South Wales, Victoria and Queensland received the majority of funding. However, contrary to the program's objectives of supporting ECEC services in disadvantaged, regional and remote areas, the majority of funding was directed to FDC services in major cities (figure 4.5).

Figure 4.5 Community Support Programme expenditure 2012-13



Source: Australian Government Department of Education (sub. 147) and information provided by the Australian Government Department of Education.

Budget Based Funded Programme

The BBF Programme has a similar objective to the CSP but with an emphasis on supporting non-mainstream services in rural, remote and Indigenous communities.

Non-mainstream services have been established to provide ECEC opportunities where the market would otherwise fail to provide services. They are mostly provided by not-for-profit organisations.

The objectives of non-mainstream services are:

- to deliver quality childcare that enhance the cultural, physical, social, emotional, language and learning development of all children
- to provide flexible early childhood education and childcare services that meet the need of all families in the community
- to foster individual children's strengths, abilities and interests through the provision of developmentally and culturally appropriate play and learning experiences. (Department of Education 2013c, p. 6)

BBF was established in 2003 by the amalgamation and consolidation of several historical programs. These programs reflected multiple policy goals and approaches and a wide range of community and government priorities over time. As a result, the current mix of services within BBF is highly diverse. Types of non-mainstream services supported by BBF include Crèches, Multifunctional Aboriginal Children's Services, flexible services, mobile ECEC services, and OSHC (Department of Education 2013c).

Box 4.2 provides a description of the Jilkminggan Crèche and the Child Care on Wheels Service, Robe — two services currently funded by BBF.

Box 4.2 **Budget Based Funded Programme, case studies**

Jilkminggan Crèche

Jilkminggan is a very remote Indigenous community in the Northern Territory. It has a population of about 280 and a median age of 16 years. Roper Gulf Regional Council provides a range of local government services in Jilkminggan including the operation of Jilkminggan Crèche which is funded through BBF.

Crèches provide a flexible ECEC service in communities where other forms of childcare are not available. Jilkminggan Crèche operates Monday to Friday between 8.00 am and 1.00 pm. Families are asked to pay a \$5.00 fee per child per day.

Features of Jilkminggan Crèche include:

- a new well equipped facility
- the provision of breakfast, morning tea and lunch
- bus pick-up and drop-off service
- trained and professionally supported Aboriginal educators from the local community.

Child Care on Wheels Service, Robe

Mobile ECEC services visit regional and remote areas and provide flexible services including LDC, preschool, playgroups, vacation care, on-farm care, and parenting support. Mobile child care services provide children with an opportunity to socialise with other children and participate in early childhood education opportunities that would not otherwise be available to them. The mobile model is an innovative way of responding to the need for children's services in rural and remote areas.

The Robe Child Care on Wheels Service (CCOWS) was the first mobile care service to be established in South Australia. The model of mobile child care was introduced to meet some of the needs of children and families in the district (a traditional child care centre would not have been commercially viable). It provides LDC in community venues and is regulated by the South Australian Government.

CCOWS provides services from premises under lease or license agreements and currently operates from four venues: Robe RSL Kindergarten (three days a week); Robe RSL Hall (two days a week); Beachport Primary School (one day each week); and Kangaroo Inn Area School (one day each week). Across these four sites there are 132 places available for childcare with a current waiting list of over 100 places.

Equipment and educational resources are housed in a shed at Robe and taken to the venue for use at the childcare service, in a fit-for-purpose trailer. At the end of the childcare session the equipment is returned to the storage shed at Robe.

The mobile services are staffed by trained childcare workers from the local community. CCOWS is funded through BBF and supported by the District Council Robe. CCOWS has also implemented a tiered fee system, based on each family's income.

Source: Roper Gulf Regional Council (2014a, 2014b); Child Care on Wheels Service (sub. 381).

There are 343 BBF services (in 2012-13), the majority (about 80 per cent) are targeted at Aboriginal and Torres Strait Islander communities. BBF services generally offer support beyond mainstream ECEC. The services generally aim to meet a broad range of family support needs including child care, health services, family counselling, children with additional needs, parenting skills, transition to school and transport (SNAICC 2013a).

BBF provides a contribution to the operational cost of ECEC services in approved locations and is delivered through one year funding agreements. The annual allocation for BBF is capped and the program is closed to applications for the establishment of additional services in new locations (Department of Education, sub. 147, p. 31). In 2012-13 the Australian Government provided \$78.8 million to support the BBF program (including \$0.4 million for Indigenous Traineeships).

The majority of funding was provided as operational support (\$59 million) to support the 343 BBF services (Australian Government Department of Education, sub. 147). In 2012-13 BBF services received an average of \$172 000 in operational funding, with individual funding agreements ranging from \$10 000 to over \$950 000.

Figure 4.6 shows that in 2012-13:

- more than half of BBF operational assistance was directed to services operating in the Northern Territory and Queensland
- by the Australian Government's remoteness classification, almost 50 per cent of BBF was directed to services in very remote or remote regions
- by service type, MACS, mobile services and flexible services received the largest amounts of BBF operational funding

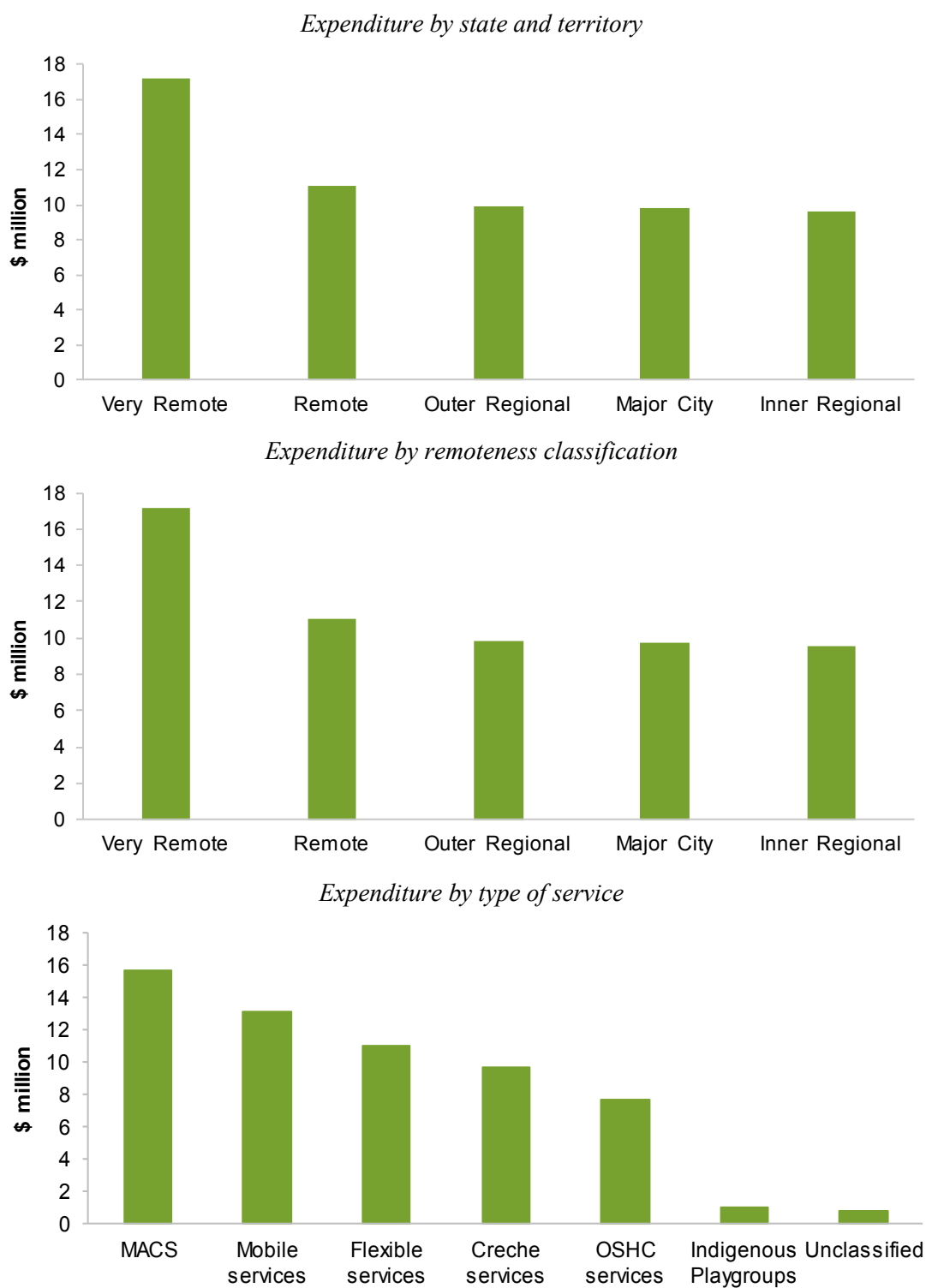
Since 2010-11, the Australian Government's BBF program has included funding for the 'BBF Quality Measure' to assist BBF services to move toward the National Quality Standard. The support is in recognition of the differences in quality that have historically existed between BBF and approved ECEC services. Between 2010-11 and 2012-13, the government spent about \$36 million on this initiative (Department of Education, sub. 147).

Inclusion and Professional Support Program

The Inclusion and Professional Support Program (IPSP) assists eligible services to improve their capacity to include children with additional needs, and to maintain a high quality workforce through the provision of professional development. The objective of IPSP is to:

promote and maintain high quality, inclusive education and care, for all children, including those with ongoing high support needs, in eligible early childhood education and care settings. This is achieved by increasing the knowledge and skills of educators, and the capacity of education and care services, through providing professional development, advice and access to additional resources as well as inclusion support. (Department of Education, sub. 147, p. 33)

Figure 4.6 Budget Based Funded Programme, operational assistance^a
2012-13



^a Data does not include expenditure for the BBF Improvement Standards initiative (BBF Quality Measure) and the Indigenous Traineeship program.

Source: Australian Government Department of Education (sub. 147).

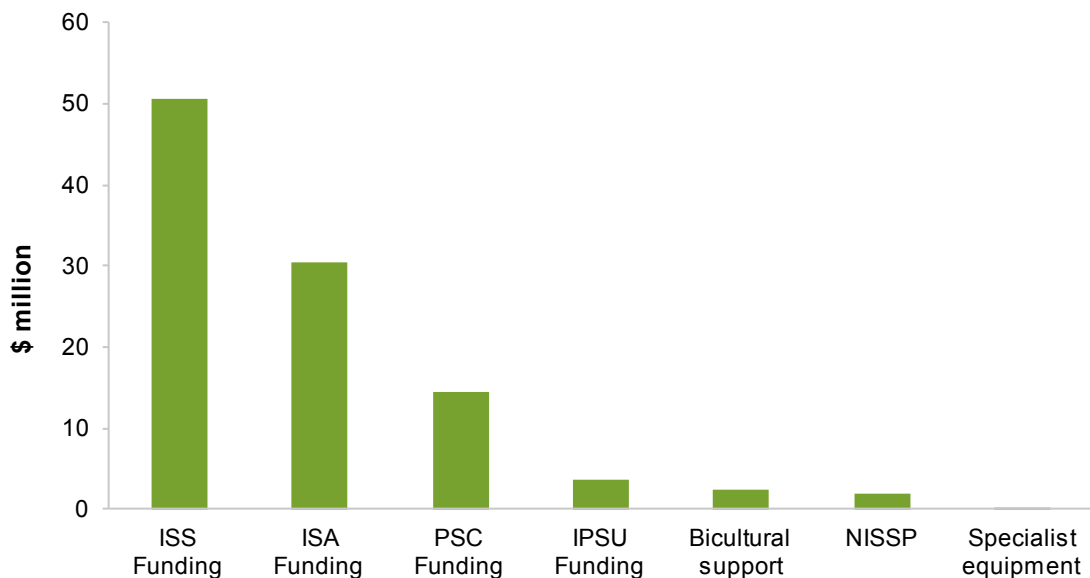
Children who may be eligible for IPSP are from the following priority groups:

- children with disability, including children with ongoing high support needs;
- children from culturally and linguistically diverse backgrounds;
- children from a refugee or humanitarian intervention background; and
- Indigenous children (Department of Education 2013f).

Box 4.3 summarises the elements of the IPSP.

In 2012-13 the Australian Government spent \$104 million on the IPSP. Almost half of this funding was delivered through the ISS (figure 4.7). Over 5500 ECEC providers received this support including 3908 LDC services, 2596 OSHC services, 194 FDC services, 47 occasional care services and 26 in-home care services³ (information provided by the Australian Government Department of Education).

Figure 4.7 The Inclusion and Professional Support Program^a
2012-13



^a FSF and ISF is included in ISA funding.

Source: Australian Government Department of Education (sub. 147).

³ The total number of services supported by IPSP exceeded the number of providers because some providers received assistance for multiple service types.

Box 4.3 Elements of the Inclusion and Professional Support Program

The National Inclusion Support Subsidy Provider, Inclusion Support Agencies, Inclusion Support Facilitators, Professional Support Coordinators and Indigenous Professional Support Units work collaboratively to deliver the IPSP program.

Inclusion Support

- The Inclusion Support Subsidy (ISS — \$51 million in 2012-13) assists eligible services to improve their capacity to include children with a disability or ongoing high support needs, for example by contributing to the cost of an additional carer or educator. Eligible services include CCB approved and BBF services.
- The National Inclusion Support Subsidy Provider (NISSP — \$2 million) is responsible for the assessment and approval of applications for ISS. KU Children's Services is currently contracted to be the NISSP and deliver the Inclusion Support Subsidy on behalf of the Australian Government .
- Inclusion Support Agencies (ISAs — \$30 million) are funded across 67 regions to provide practical support and advice, via local Inclusion Support Facilitators (ISFs), to build the capacity of childcare services to provide a quality inclusive environment for children with additional needs. Nationally there are 29 ISAs.
 - Inclusion Support Facilitators (ISFs — funded under ISAs) work directly with eligible ECEC services, to provide support, information and guidance that assists them to provide inclusive quality ECEC environments.
 - Flexible support funding (FSF — funded under ISAs) assists services to be more responsive to families and children with additional needs. It can assist a service to employ an additional educator or carer on a short term basis, or to allow release time for staff to attend training. It can also be used as a financial contribution to FDC care educators and in-home carers to attend specialist training after hours.
- Bicultural Support (\$2 million) provides eligible services with access to an interpreter or other bilingual/bicultural person to support the service to enrol and settle children from culturally and linguistically diverse backgrounds, refugee or humanitarian intervention backgrounds and Indigenous children.
- Specialist Equipment (\$0.2 million) is available on loan from Professional Support Coordinators to eligible services to assist the inclusion of a child who has demonstrated ongoing high support needs in an ECEC environment (appendix B).

Professional Development and Support

- Professional Support Coordinators (PSCs — \$15 million) provide eligible ECEC services with professional development and support; provide bicultural support, the IPSP online library, and loan specialist equipment; facilitate customised professional development; and may subcontract the delivery of support to other providers.
- Indigenous Professional Support Units (IPSUs — \$4 million) are funded to provide Indigenous focused BBF childcare providers with professional development and management support. IPSUs also provide advice to the PSCs and ISAs on culturally appropriate professional development and support, to assist services to become culturally inclusive and supportive.

Source: Australian Government Department of Education (2013f, sub. 147).

National Partnerships

The Australian Government provides assistance to ECEC through National Partnership Agreements with State and Territory Governments.

- the *National Partnership Agreement on Early Childhood Education* implemented reforms (progressively from 2009 to June 2013) aimed at providing universal access to quality early childhood education for all children in the year before full time school. The new *National Partnership Agreement on Universal Access to Early Childhood Education* (18 June 2013 to 30 June 2015) supports universal access to and improved participation by children in quality early childhood education in the year before full-time schooling, with a focus on vulnerable and disadvantaged children.
- the *National Partnership Agreement on Indigenous Early Childhood Development* (1 January 2009 to 30 June 2014) was established to improve outcomes for Indigenous children in their early years and to contribute to the COAG Closing the Gap targets for Indigenous Australians. The agreement establishes 38 Children and Family Centres (CFCs) across Australia in urban, regional and remote areas with high Indigenous populations and disadvantage (COAG 2009a). Box 4.4 provides an example of a CFC located in Gunnedah.
- the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care* (effective from 7 December 2009) incorporates a National Quality Framework for Early Childhood Education and Care and a National Quality Standard to ensure high quality and consistent early childhood education and care across Australia, including streamlined regulatory approaches, an assessment and rating system and an Early Years Learning Framework and a Framework for School Age Care (chapter 7).

In 2012-13 over \$550 million was provided under these four national partnership agreements. The majority (83 per cent or \$462 million) was directed to the National Partnership Agreement on Universal Access to Early Childhood Education and to the most populous states of New South Wales, Victoria and Queensland (figure 4.8).

Box 4.4 **Children and Family Centres**

Aboriginal and Torres Strait Islander Children and Family Centres (CFCs):

- provide integrated ECEC and family support services
- establish programs based on identified local community needs
- are intended to be community owned and operated
- are located in communities of high Indigenous population and disadvantage.

The Secretariat of National Aboriginal and Islander Child Care reported:

They [CFCs] are building strong relationships and service partnerships within their communities, and providing evidence based, innovative and quality programs that are already making a positive impact in the lives of children and families. (2013a, p. 3)

For example, the Winanga-Li Aboriginal Child and Family Centre is an integrated service for the people of Gunnedah. Winanga-Li was the first of nine CFCs to open in New South Wales. Gunnedah was selected for the centre after being identified as having a high percentage of young mothers and a lack of people accessing early childhood services.

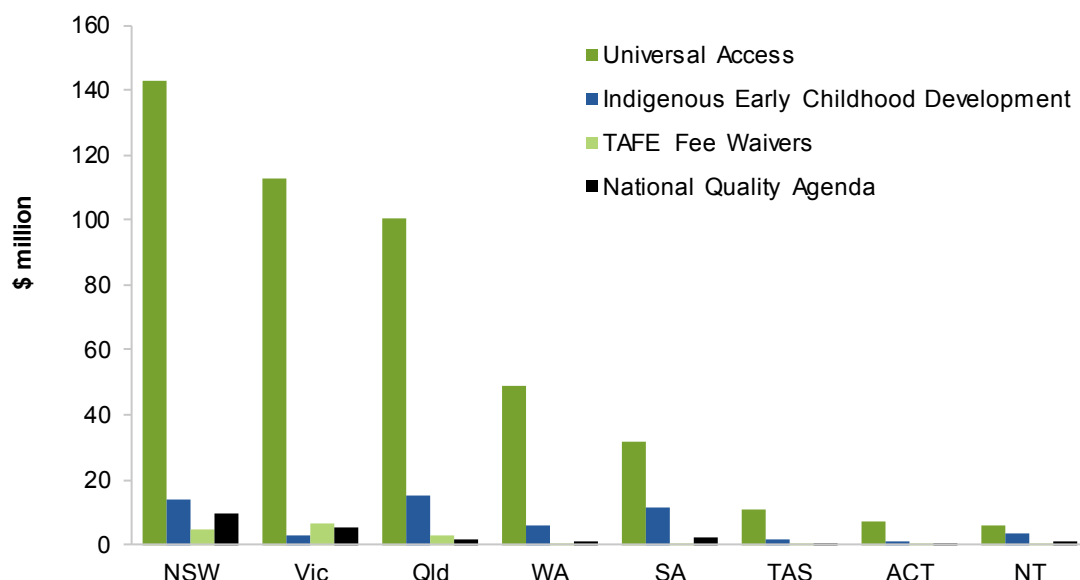
The early learning service was established by UnitingCare Children's Services (UCCS) (with funding from the Indigenous Early Childhood Development National Partnership Agreement) and was managed by UCCS until July 2014. The centre's service management has now been passed to a local Aboriginal Board of Management.

The centre is staffed by local Aboriginal people and provides ECEC services for children from babies to five years old, with a priority placement for Aboriginal children. The centre has places for 35 children aged up to three years, and 35 places for children aged three to six years. Features of the service include:

- a new well equipped facility
- the provision of breakfast, lunch and afternoon tea
- bus pick-up and drop-off service
- trained Aboriginal educators provide a culturally rich learning environment within the Early Years Framework
- access to health and support services (such as health screening, speech pathology, counselling and parenting courses) and a support worker for families of children with disabilities
- ongoing involvement with cultural representatives from the community.

Source: Secretariat of National Aboriginal and Islander Child Care (2013a); UnitingCare Children's Services (2013).

Figure 4.8 Australian Government funding under NPAs
2012-13



Source: Australian Government (2014a).

Australian Government cumulative funding under agreements is expected to exceed \$2 billion by the end of 2014-15 with:

- over \$1.6 billion between 2008-09 and 2014-15 on Universal Access to Early Childhood Education (information provided by the Australian Government Department of Education)
- \$293 million between 2008-09 and 2013-14 under the National Partnership Agreement on Indigenous Early Childhood Development (information provided by the Department of Prime Minister and Cabinet)
- over \$100 million in funding, between 2008-09 and 2014-15, under the National Partnership Agreement on TAFE Fee Waivers for Child Care Qualifications (information provided by the Australian Government Department of Education)
- over \$80 million between 2010-11 and 2014-15 in funding for the National Quality Agenda (information provided by the Australian Government Department of Education).

Other Indigenous ECEC programs

Support for ECEC in Indigenous regions is provided primarily through BBF and the National Partnership Agreement on Indigenous Early Childhood Development (discussed earlier). The Department of Prime Minister and Cabinet supports a number of other early childhood programs for Indigenous children under the Indigenous Education (Targeted Assistance) ACT 2000 including supplementary assistance to preschools in Indigenous areas, workforce initiatives, community support and parenting programs (table 4.4).

Table 4.4 Indigenous ECEC Programs^a
under the Indigenous Education (Targeted Assistance) ACT 2000

<i>Program</i>	<i>Description</i>	<i>Funding</i>
Supplementary Recurrent Assistance (SRA)	SRA assists government and non-government preschool providers to improve educational outcomes for Indigenous preschool children beyond what could be expected from mainstream funding alone. SRA is intended to supplement mainstream funding, not substitute or replace it.	\$12 million in 2013
Transitional Program Assistance – National Indigenous English Literacy and Numeracy Strategy	The program supplements the SRA program. Its objective is to assist selected providers to increase literacy and numeracy outcomes and improve preschool attendance.	\$1.5 million in 2013
Building an Indigenous Workforce in Government Service Delivery	Provides employment and support for Aboriginal and Torres Strait Islander people in approved permanent positions in preschools to improve educational outcomes for Aboriginal and Torres Strait Islander people.	\$0.17 million in 2013
Stronger Communities for Children	The program's objective is to give Indigenous children and young people in the NT the best start in life through safer families and communities, nurturing educational environments, positive participation opportunities and cultural events. The program involves a non-government organisation (Facilitating Partner) working with a local community board to determine what child and family services are needed in the community. The Facilitating Partner funds other organisations to provide these services and helps coordinate the service.	\$67 million over 10 years through to 2021-22
Communities for Children — Indigenous Parenting Services	Provides support for Indigenous families and children through transitions to childcare, pre-school and primary school. The program aims to support families to address underlying issues such as social, cultural, personal, historical, financial and health factors that can present barriers to effective parenting.	\$14 million in 2013-14

^a Does not include NT Crèches and Indigenous Playgroups (funded under BBF) or CFCs under the National Partnership Agreement for Indigenous Early Childhood Development which were transferred to the Department of Prime Minister and Cabinet in 2013 under Machinery of Government changes.

Source: Information provided by the Department of Prime Minister and Cabinet.

4.3 State and territory government assistance

While all state and territory governments are responsible for funding and/or providing preschool services other roles can include:

- approval or licensing, monitoring and quality assessment of services in accordance with the NQF and other relevant regulations (chapter 7)
- providing operational and capital funding to non-government service providers
- delivering services directly
- providing information, support, training and development opportunities for ECEC providers
- planning to ensure the appropriate mix of services is available to meet the needs of the community
- providing information and advice to parents and others about operating standards and the availability of services (SCRGSP 2014).

For example, the Queensland Government described support for ECEC in its state:

With financial assistance from the Australian Government, Queensland has made considerable investment in programs ... Some of the major areas of investment, and success, include:

- Working towards achieving universal access to kindergarten [preschool].
- Supporting improved kindergarten access for children in remote communities or with diverse needs.
- Establishing integrated service delivery to improve early childhood development.
- Assisting the ECEC sector to meet national quality reform requirements. (sub. 405, p. 4)

The Productivity Commission ROGS estimated that in 2012-13 state and territory governments spent \$1.4 billion on ECEC. This is higher in real terms than in any other earlier year (figure 4.1). By jurisdiction, Western Australia and Victoria each accounted for over 20 per cent of total expenditure on ECEC by state and territory governments in 2012-13 (table 4.5).

Of the \$1.4 billion expenditure by state and territory governments on ECEC in 2012-13, about 80 per cent (or \$1.1 billion) comprised expenditure on preschool services (expenditure on preschool services is discussed in chapter 12). The remaining \$242 million of state and territory ECEC expenditure was attributed to expenditure on childcare services with expenditure estimates ranging from \$112 million in Queensland to \$605 000 in Victoria (table 4.5).

Table 4.5 State and territory expenditure on ECEC

\$'000, 2012-13

	NSW	Vic ^a	Qld	WA	SA	Tas	ACT	NT	Total
Childcare									
Recurrent	52 946	605	75 784	15 133	6 440	3 061	5 193	16 287	175 449
Capital	-	-	36 339	7 961	16 679	146	3 041	1 988	66 154
Total	52 946	605	112 123	23 094	23 119	3 207	8 234	18 276	241 604
Preschool									
Recurrent	199 889	241 175	99 158	258 668	136 682	39 749	27 841	38 172	1 041 334
Capital	-	43 958	7 467	23 044	3 535	na	20 743	na	98 747
Total	199 889	285 133	106 625	281 712	140 217	39 749	48 584	38 172	1 140 081
% Universal Access ^b									
	69	45	98	18	23	26	25	16	43
Total ECEC									
Recurrent	252 835	253 298	174 942	273 801	143 122	42 810	33 034	54 459	1 228 301
Capital	-	43 958	43 806	31 005	20 214	146	23 784	1 988	164 901
Total	252 835	297 256	218 748	304 806	163 336	42 956	56 818	56 447	1 393 202

^a Total expenditure may include administrative expenditure that is not able to be split by service type. The sum of childcare and preschool may not add to total expenditure; ^b Percentage of recurrent expenditure from the Australian Government through the National Partnership Agreement on Universal Access; Funding allocated under the National Partnership Agreement may not have been fully expended during the financial year. These estimates are based on ROGS National Partnership Agreement on Universal Access funding data. More recent data (provided by the Australian Government Department of Education) are presented in table 4.1. Estimates of the percentage of preschool expenditure from Universal Access are not sensitive to more recent estimates of Universal Access funding. - nil or rounded to zero.

Source: SCRGSP (2014).

Childcare expenditure

The nature and level of support provided by state and territory governments for childcare services varies between jurisdictions. The following list provides a snapshot of some of these programs.

- In New South Wales, the Intervention Support Program provides grants for programs designed to support learning and educational development opportunities for children with disability who are below school age and attending not-for-profit early childhood services (NSW Department of Education and Communities 2014).
- In Victoria, the Family Learning Support Program, funded by the Victorian Government provides funding to subsidise occasional care to enable parents or guardians to access vocational education and training (Victorian Department of Education and Early Childhood Development 2013).

-
- The Queensland Government provides assistance to ECEC through a number of integrated models including Children and Family Centres, Early Years Centres, Child and Family Hubs and the Aboriginal and Torres Strait Islander Funding program (Queensland Department of Education, Training and Employment, sub. 405).
 - In Western Australia, the Regional Community Child Care Development Fund supports the development of regional community managed childcare to help meet the needs of families in regional areas. The funding includes support for the inclusion of children with additional needs, operational grants, strategic grants and the development of a Regional Children's Services Plan (Western Australian Government, sub. 416)
 - In South Australia, the Remote and Isolated Children's Exercise (RICE) provides a range of programs (including health, wellbeing, Crèches, ECEC and play sessions) for families living in remote and isolated areas of South Australia. RICE is sponsored by both the Australian and South Australian Governments (Remote and Isolated Children's Exercise 2014).
 - In Tasmania, the state government provides funding to support occasional care providers to assist with accessibility, usually in rural or small communities (Department of Premier and Cabinet, sub. 390).
 - The ACT Government is currently providing capital funding to ACT Government owned childcare centres to upgrade and increase the number of places in existing community childcare centres (ACT Education and Training Directorate, sub. 376).
 - The Northern Territory Government is the only state or territory government which provides a per child subsidy to eligible ECEC services. In 2012-13 the Northern Territory Government provided \$3.8 million in funding for the Early Childhood Services Subsidy (box 4.5). The Northern Territory also has a 'Families as First Teachers' program delivered in remote communities to support the development and early learning of Indigenous children (Northern Territory Department of Education 2011).

Box 4.5 **The Northern Territory Early Childhood Services Subsidy**

The Northern Territory Government introduced the Childhood Services Subsidy in 1983.

The Northern Territory Early Childhood Services Subsidy is non-discretionary and aims to assist operators of approved education and care services contain the cost of care for parents/guardians and maintain fee charges at an acceptable level. (Northern Territory Department of Education 2014, p. 1)

The subsidy is available to LDC and three year old kindergarten services approved to operate under the *Education and Care Services (National Uniform Legislation) Act 2011* and prescribed regulations.

To be eligible, LDC services must operate a minimum of five days a week for at least eight hours per day, 48 weeks per year. As well, three year old kindergartens must operate for a minimum of two sessions per week, 40 weeks per year. The subsidy is paid quarterly, directly to eligible childcare providers.

The Northern Territory Government has also announced plans to extend the subsidy to include FDC service providers.

Current subsidy rates are:

- \$30 per week for children aged under two
- \$22 per week for children aged two to five years.

Source: Northern Territory Department of Education (2014).

4.4 **Local government assistance**

While it is difficult to measure the total value of local government support to ECEC, it is clear that local government is making a significant contribution to ECEC in Australia. This section provides a snapshot of the range of ECEC services provided by local governments in Australia.

The role of local government in ECEC

All local governments have a statutory role as a land use planner which includes issuing development consents, construction certificates and strategic land use planning for ECEC services. Many local governments also fund and deliver ECEC services to their communities. However, the role of local governments in ECEC varies considerably between councils. The Australian Local Government Association (ALGA) commented:

Despite there being no legislatively prescribed role for local government in childcare, local government is involved in implementing state legislation and the extent of involvement varies due to differences in state legislation and regulations, and also from council to council, depending on the resources and capacity of each council.

For example, Tasmania has only a few councils offering services beyond family day care, whereas in Victoria, local government is a major provider, planner and coordinator of services for children and their families. Victorian councils invest heavily in early childhood

infrastructure — 18 of the 79 councils in Victoria directly operate child care centres. (sub. 318, p. 3)

The Western Australian Local Government (WALGA) described the role of local governments in its state:

Local Governments play an important role in supporting childcare and early learning throughout Western Australia, through regulation, facilities management and service provision. Local Governments continued involvement is essential to ensure the delivery of effective services throughout metropolitan and non-metropolitan Western Australia, in line with goals and priorities set by COAG and others ... of the 940 Licensed Child Care Services in Western Australia (excluding Family Day Care) as at December 2013, 34 were licensed to Local Governments. (sub. 313, p. 1)

And in Victoria, the Municipal Association of Victoria reported:

All Victorian councils provide early years infrastructure and in the period 2009 – 2013 have invested over \$210 million in early childhood facilities. Victorian councils play a key leadership, coordination and capacity building role across their early years communities. All councils provide a Maternal and Child Health Service, 26 councils provide direct kindergarten services, 18 directly operate child care services, 55 undertake central registration for kindergarten places in their municipalities and over 40 councils operate Family Day Care. This is in addition to a providing and/or supporting a range of other ECEC services including Supported Playgroups and Community Playgroups, Vacation and Occasional Care and Outside Hours School Care. (sub. 343, p. 5)

Generally, the range of services provided by local government is in response to the needs and priorities determined for the local community. Services vary between local governments depending on the geographical location and size, population profile and development and growth pattern of the local government area.

Many local governments described the diversity of roles they have in supporting ECEC in their communities. For example Marrickville Council commented:

It is important to note that Local Government is a key stakeholder in ECEC by way of its many diverse roles in ECEC, including:

- considerable financial investment
- commitment to planning services to meet the needs of children in the local area
- direct provision of ECEC services
- provision and maintenance of premises for community-based service providers at subsidised rentals
- commitment to equitable access for disadvantaged and vulnerable families and children, children with additional needs and Aboriginal and Torres Strait Islander children
- employment of significant numbers of staff working in ECEC services. (sub. 261, p. 5)

While there is considerable diversity in ECEC support provided by local governments there are a number of key areas in which local governments are commonly making a contribution to ECEC including:

- direct provision of childcare services — particularly the operation of occasional care and mobile care services and services in rural and remote areas
- the coordination and planning of childcare and early learning services for children and their families
- subsidised (peppercorn rent) or free access to buildings for childcare services (either on a casual or permanent basis)
- special services for children with additional needs (box 4.6).

Box 4.6 Some examples of local government ECEC assistance

Direct provision of ECEC services

Penrith City Council

Penrith City Council, as a local government body, has embraced the establishment of children's services in the Penrith local government area since the 1970s and currently directly provides the following not-for-profit services and programs.

- 18 Long Day Care services
- 5 Preschool services
- 9 Before and After School Care services
- 6 Vacation Care services
- 1 Occasional Care service ... (sub. 403, p. 1)

Australian Local Government Association

In rural and regional areas, the situation is different again as the additional challenges faced by these communities often mean that market failure necessitates local government intervention and provision of services (normally provided by the private sector or other levels of government) ... (sub. 318, p. 3)

Coordination and planning

Yarra City Council

Council plays multiple roles across the early education and care sector to ensure services are delivered as part of a coordinated system designed to support families and children in their local communities. Our practice entails leadership, planning, advocacy and information as well as support for other service providers. (sub. 436, p. 1)

Infrastructure support

City of Darwin

City of Darwin Council sponsors seven childcare centres across the municipality by providing and maintaining the buildings. All facilities operate on a peppercorn lease agreement as part of Council's role in community support. As part of this provision, Council supports each centre with grant administration and project management of major capital works as well as capacity building support. Volunteer management committees oversee the planning, management and decision-making of each organisation. (sub. 342, p. 1)

(continued next page)

Box 4.6 (continued)

City of Sydney

The City currently leases 16 centres under our Accommodation Grants Program (AGP) to a range of not-for-profit providers who deliver childcare services. The AGP supports community organisations by providing accommodation in Council-owned buildings within the community property portfolio at nil, or below, market rent. (sub. 196, p. 6)

Support for vulnerable and additional needs children

Australian Local Government Association

Council-run services often fill a gap for children with complex needs and those families on low incomes. Councils have high demand for their services as they often pass on significant subsidies to users. Local Government New South Wales advises that nearby private centres do not have the same level of demand as council-owned facilities. (sub. 318, p. 5)

The Local Government Children's Services Reference Group

Local Government in NSW is a significant funder and provider of not-for-profit ECEC services and has been for many years. Local Government ECEC services are planned, established and funded to be responsive to the needs of children and families in local communities. The councils that make up the Reference Group demonstrate a commitment to equitable access for low income, disadvantaged and vulnerable families; inclusion of children with disabilities; and culturally responsive services for Aboriginal and Torres Strait Islander peoples and culturally and linguistically diverse children and their families. (sub. 240, p. 1)

Marrickville Council

Increasingly, local government and community-based ECEC services are offering places for children with additional needs and subsidising the cost of additional educators to enable higher staff to child ratios from within their own limited and already subsidised budgets. This includes the staff time taken to work in partnership with other specialist providers to ensure the needs of the child are met. (sub. 261, p. 9)

Monash Council

Monash Council is the lead agency for an Inclusion Support Agency (ISA) covering the municipalities of Boroondara, Manningham, Monash and Whitehorse. It also employs a Preschool Field Officer to support the inclusion of children with additional needs in four year old kindergarten programs. Through these services and other support provided to early childhood services in Monash the Council has developed a strong knowledge of its local services and the needs of its local community. (sub. 75, p. 1)

Penrith City Council

The PCCSC is a strong advocate of equitable access to early childhood education that is of a high quality and has children's wellbeing first and foremost. Examples of how this equity agenda is pursued include: reduced fees for low income families and Aboriginal children, the employment of educators of diverse backgrounds, partnerships with organisations like Gateway Family Services and Mission Australia to support vulnerable families, the provision of a Family Support Service to resource educators and support families and high enrolments of children with additional needs. (sub. 403, p. 2)

Frankston City Council

Frankston Council's long day care centre is located in our most disadvantaged neighbourhood (Frankston North). This facility is operated by the Council in order to fill the gap in the market and deliver a much needed long day care centre in this area, as there is a long history of no private long day care provision in this area. The Council believes that this investment in a high quality long day care service in Frankston North is critical in order to intervene early with children who are at high risk. (sub. 286, pp. 2–3)

In 2013, Community Child Care Co-operative (NSW) and Australian Community Children's Services NSW commissioned a study on New South Wales local government involvement in the provision and support of ECEC for children under school age (0 to 5 years). Key findings include:

- 70 per cent of respondent councils directly provide ECEC services
- many councils undertake planning processes such as needs analyses support for increased and quality early childhood education and care for their community
- 58 per cent of respondent councils lease premises to other early and middle education and care providers
- 60 per cent of respondent not-for-profit community-based services could not operate without a rental subsidy
- 94 per cent of councils were either partly or wholly responsible for maintenance of buildings leased (Reilly and Bryant 2013).

Similarly, in 2011, the Municipal Association of Victoria released a report on *The Victorian Local Government Support for Children, Young People and their Families* which provided a snapshot of ECEC services provided by local governments in Victoria (box 4.7).

Box 4.7 Victorian survey of local governments

The Victorian Local Government Support for Children, Young People and their Families survey was completed by all 79 councils in Victoria in 2010. Summary statistics, for services provided by councils in Victoria for children aged up to 12 years old, include:

- 70 per cent of councils reported a major role in coordinating ECEC provision
- almost all councils provided support for four year old kindergarten. In particular 94 per cent of councils owned the facilities and 50 per cent operated a central enrolment system
- 75 per cent of councils provided support for three year kindergarten
- 68 per cent of councils owned LDC facilities and 72 per cent of councils provided support for LDC services
- 65 per cent of councils provided support for Occasional Care services
- 76 per cent of councils provided support FDC services
- 42 per cent of councils supported ECEC programs in Neighbourhood Houses
- 40 per cent of councils provided support for OSHC
- 53 per cent of councils provided support for children with disabilities or developmental delays
- 48 per cent of councils partnered with primary schools to provide transition to school programs
- metropolitan councils were more likely than rural councils to provide support for most services types, with the exception of three year old programs.

Source: Victorian Department of Education and Early Childhood Development and Municipal Association of Victoria (2011).

The Commission considers that local governments can usefully have a role in land use planning for ECEC services as well as supporting local delivery of ECEC services. Such a role may vary, depending on community need and local government capacity, from provision of information on the demand for ECEC services and identification of suitable sites, to coordination and facilitation of ECEC services integrated with other community services, to direct provision of particular types of ECEC services to families. The regulatory role of local governments is discussed in chapter 7.

Local government funding of ECEC

Local government revenue to fund ECEC services for the community is primarily sourced from local government rates and state and commonwealth grants. A number of participants to the inquiry commented that there are significant financial pressures to provide support for ECEC. ALGA commented that a lack of financial support is a major issue for local governments.

Local government resources often rely significantly on rate revenue from the local community. The capacity for local government to maintain and upgrade ageing infrastructure in keeping with quality and regulatory requirements, without considerable government financial support, is a major issue for councils. (sub. 318, p. 5)

WALGA also explained that lack of funding and the ageing of local government infrastructure is making it increasingly difficult for local governments in Western Australia to provide infrastructure to support ECEC services.

Local Government is a critical partner in the provision, maintenance and planning of infrastructure for Early Years services and also directly owns a large number of the facilities used for the delivery of Early Years services. At a State and Commonwealth level, there has been insufficient funding for building or maintaining the required infrastructure. Many facilities were built decades ago with funding from State and Commonwealth Governments, which has long ceased. Ageing facilities require more maintenance and some facilities are at the end of their asset life. Most Local Governments are unable to fund the construction of new facilities or continue to maintain facilities past their asset life cycle particularly when these facilities are provided free of charge with little or no cost recovery. (sub. 313, p. 2)

Local governments are increasingly considering the extent to which they can continue to provide some ECEC services or offer facilities to ECEC providers at peppercorn rents, given financial pressures and state-imposed caps on local government rates. The study on NSW local government and ECEC found that:

An increasing number of local councils across NSW have had to balance their service provision with fiscal constraints. These financial pressures have seen them reviewing their involvement in the provision of, or support for, early childhood education and care and other services. This has meant many councils have questioned what their core council activities should be, focusing only on those ‘statutory’ services in an effort to remain financially sustainable. ...

Newcastle Council identified that it is facing significant financial challenges and an infrastructure backlog of \$117.3 million, citing ageing infrastructure and buildings the major contributors to the backlog. Other councils are looking at how their assets can provide income

to support delivery of other services including charging commercial rents for lease of buildings. Services such as early childhood education and care that some councils consider to be 'non-statutory' are often the first to go. (Reilly and Bryant 2013, p. 15)

As noted in a previous Productivity Commission (2008) study on local government finances many local governments have found, in a constrained budgetary environment, that services (such as ECEC) can be more effectively delivered to their community when specialised and qualified staffing and other resources are pooled — such as teachers shared between mobile preschools and the cluster management of ECEC services — with those in neighbouring local government areas.

PART B: OUTCOMES OF ECEC

5 Childhood learning and development

Key points

- Children's experiences in the early years of their lives, when the neuroplasticity of their brains is greatest, can have profound impacts on their longer-term development. The environment within and outside the home is important.
- Family characteristics, such as parent educational attainment and income levels and the home environment, are the strongest predictors of a child's development.
- There has been extensive research on the impact of non-parental care on children's development.
 - Preschool is beneficial to the general population and delivers significant benefits to disadvantaged children.
 - Children facing disadvantage or who are at risk of poor care in their home environment may benefit from early exposure to high quality childcare and the additional income generated by parental employment.
 - The impact on young children is mixed with some research indicating that long hours in care for very young children (under 12 months old) is associated with behavioural problems later in childhood. Other research indicates that high quality care may lessen these impacts.
 - These risks become less evident as the child ages.
 - The quality of care is important in early childhood development and depends on a range of factors which are not easily defined or measured.
- Overall, most Australian children are doing well developmentally. However:
 - based on the Australian Early Development Index (AEDI) data, Indigenous children, children living in disadvantaged communities and children not proficient in English are more likely to be developmentally vulnerable.
 - the 22 per cent of children that are developmentally vulnerable are spread across all socioeconomic groups.
- Integrated services (ECEC services, child health services, play groups, preschool and parenting programs) may enable early identification of at risk and vulnerable children below preschool age who would benefit from ECEC services.
- This approach is being developed through the South Australian Children's Centres, which provides a mix of services depending on the needs of the community. There are other service integration models currently being trialled on a smaller scale.
- When completed, the evaluations of these integrated service models will assist these service providers to more effectively meet the needs of their clients.
- Longitudinal studies of the impacts of ECEC on outcomes later in life are required in Australia to fully understand costs and benefits of ECEC participation and its quality.

This chapter initially discusses the factors that facilitate child learning and development including the impact of non-parental care and family characteristics. It then looks at the development needs of Australian children and how these children are progressing before discussing how to better meet these needs.

5.1 What facilitates children's learning and development?

The early learning experience

Children's experiences in the early years of their lives, both within and outside the home, can have profound impacts on their longer-term development. The early childhood period is a time of rapid brain development where the brain's circuitry or 'wiring' is built. This process is particularly sensitive to the nature, extent and range of experiences provided by a child's environment. This makes early childhood a period of both opportunity for enrichment and vulnerability to harm.

There has been extensive research as to the interaction between genes and experience and the rapid development of the brain in the early years of life (National Scientific Council on the Developing Child 2007). The research has highlighted the importance of the quality of the interactions between the child and their caregiver(s) and how this provides the sensory stimulation affecting early brain development and later cognitive and social outcomes.

This relationship between infants and their parents and other caregivers that shapes the architecture of the brain is often termed 'serve and return'. This occurs as infants reach out for interaction through gestures, babbling, facial expression and cries and adults respond back eliciting further interaction from the infant and so forth (National Scientific Council on the Developing Child 2007). It is through these interactions that a child's 'self regulatory' system develops that enables the child to control their emotions and behaviour, interact with others and engage in independent learning. A young child's relationship with adults and the environment and experiences provide the foundation of their early learning.

Virtually every aspect of early human development, from the brain's evolving circuitry to the child's capacity for empathy, is affected by the environments and experiences that are encountered in a cumulative fashion, beginning early in the prenatal period and extending through the early childhood years. The science of early development is also clear about the specific importance of parenting and of regular caregiving relationships more generally. (Shonkoff and Phillips 2000, p. 388)

In contrast, harmful experiences can have severe detrimental effects on brain development and longer-term effects on physical and mental health into adulthood. Young children who experience poverty, continuous family chaos, recurrent emotional and physical abuse, chronic neglect and severe and long-term maternal depression without buffering adult support can develop toxic stress levels that impact on brain development. Because of this,

the establishment of a nurturing relationship with a primary care provider is typically given the highest priority where intervention is required (National Scientific Council on the Developing Child 2007; Shonkoff and Phillips, 2000).

Family characteristics play a key role in facilitating children's learning and development. The level of family income and parental, particularly maternal, levels of education have a major influence on a child's development. More affluent and better educated parents tend to invest more time in development activities with their children and be better positioned to provide stimulating environments for their children (Sawhill, Reeves and Howard 2013).

The cumulative effect of experiences and environment in early childhood makes further skill acquisition possible later in life. This has underpinned the investment by parents and governments, through the provision of early childhood education and care (ECEC) services, in early childhood learning.

The impact of non-parental care on children's learning and development

The impact of non-parental care on children's development has been subject to extensive research and debate (Buckingham 2007). This research has been undertaken for some time overseas and more recently in Australia and has been ongoing since the widespread development and use of childcare in the 1960s and 1970s. It has examined various angles including: the attachment between mothers and children and the impacts of separation; the effects of early intervention through the use of development programs for disadvantaged children; the impact of childcare and preschool on children's cognitive, social and emotional development; and the effects of quality in childcare (Elliot 2006).

Different impacts of childcare and preschool

The research to date indicates that the impacts of attending childcare on the development and early learning outcomes of younger children (aged 0 to 3 years) are not as consistently positive as the impacts of attending preschool on children aged 3 years and older. In a literature review for the United Kingdom's National Audit Office, Melhuish concluded:

While the research on pre-school education (3+ years) is fairly consistent, the research evidence on the effects of childcare (0-3 years) on development has been equivocal with some studies finding negative effects, some no effects and some positive effects. Discrepant results may relate to age of starting and also probably at least partly to differences in the quality of childcare received by children. In addition childcare effects are mediated by family background with negative, neutral and positive effects occurring depending on the relative balance of quality of care at home and in childcare (2004, p. 3)

Similarly, the Centre for Community Child Health, The Royal Children's Hospital Melbourne said:

In general the evidence indicates that ECEC programs (not including preschool) sometimes pose risks to young children, and sometimes confer benefits, but their impacts are best understood in conjunction with other potent influences (e.g. family resources, the quality of parental care). (sub. 308, p. 2)

ECEC and developmental outcomes for younger children

The findings from Australian and overseas research on the impact of ECEC or childcare on the learning and development outcomes of younger children are mixed. In regard to cognitive outcomes, studies from Sweden reported that children commencing childcare aged between 6 and 12 months achieved significantly higher scores on cognitive ability and academic tests at age 8 and 13 (Andersson 1989, 1992). In contrast, a Canadian study found that attending childcare had no significant effect on cognitive outcomes on children at age 4 and 5 (Lefebvre and Merrigan 2002). Another Canadian study, based on an analysis of the national longitudinal study of children and youth, found no correlation between school readiness and the number of hours spent in childcare (Gagne 2003).

In Australia, children's learning abilities in the first year of school were rated lower by teachers for children who had spent long hours in care before 3 years of age (Harrison and Ungerer 2000 cited in Harrison et al. 2009). A recent Australian study (Lee 2014) concluded that non-parental care from birth through to 3 years did not have adverse effects on children's cognitive outcomes at age 4 to 5, 'however children who spent longer hours in non-parental childcare, and those who entered at 18 months or older, had lower cognitive test scores at age 4 - 5' (Lee 2014, p. 9). Another Australian study found that children who attended centre based care at age 2 had significantly higher teacher rated maths, literature, vocabulary and reasoning skills at age 7 than children who were in parental care (Coley et al. 2013).

An analysis of the data collected in wave 1 of the Longitudinal Study of Australian Children (LSAC) found that children who spent moderate hours (9 to 30 hours per week) in care had better literacy and numeracy test scores at age 4 to 5 than children who spent short hours (1 to 8 hours per week) in care indicating a minimum level of exposure for children to receive the benefits of attendance at these groups settings. However, it also noted that the benefits of attendance did not simply increase the longer children spent in care:

Children who attended long hours of care/education each week (30 to 40 hours per week or more than 40 hours per week) had poorer receptive vocabulary than children who attended fewer hours each week. Moderate hours of care/education may provide children with a level of stimulation appropriately matched to their attention and learning skills, while very long hours may simply overtax the adaptive capacities of these young children. (Harrison et al. 2009, p. 152)

Children's socio-emotional development can also be affected by the amount of ECEC or childcare and the age of commencement. Research, both in Australia and overseas, indicates that long hours of care (more than 30 hours per week) for very young children (generally under 12 months) and multiple care arrangements were associated with behavioural problems later in childhood (Bowes et al. 2009; Loeb et al. 2007; Margetts 2003; NICHD 2006).

Other research has concluded that the provision of high quality care may lessen the negative impacts of the time spent in care (Harrison 2008; Love et al. 2003). Dr Sheila Degotardi and Sandra Cheeseman from the Institute of Early Childhood Education, Macquarie University said:

While research is inconsistent in relation to whether attendance in infant toddler programs is beneficial or detrimental, recent evidence strongly concludes that the **quality of infant-toddler classrooms has significant and far-reaching effects**. In particular, the quality of services for infants and toddlers has a significant impact on pre-academic and important social - emotional skills, demonstrating overwhelmingly that the contribution of ECEC on development and school readiness begins in infancy. (sub. DR 672, p. 4)

Some studies have found that while higher quality care has been associated with improved academic and cognitive outcomes, more hours in care were associated with behavioural problems. A study in the United States that tracked around a thousand children from birth to age 15 found that, although the effects were small, mid-adolescents who had experienced higher quality childcare did better academically than those provided low quality care or no non-parental care, but that more hours in care, regardless of the quality of the care, were linked to greater risk taking and impulsive behaviour at age 15 (Vandell et al. 2010).

Others have pointed out that children in Australia use childcare differently from children in the United States — Australian children are more likely to attend formal accredited childcare on a part-time basis before age 3 whereas US children are more likely to be in informal unaccredited care — which can make the use of United States research in the Australian context problematic. (Margaret Sims sub. DR710); (Coley et al. 2013)

The Australian Research Alliance for Children and Youth (ARACY) commented that 'the evidence does not conclusively call for all children to be made to participate in ECEC' and 'the home learning environment remains the primary indicator of children's early learning and development outcomes', but noted that with a substantial proportion of Australian children in non-parental care on a regular basis it was vital that quality ECEC was provided to avoid risks of harm and encourage the best outcomes for children (sub. DR794, p. 15).

Generally, the research has tended to find that the potential risks from ECEC or childcare are less evident as the child ages, especially if the care is of high quality. However, the existing evidence is unclear as to the precise age these benefits, at least for the wider population, start to kick in and outweigh any potential negative impacts.

In summarising the research, UNICEF concluded that:

At present, therefore, the most important generalization to be made is that the younger the child and the longer the hours spent in child care the greater the risk. (2008, p. 12)

The exceptions to this (discussed below and in chapter 13) are those children facing disadvantage or at risk of poor care in their home environment. For these groups, there may be benefits from early exposure to high quality ECEC or childcare and the additional income generated by parental employment. Melhuish found that:

The evidence on childcare in the first three years for disadvantaged children indicates that high quality childcare can produce benefits for cognitive, language and social development. (2004, p. 4)

ECEC and developmental outcomes for preschool and older children

In contrast, the impact of exposure to early learning and development programs provided through preschool programs for older children (generally 3 to 5 years) is unequivocal. The research has found that preschool education is beneficial to the development of the general population and there are greater benefits to those children from disadvantaged backgrounds. The different types of disadvantage impacting on Australian children are discussed in detail in chapter 13.

The OECD (2011a) found that the Program for International Student Assessment (PISA) reading assessment results of 15 year old students in most countries who had attended pre-primary or preschool for more than a year outperformed those who had not attended, even after accounting for their socioeconomic background. In other countries, such as the United States, Finland, Korea and Estonia, attending preschool had little or no relationship to the PISA results achieved by students from similar socioeconomic backgrounds.

Australian research drawing on the LSAC study of over 4000 Australian children, found that after controlling for socio-demographic characteristics, there was a significant positive association between attendance at preschool and year 3 NAPLAN results (Warren and Haisken-DeNew 2013).

Although the results from the PIRLS (Performance in International Reading and Literacy Standards) and TIMMS (Trends in International Maths and Science Study) scores indicate a link between additional years of pre-primary education and improved average test scores for Australian children in year 4 (sub. 395), these results did not take into account or control for the socioeconomic backgrounds and family characteristics of the children who attended pre-primary education and those that did not (Mullis et al. 2012).¹ Consequently, it is not possible to determine from this whether better results at primary school are actually related to involvement in pre-primary education or to the family and

¹ The results for TIMMS and PIRLS also indicate that higher average test scores in year 4 were associated with better home resources (family socioeconomic status, parental education and occupation and number of books in the home) and better resourced schools (Mullis et al. 2012).

household-specific factors which have been found in other studies to be critical for child development outcomes.

In the United Kingdom, a longitudinal study on the effective provision of preschool education drawing on 3000 children, the Effective Provision of Preschool Education (EPPE) study, found that preschool attendance compared to none, enhanced all round development in children. Disadvantaged children benefited significantly from quality preschool, especially where they were with a group of children from different social backgrounds (Sylva et al. 2004). In following up these children at age 14, attending high quality preschool predicted better outcomes for maths and science, but not for English, with the benefits of preschool being less evident than at younger ages (Sammons et al. 2012). The effects of attending preschool on promoting improved socio-behavioural outcomes were also found to have faded somewhat by age 14 (Sammons et al. 2012). The most recent follow up of these children at age 16, found that attending any preschool, compared to none, predicted higher General Certificate of Secondary Education (GCSE) scores. Higher quality preschool also predicted higher total GCSE scores and was particularly important for children whose parents had lower levels of qualifications. This follow up also found that taken together family influences, particularly the educational level of the parents, remained the strongest indicators of exam success and that secondary school quality and students' experience of school also influenced outcomes (Sylva et al. 2014).

A further study in the United Kingdom drawing on the longitudinal study of Young People in England, found that preschool education improved test scores for children aged 11, 14 and 16 and was particularly beneficial for children from disadvantaged socioeconomic backgrounds. However, the impact of preschool on non-cognitive outcomes was more mixed with positive impacts on socialisation and attitudes towards education, but no significant effect on mental well-being and problematic behaviours (Apps, Mendolia and Walker 2012).

The research has been more limited as to the longer-term benefits (into adulthood) for the general population from attending preschool and early education. A Norwegian study measured the effects, on those aged in their early 30s from the introduction of universal access to early childhood education and care for 3 to 6 years olds in Norway in the mid 1970s. It compared the differences in adult outcomes for children from Norwegian local government authorities in which the program was extensively implemented in the second half of the 1970s and those in which it was not. Drawing on a sample of nearly 500 000 children, the study found that the introduction of this program increased the chance of completing high school and attending college which in turn strengthened labour market attachment and delayed child bearing and family formation as adults. The benefits of education were mostly to those children with lower educated mothers whereas most of the increases in earnings related to females (Havnes and Mogstad 2009).

Targeted programs in the United States

There has been a considerable literature surrounding a number of experimental early education and preschool interventions that targeted disadvantaged children in the United States. The most high profile of these is the HighScope Perry Preschool Program conducted in Ypsalanti Michigan in the 1960s. This was a randomised trial based on a sample of 123 African American children from disadvantaged backgrounds aged 3 to 4 years. The program involved a half day, five day per week centre based preschool attendance supplemented with weekly home visits by educators. After 2 years all participants left the program and entered the same public school as the control group and a range of data was collected for both the treatment group and the control group through to the age of 40 (Heckman, Pinto and Savelyev 2013; Heckman 2006; Melhuish 2004).

The positive outcomes from the Perry Preschool Program have seen it widely referred to in policy deliberations around early intervention, early childhood development and preschool programs. Studies on the program found that it significantly enhanced adult outcomes including education, employment, earnings, health and reduced participation in crime. Although the program did not produce long-term cognitive gains, it did create persistent improvements in personality and character skills. This substantially reduced aggressive, anti-social and rule breaking behaviour which in turn improved labour market outcomes, health behaviours and reduced criminal activities (Heckman, Pinto and Savelyev 2013; Heckman 2006).

Another widely referred to intervention experiment in the United States is the Abecadarian project. This study commenced in North Carolina in 1972 and also involved a randomised trial of 111 children from disadvantaged backgrounds. The treatment group took part in a centre based intensive early childhood development program from an average 4 months of age, their families were given free medical care, nappies, baby formula and social service support, and had home visits until the children entered school. Data on outcomes was collected until the subjects turned 21. In aggregate, the treatment group was found to have better cognitive outcomes, improved education and incomes and a later start to their own parenthood. It also provided family benefits, particularly to mothers of the children, from better educational and employment outcomes. However, there was no significant reduction in criminal behaviour (Melhuish 2004).

Another US program, the Chicago Child-Parent Centre (CPC) program, a large scale public preschool program aimed at disadvantaged 3 to 4 year olds, has been running in Chicago public schools since 1967. It involves a half or full day program focussing on basic numeracy, reading and writing skills and includes parent involvement to visit the centres and receive support and advice. Those who participated in the program, in comparison to similar children who did not, were found at age 28 to have higher rates of high school completion, higher income, significantly lower rates of substance abuse and lower arrest rates (Heckman and Kautz 2013).

These targeted interventions in the United States, focusing on the provision of high quality early education and family visits to disadvantaged children, have been subject to cost-benefit analysis. Such analysis indicates that the highest returns from preschool and other programs come from investing in the most disadvantaged young people as it raises the ‘payoff from future investments’ (Heckman and Kautz 2013, p. 32). As Heckman noted:

You go where the marginal returns are the highest and they’re highest with disadvantaged children. (quoted in Solomon 2007)

The targeted interventions in the United States have demonstrated significant returns, in part due to reduced criminal behaviour and lower rates of incarceration (table 5.2). When targeted towards disadvantaged children, the early interventions had much higher returns than later interventions during primary school, in high school or in early adulthood through job training (Heckman 2006).

While the experimental programs and the large scale CPC program conducted in disadvantaged communities in the United States several decades ago, were highly beneficial to the participants and their communities, it is unclear whether or not such programs would generate as significant benefits in a different cultural context and where the general quality of ECEC services and schooling is different from that of the United States.

What counts as quality?

A considerable focus of ECEC research has been on quality in the provision of ECEC services. (How parents view the quality of ECEC is covered in chapter 7.) High quality ECEC services can have positive effects on children’s development (Elliot 2006; NICHD 2000), although what constitutes quality is difficult to define and measure (Love et al. 2003).

Much of the research into quality has focused on the *structural aspects* of quality: staff to child ratios; the number of children in the group; and staff qualifications. There are also the *process aspects* of quality which involves the quality of the interactions between staff and children. Importantly, it is the structural aspects of quality, particularly child teacher ratios and child numbers, which underpin the one-on-one interactions with children and the process aspects of quality (Sylva et al. 2004).

The Australian policy focus has also been on the structural aspects of quality which are more amenable to regulation and are reflected in the National Quality Framework (NQF). The quality aspects of the NQF are discussed in chapter 7.

Staff ratios and quality

There is no consensus from the research into structural aspects of quality as to the actual threshold effects, the marginal contribution from changes in variables or the optimal

balance between them. For example, the impact of staff to child ratios has been widely researched and a vast body of research points to higher staff to child ratios as having a positive impact on the development outcomes of children. Huntsman (2008) concluded that, in general, higher staff to child ratios pointed to improvements in quality, although the connection was stronger with younger children than children over three years old. However, the research does not indicate or emphasise any linear connection between changes in ratios and changes in quality meaning the difference in outcomes from shifting to a lower ratio, say 1:10 to 1:8, is unclear.

Group sizes and quality

The more children within the group or larger group size has generally been associated with poorer quality (Burchinal, Howes and Kontos 2002). Although group size was less significant than other structural variables, its impact was difficult to isolate and it was often combined with other variables such as staff to child ratios and educational qualifications (Huntsman 2008). Other studies have found none or only very small effects from group size on quality (Zaslow et al. 2010).

Staff qualifications and quality

Staff qualifications are an important aspect of quality. Huntsman (2008) concluded that the most significant effect on quality appeared to be the education levels of the staff, their qualifications and training. Warren and Haisken-DeNew (2013) found that year 3 NAPLAN scores were higher for those children whose preschool teachers had a degree or diploma qualification with the scores for children whose preschool teacher had a diploma qualification slightly higher than for those children whose preschool teacher had a degree qualification. Burchinal et al. (2002), using observational studies, found a higher quality of care when caregivers with higher level qualifications or who attended workshop training were compared to other caregivers. Other research by Burchinal et al. (2008) has highlighted the link between professional development and staff quality which concluded that quality can be improved when teachers receive appropriate professional development, but that the quality was not necessarily higher when early childhood teachers had a college degree. Dennehey and Marshall (2005) found that carers with more education and specialised training provided more responsive and stimulating care for very young children.

Other research has indicated that while qualifications are important for quality, there is less consistent evidence that this is the case for younger children. The evaluation of the *Graduate Leader Fund* established by the UK Government to improve qualifications and professionalise the early years workforce, found that graduate led provision had a positive impact on quality for preschool children, but had little impact on younger children aged birth to 30 months (Mathers et al. 2011, 2014). There is evidence that while the overall level of teacher qualification is important, specialised training, appropriate content and professional development is also important for quality for children under 3 years

(Mathers et al. 2014). The University of Wollongong noted that quality of care was based on a range of factors, including staff qualifications, ratios, the physical environment, curriculum, social policy and interpersonal relationships (sub. DR553).

Others have questioned the relationship between staff qualifications and quality of outcomes and whether higher staff qualifications directly improve teacher quality. They have noted that increasing qualifications in isolation will not necessarily improve outcomes and that quality will also depend on the interactions between the teacher and the child (Early et al. 2007). Gialamas et al. (2013), drawing on LSAC data, found that higher quality carer-child relationships predicted improved cognitive ability and improved socio-emotional outcomes at age four to five years and less strongly at age six to seven years. The results of their study also suggested that the qualifications of the carer did not strongly influence the quality of the carer-child relationship, although smaller numbers of children in care appeared to promote higher quality relationships.

Cloney et al. (2013) pointed to the uncertainty as to what kind of qualifications best promoted classroom interactions and the role of professional development training in comparison to pre-service training for early childhood educators. Yoshikawa et al. (2013) concluded that guidelines on ratios of teachers to children and staff qualifications helped to increase the likelihood of, but did not assure, supportive and stimulating interactions. The research around qualifications and quality and in particular for children aged under 3 years is discussed further in chapter 7.

While the importance of quality is widely recognised in early childhood development, the research indicates quality is a complex concept, based on the interplay between a large range of factors which are not easily defined or measured.

Developmental outcomes from the different types of care

There is little detailed research as to the impacts on childhood learning and development from the different types of care, for example the impacts of long day care in comparison with family day care, grandparent care, nannies or care by friends and neighbours.

Different types of care will facilitate different levels of interaction and development opportunities. For example, a child in group care, such as long day care or family day care, will have greater socialisation opportunities in comparison to say a child in the care of a grandparent or nanny. On the other hand, the child in the care of the nanny or grandparent is likely to have increased opportunities for one-on-one interactions with the carer.

Community based playgroups provide an opportunity for children who may not have the opportunity at home to engage with a larger group of children as well as providing a variety of experiences for the child. These groups, while outside the formal ECEC framework, provide the opportunity for greater physical, language and social and emotional developmental for the children attending and an informal support network for the parents (sub. 255). Playgroup Australia were of the view that community playgroups have a complementary role in the provision of ECEC:

Community playgroups and early childcare and education are complementary and not competitive endeavours. The majority of the community playgroups members are also consumers of childcare and education services and utilise both services for the different beneficial aspects. (sub. 255, p. 4)

The importance of family characteristics

The research is clear cut as to the importance of family characteristics for childhood learning and development. Household income, parental and particularly maternal education and the home learning environment are the strongest predictors of children's development outcomes. In Australia, an analysis of wave 1 data of the LSAC found that family factors such as being read to by a family member, the number of books in the home and the child's access to a computer in the home were stronger determinants of learning and development outcomes than childcare and early education experiences (Wake et al. 2008).

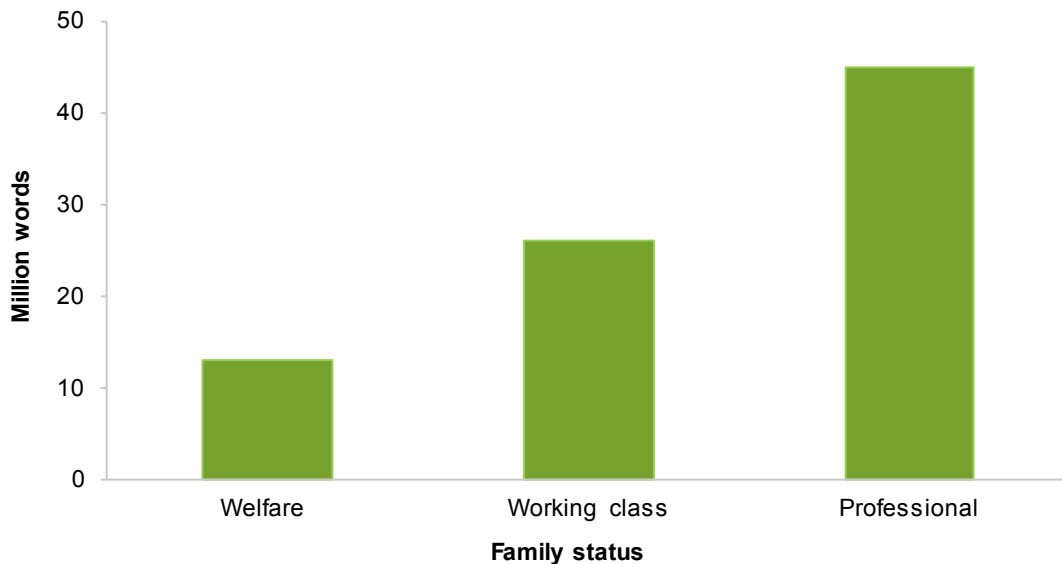
In the United States, the National Institute of Childhood Health and Development (NICHD) (2006) in its longitudinal study concluded that parent and family characteristics were more strongly linked to child development than childcare features. It found that children demonstrated more cognitive, language and social development skills when parents were better educated, had higher incomes, provided home environments that were emotionally supportive and cognitively enriched and where mothers experienced little emotional distress.

Also, in the United States, Reeves and Grannis (2014), concluded that parenting skills were the key to social mobility given their findings that children from lower income homes with less educated mothers heard fewer words, read fewer books and received less stimulation than children from better off and better educated homes. Better educated and more affluent parents talked and read to their children more and provided a wider range of novel and stimulating environments such as parks, playgroups and other outings. For example, a United States study found that children from higher socioeconomic status families had larger vocabularies than children from lower socioeconomic status families at age 4 due to the accumulated number of words heard (figure 5.1).

Parents with low levels of educational attainment (such as those who have not completed high school) and income were more likely to be struggling to make a living; may lack a partner for support in parenting; and live in areas with limited choices (Sawhill, Reeves and Howard 2013).

In the United Kingdom, the EPPE study found that the home learning environment and the activities that parents undertook with their children had a strong relationship with the development outcomes of young children. It noted that the home learning environment was only moderately associated with parental income and education and held that it was what parents did with their children rather than who the parents were that was important (Sylva et al. 2004).

Figure 5.1 **Number of words heard in the first 4 years**



Source: Hart and Risley (2003).

In a literature review for the New Zealand Ministry of Education on the outcomes of early childhood education, Mitchell et al. (2008) found the impact of early childhood education on development and wellbeing was small compared to the income (or poverty levels) and education levels of the parents.

Summing up what the research tells us

Summarising the research on children's development and learning, discussed above, the Commission has concluded.

- Family characteristics are usually the strongest predictor of children's developmental outcomes.
- There are positive development outcomes for all children from around 3 years and above from taking part in preschool and ECEC programs. The benefits are even greater for children from disadvantaged backgrounds and can persist into adulthood.
- The impacts of ECEC on younger children are mixed.
 - Quality ECEC even at a young age is likely to provide benefits for disadvantaged children from poor caring environments.
 - The potential for negative effects are greater the closer to birth a child commences ECEC and the longer the time the child spends in care.
 - These negative effects may be lessened by higher quality care and are less evident for older children.

- The quality of care depends on a range of factors including ratios, staff training, qualifications and experience as well as the physical environment of the classroom and the programs and routines in place.

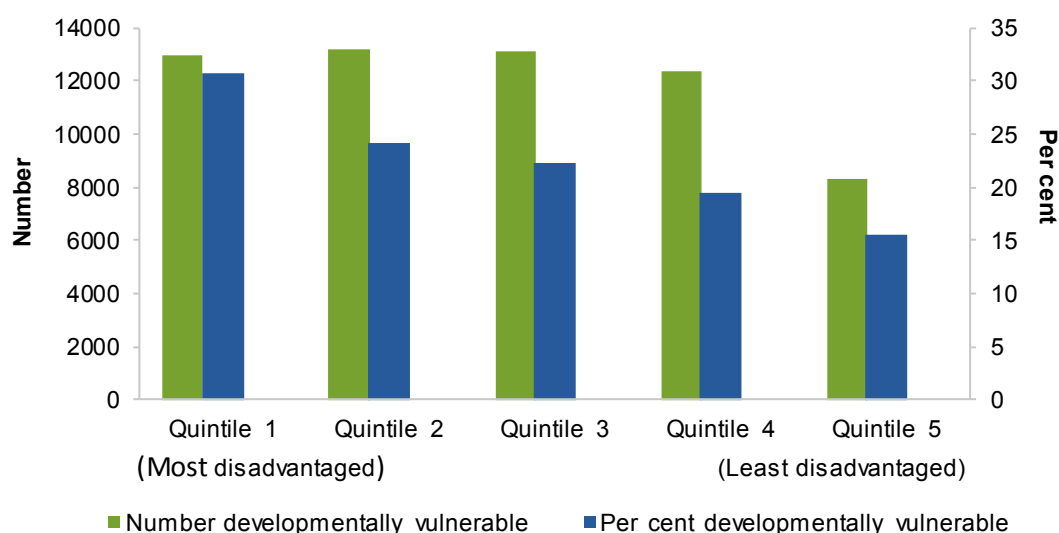
5.2 How are Australian children doing at present?

Results from the Australian Early Development Index

The Australian Early Development Index (AEDI) is a national population based measure of children's development as assessed by their teachers in their initial year of formal schooling. The AEDI was renamed the Australian Early Development Census (AEDC) in July 2014 with the data collection for the 2015 census due to commence in early 2015 (box 5.1). Overall, the AEDI results from 2012 found the majority of Australian children were developmentally on track in each of the five development domains as they entered their first year of formal schooling.

However, not all children are doing well. Around 22 per cent of children were assessed as being developmentally vulnerable in one or more of the five development domains. While concentrated in the most disadvantaged group, these children were found in all socioeconomic groups and by number, apart from the top socioeconomic group, were evenly spread across the other socioeconomic groups (figure 5.2).

Figure 5.2 **Australian children developmentally vulnerable on one or more of the AEDI domains by level of disadvantage^a**



^a Based on the ABS's Index of Relative Social Disadvantage (IRSD) which summarises information about the economic and social conditions of people and households, including the children, within an area to develop an overall score.

Source: Information supplied by the Department of Education from the 2012 AEDI data collection.

Box 5.1 **The Australian Early Development Census**

The Australian Early Development Census (AEDC), previously the Australian Early Development Index (AEDI), is a national population measure of children's development as they enter school. The AEDI was renamed the AEDC in July 2014 to reflect its use as population based measure. It measures five areas of childhood development from information collected by teachers in children's first year of formal schooling. The five domain areas are:

- physical health and wellbeing
- social competence
- emotional maturity
- language and cognitive skills (school based)
- communication skills and general knowledge.

The AEDC/AEDI is an adapted version of the Canadian Early Development Index with the first data collection completed in 2009 and the second and most recent completed in 2012. The next data collection will be in 2015, the first collection under the AEDC banner. In 2012, AEDI checklists were completed for over 96 per cent of children enrolled in their first year of formal schooling across government, Catholic and independent schools.

The AEDI results are presented as the number and proportion of children in the total AEDI population who are 'on track', 'developmentally at risk' and 'developmentally vulnerable' across the five domains. Children who scored in the top 75 per cent of the AEDI population are considered as being 'on track', children scoring between the 10th and 25th percentile are considered as being 'developmentally at risk' and children who score below the 10th percentile are considered as being 'developmentally vulnerable'.

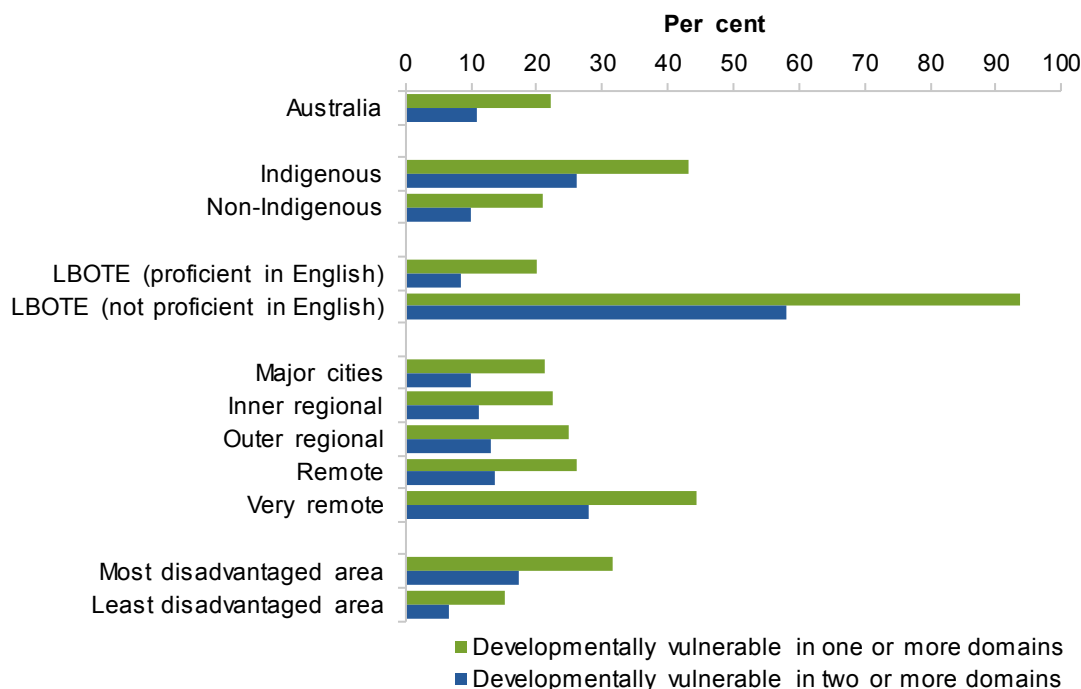
These relative results are reported for communities where the children live and not by their school. This allows communities to see how local children are developing in comparison to other children in the community and with other children in communities across Australia. A number of 'AEDI local communities' (usually a suburb) make up an 'AEDI community' (usually a local government area). These 'AEDI communities' then form a 'region' (usually a statistical division within a state or territory).

Information about children with special needs is not included in the results, due to the already identified development needs of these groups. Special needs children are defined as those who require special assistance because of a chronic, medical, physical or intellectually disabling condition — such as autism, cerebral palsy and down syndrome — based on a medical diagnosis.

Source: AEDI (2013).

Indigenous children were nearly twice as likely to be assessed as being developmentally vulnerable as non-Indigenous children with over 43 per cent considered to be developmentally vulnerable in one or more of the domains. The proportion of Indigenous children found to be developmentally vulnerable in two or more of the domains (26 per cent) was more than double that of all Australian children (10.8 per cent) (figure 5.3).

Figure 5.3 Proportion of Australian children from selected populations assessed as developmentally vulnerable^a



^a Based on the AEDI development domains from the AEDI 2012 data collection. LBOTE (Language background other than English).

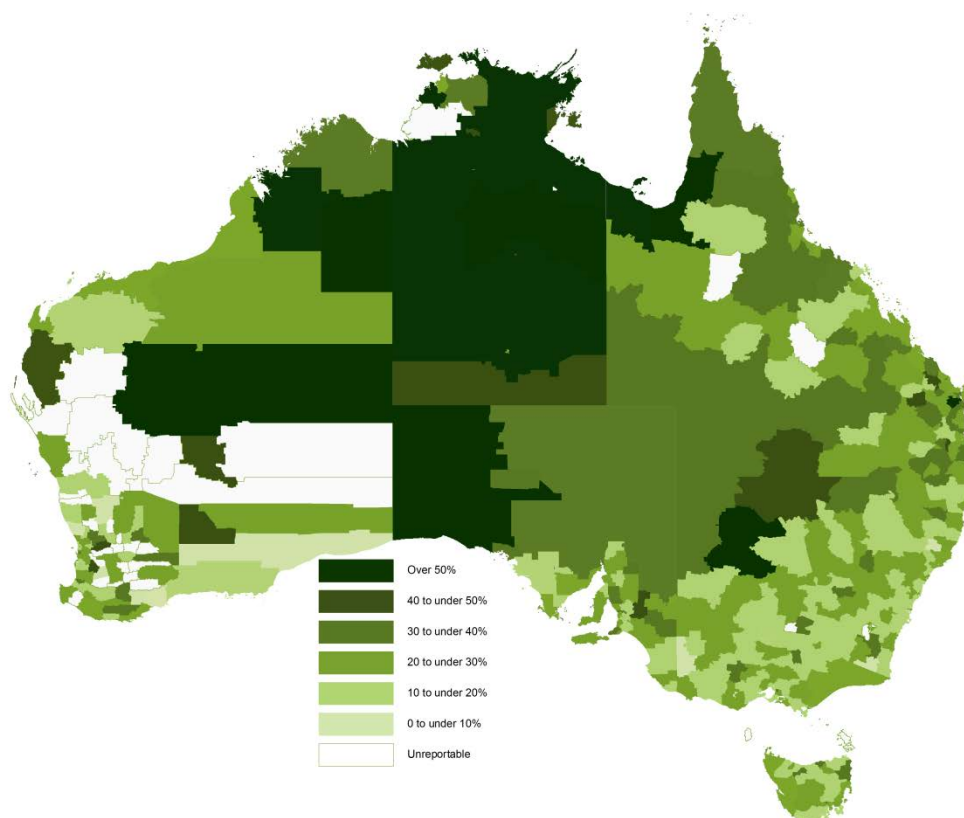
Source: Department of Education (2013a).

The difference between Indigenous and non-Indigenous children in AEDI results was particularly marked in the domain of language and cognitive skills. Just under 6 per cent of non-Indigenous children were found to be developmentally vulnerable in language and cognitive skills compared to over 22 per cent of Indigenous children (Department of Education 2013a).

There are also significant differences in the AEDI results across socioeconomic areas. The proportion of children living in the most disadvantaged areas who were found to be developmentally vulnerable across two or more domains (17 per cent) was nearly three times that of children living in the most advantaged areas (6 per cent). Based on vulnerability in one or more domain, nearly 32 per cent of children living in the most disadvantaged areas were found to be developmentally vulnerable compared to 17 per cent of children living in the most advantaged areas.

The AEDI results also highlight the development risks for children residing in very remote parts of Australia (figure 5.4), although there is likely to be significant overlap between this group and the Indigenous group. Around 44 per cent of these children were found to be developmentally vulnerable in one or more of the domains compared to just over 20 per cent of children living in major cities.

Figure 5.4 Proportion of children assessed as being developmentally vulnerable on one or more of the AEDI development domains



Note: Unreportable communities are those communities where one or more of the following conditions were met: fewer than 15 children had valid AEDI scores; fewer than 2 teachers had completed AEDI checklists for children in that community; or AEDI checklists were not completed for at least 80 per cent of special needs children in that community.

Source: Department of Education data from the 2012 AEDI data collection.

The most developmentally vulnerable group from the AEDI results were children not proficient in English from non-English speaking backgrounds (homes where they speak a language other than English or have English as a second language status). Nearly 94 per cent of these children were found to be developmentally vulnerable in one or more domains and around 58 per cent were developmentally vulnerable in two or more domains. In contrast, only around 20 per cent of children from non-English speaking backgrounds, but who were proficient in English were assessed as being developmentally vulnerable in one or more domains and 8 per cent in two or more of the domains — a share below that of the Australian population (figure 5.3).

There are also gender differences in development. Boys were more likely to be developmentally vulnerable than girls across all the domains. Nearly 15 per cent of boys were found to be developmentally vulnerable on two or more of the domains compared to just under 7 per cent of girls (AEDI 2013).

There are a range of early childhood related services that impact on the AEDI results. They include the use and availability of early childhood education, health and allied services and family and parenting characteristics.

The AEDI checklists completed by teachers also record children's experiences in the year before entering formal schooling. From the 2012 AEDI results, nearly 85 per cent of children attended a preschool program either in a standalone facility or in a long day care centre in the year before school. For those children who attended a preschool program, around 19 per cent were found to be developmentally vulnerable on one or more of the domains compared with 30 per cent of children who did not attend a preschool program (Department of Education 2013a).

Differences in development outcomes using LSAC data

For an AMP–NATSEM *Wealth and Income Report*, Gong et al. (2011) used LSAC data to examine the factors influencing the development of Australian children aged 4 to 5 years. As well as overall development, the report also investigated three specific development domains: physical health; social and emotional functioning; and learning and cognitive development and provided outcome scores for these domains.

It found that the higher the family income, the higher the overall development score. Those children living in families experiencing multiple forms of financial hardship (such as not being able to pay rent and going without meals) were more likely to have lower development outcome scores than those experiencing none.

The employment status of a child's parents was strongly correlated with a child's development and those children with no parent working had considerably lower average development scores. Children who spoke another language at home, had a long-term medical condition or disability, or were Indigenous generally performed more poorly on average development scores than children who did not have these characteristics (table 5.1).

Table 5.1 Average development scores by child characteristics, age 4 to 5 years^a

Mean value = 100

	<i>Overall development</i>	<i>Physical health outcome</i>	<i>Social emotional outcome</i>	<i>Learning and cognitive outcome</i>
Child speaking other language at home				
No	100.37	100.32	100.35	100.33
Yes	96.59	97.85	96.87	98.00
Child is Indigenous				
No	100.25	100.08	100.19	100.40
Yes	95.43	99.84	96.70	94.05
Child with medical condition/disability^b				
No	101.09	101.09	100.63	100.85
Yes	90.72	91.42	94.92	93.64
Parental work status				
At least one parent working	100.55	100.20	100.50	100.74
No parent working	94.34	98.16	95.24	94.13

^a Outcome scores have been standardised to have an average value of 100. Based on LSAC Wave 3 cohort, 2007-08 data. ^b Child with medical condition/disability indicates a child having any medical conditions or disabilities that have lasted, or are likely to last, for six months or more.

Source: Gong et al. (2011).

Transitioning to school

Starting school is a significant event for most children and their families. The transition from the home and early childhood education into school is particularly important as ‘readiness’ for school is predictive of longer-term academic achievement (Rosier and McDonald 2011). If a child is not ‘school ready’ this can lead to disengagement in learning, which can lead to poor educational achievement.

There are a number of factors that impact on a child’s ability to successfully transition into school. They include the characteristics of the child such as temperament, personality, social skills and cognitive ability. There are also parental and family characteristics including parental education and income, the home learning environment and parenting style. The communities in which children live and the services available to them can also influence their ability to adapt to school.

Most children do well in transitioning to school and make good progress in their initial year of formal schooling. Less than 3 per cent of children in their first year of formal schooling were reported by their teachers as not making good progress in adapting to the structure and learning environment of school (AEDI 2013).

Attendance at quality ECEC and preschool has been found to positively influence the transition to school, due to the social and cognitive skills and self regulation of behaviour developed in these programs (AIHW 2009; Elliot 2006). However, the transition to school can be more difficult for children from disadvantaged backgrounds, Indigenous families and children from non-English speaking backgrounds and children who have involvement with child protection services as well as children who have not attended a preschool or kindergarten program (Rosier and McDonald 2011).

In summary, most children transition to school without difficulty. However, the AEDI results and other studies indicate that there is scope to improve the outcomes for certain children, in particular Indigenous children, children living in socioeconomically disadvantaged communities, those living in very remote areas and children from non-English speaking backgrounds who are not proficient in English. Many of these children are likely to be in one or more of these groups.

FINDING 5.1

Generally, Australian children are doing well developmentally and most are well prepared to begin formal schooling. Those who are less well prepared tend to be Indigenous children, children living in socio-economically disadvantaged communities, children living in very remote areas and children from non-English speaking backgrounds. There is likely to be overlap across these groups.

5.3 Meeting the development needs of children

How to ensure the ECEC system meets the development needs of Australian children and improves the development outcomes for those children who are developmentally vulnerable is a key issue for this inquiry. A number of participants commented on the role of the ECEC system in improving development outcomes and reducing disadvantage. Goodstart Early Learning said:

Supporting children's learning and development through high-quality early learning and care is an important public policy objective because it boosts children's performance at school and throughout life, and is a critical lever for reducing disadvantage. (sub. 395, p. 3)

University of Wollongong commented:

It is the inequalities that have an impact on our youngest children and their families that are of particular concern. These inequalities influence not only individual development but also the social and economic capacity of our society. (sub. 367, p. 2)

UnitingCare Australia pointed to their experience:

Our experience at the coalface is that the group of children who gain the most from high quality early learning opportunities are those from disadvantaged and vulnerable households, which

augers well for boosting productivity and full participation in the economy and society in the longer term. (sub. 387, p. 5)

The Australian Children's Education and Care Quality Authority said:

In particular, evidence indicates that children from disadvantaged backgrounds stand to gain the most from quality education and care. It results in improved developmental outcomes including learning skills and improved quality of life. (sub. 260, p. 5)

Other participants such as SDN Children's Services (sub. 205), Victorian Council of Social Service (sub. 341), UnitingCare Children's Services (sub. 326), the Catholic Education Office of Western Australia (sub. 99) and Contact Incorporated (sub. 206) also commented on the important role that ECEC can play in meeting the development needs of disadvantaged children. These participants also expressed a range of views on the wider benefits of ECEC and its impacts on children's learning and development (box 5.2).

Should early childhood education and preschool programs be universal or targeted?

The evidence from the research makes a policy case for targeting disadvantaged children in preschool and early childhood education programs. The significant benefits resulting from the targeted interventions adopted in some countries have also underpinned calls for increased investment and increased participation in early childhood education for all children (Buckingham 2007). This has created some debate as to the relative merit of universal and/or targeted approaches to early childhood education and preschool.

The universal provision of preschool or early childhood development programs provides a number of potential benefits relative to targeted programs. There is an increased participation rate for all children, the difficulty of accurately targeting who should be in the program and what and where the 'cut-off' points should be is avoided, as is any stigma attached to participation in a targeted program.

A universal approach is also able to capture children from all socioeconomic backgrounds who are developmentally vulnerable (Charles Pascal, sub. 83; Department of Education, sub. 147; Mustard 2008). Early identification of additional needs allows remedial intervention to commence sooner. Although children from low socioeconomic backgrounds are over represented in the population of developmentally vulnerable children, they do not make up the majority of such children, as the largest numbers of vulnerable children are located in the middle of the social gradient (Goodstart Early Learning, sub. 395; Playgroup Australia, sub. 255). The AEDI results also indicate that while developmentally vulnerable children are over represented in the most disadvantaged group they are spread across all socioeconomic groups (figure 5.2).

Box 5.2 Participant's views on the benefits and impact of ECEC on children's learning and development

The positive long-term outcomes provided by the small targeted interventions of the Perry Preschool Program and the Abecedarian Project in the United States, although dated and not comparable to mainstream ECEC in Australia, were widely referred to by participants as evidence of the benefits of attending ECEC to children's learning and development.

Many of these participants also referred to the cost effectiveness of early intervention through the provision of ECEC to address disadvantage relative to interventions later in life from the work by Heckman (WA Council of Social Service, sub. 256; The Smith Family, sub. 331; Children's Educators ACT, sub. 210; the Independent Education Union of Australia, sub. 88; Children's Protection Society, sub. 247; Crèche and Kindergarten Association, sub. 272; Good Beginnings Australia, sub. 340; Australian College of Educators, sub. 78 and the Victorian Council of Social Services, sub. 341; Minderoo Foundation, sub. DR907).

There was also a view that because of these benefits, ECEC should be considered part of the wider education system (Child Australia, sub. 230; Mia Mia Child and Family Study Centre, Macquarie University, sub. DR842), that at least 2 years of ECEC and/or preschool would help identify developmental delays in children (Denise Harden, sub. 105) and increasing participation in early learning programs would benefit all children's learning, behaviour and health outcomes (ARACY sub. 168; VCROSS sub. 341). Because of the potential social and economic benefits of ECEC, there were calls for Government to increase expenditure on ECEC (Goodstart, sub. 395).

Some were of the view that parental care provided the best learning and development outcomes for children. The Awesome Mother's Association (sub. 303) believed that in-home care by the parent was the best practice model to optimise a child's early learning and development and that ECEC simply attempted to copy or re-create this.

Others held that the benefits of ECEC depended on the child and their family background. For example, an early childhood teacher observed that for an intelligent child from a loving and learning environment with a mother interested in the child's development, a lack of ECEC was not an impediment to their development, but for a child from a dysfunctional family, the more time in ECEC the better (Kay Doyle, sub. 252).

There was also a focus on the developmental benefits provided by preschool. Dr Wendy Jarvie and Dr Trish Mercer (sub. 249) referred to studies that highlighted the links between preschool attendance and improved NAPLAN performance and PISA results to conclude that preschool attendance should be considered a core part of improving Australia's educational performance. The Catholic Education Office of Western Australia (sub. 99) noted a number of advantages from incorporating the preschool system into the schooling system, such as increased numbers of qualified staff, better pay and conditions for staff and a smoother transition to school for children.

However, children from higher socioeconomic backgrounds may not remain developmentally vulnerable. Research in both Australia (Brinkman, Sincovich and Gregory nd) and the United Kingdom (Feinstein 2003) found that children from high socioeconomic backgrounds who performed poorly in early tests (United Kingdom) or commenced school with poor development as assessed by the AEDI (Australia) had a tendency to improve academically during primary school and ‘catch up’, whereas similar children from low socioeconomic backgrounds were unlikely to ‘catch up’ and would continue through school on a low educational trajectory.

The wider coverage of universal programs can lead to stronger demand for such programs from the community and provide additional benefits from having disadvantaged children interacting with children from all backgrounds. For example, the EPPE study in the United Kingdom found that children from disadvantaged backgrounds benefited from attending preschool with children from other backgrounds (Sylva et al. 2004). For Canadian children, two studies (Cleveland and Krashinsky 1998; Cleveland 2012) found that there would be significant benefits to both disadvantaged children and other children from a high quality universal program.

There are also a number of potential drawbacks associated with universal preschool and early childhood development programs. Children from families most likely to need these programs, such as children from disadvantaged backgrounds, are less likely to attend and so programs are not ‘universal’ in practice. It is not clear why such children do not attend when universal preschool is provided free or on a low fee basis and is easily accessible. Some possible reasons include that education and learning are not highly valued by these families, family dysfunction due to illness or substance abuse and family and relationship breakdown.

Targeted programs are usually high cost intensive interventions and may not work or provide similar benefits when implemented on a universal basis. In the case of most of the well-known targeted programs in the United States, such as the Perry Preschool and the Chicago Child-Parent Centre CPC programs, much of the public benefit from these programs was due to later reductions in crime (from higher education and employment outcomes) which would not apply to the wider community (Heckman, Pinto and Savelyev 2013; Melhuish 2004). There has been an ongoing debate in the United States as to the benefits or otherwise of universal preschool or pre-K (pre-kindergarten) programs for 4 year olds (box 5.3).

In Australia, the National Early Childhood Development Strategy has settled on a mix of universal and targeted services to improve development outcomes for Australian children (COAG 2009b).

Box 5.3 Universal pre-K in the United States

In his 2013 State of the Union address, President Obama announced a federally funded universal pre-K program for 4 year olds. Legislation was introduced later that year. A number of states, Florida, Georgia, Illinois, Iowa, Maryland, New York, Oklahoma and West Virginia, have already moved towards providing free pre-K for all children, although concern has been raised about the quality of some of the programs (Barnett and Frede 2010).

Opponents of the proposed universal pre-K program are of the view that parenting is more important than preschool in ensuring children's readiness for school and success once they get there. They have called for a greater focus on parenting skills and pro-family type policies based on the research that has highlighted the importance of family characteristics in early childhood development. They have noted that pre-K programs were unable to compensate for family breakdown and chaotic homes where children were subject to constant 'transitioning' from disappearing fathers, new step parents who may frequently leave for other relationships and step siblings who are just passing through (Hymowitz 2013).

There is also a concern that government will be unable to create a large system of quality preschools based on the widely cited Perry Preschool model. Moreover, the results of the Perry Preschool program have been questioned as only providing mediocre gains in income and with those attending the Perry Program ending up in low skilled and low income jobs, but less costly to society with the lower risk that their children will end up back in poverty (Hymowitz 2013).

Other critics have cited the results from an evaluation of a voluntary pre-K program in Tennessee which is similar to that proposed by the President. This study found that children who had attended the program, had at the end of first grade, performed below those children who had not (Whitehurst 2013).

The proponents of the universal Pre-K program pointed to the benefits from attending preschool, including fewer behavioural problems and improved cognitive outcomes, in addressing social disadvantage (Haskins 2013).

Targeting in the United States was considered to be problematic as it missed many of the children in poverty who should be attending and many who did attend were in programs that were considered to be less than effective. Also, many children from middle income families lacked access to quality preschool programs and some children in this group were considered to be as far behind in educational achievement as children from the low income group (Barnett and Frede 2010).

Proponents also argue that a universal pre-K program would reach more of the disadvantaged children and provide benefits to middle income children, the benefits would more than outweigh the costs of future educational failure. For high income children the costs of the program may outweigh the benefits, but they would contribute benefits to other children through classroom interactions (Barnett and Frede 2010).

Service integration

One approach to meeting the wider needs of children from disadvantaged backgrounds and for the early identification of at risk and vulnerable children is the use of service integration through 'one stop' shops or child and family centres located in disadvantaged communities.

These centres provide a mix of early learning services, such as childcare, preschool and outside school hours care with family and parenting support services as well as children's and maternal health services. The types of services provided in these centres will depend on the needs of the community, but generally both universal and targeted services are provided to both children and families. Some centres have also been located within schools to further integrate these services into the school years, while other centres maintain close links to their local schools. The services are usually provided by both government, typically state and territory governments, and/or non-government agencies. Integrated services may also be able to be provided on a mobile basis in regional and remote areas.

Service integration is a recent initiative in Australia

Integrated centres are operating in a number of Australian jurisdictions, but those with an ECEC focus are a relatively recent initiative. To date, most of these centres have been established on a trial basis and evaluation of their long-term effectiveness is ongoing. These type of centres have been influenced by the Sure Start Program in the United Kingdom to assist families and children in disadvantaged areas and the Toronto First Duty Program in Canada which began in 2001 as a demonstration to test service integration across early childhood programs: childcare, kindergarten and family support, in school-based hubs.

Integrated centres have been established in South Australia, Queensland, Victoria and Western Australia in disadvantaged communities providing a range of targeted and universal services by government and non-government agencies. There are also a number of integrated service centres specifically for Indigenous children and their families. These services are discussed further in chapter 13.

A number of participants were supportive of the use of such centres to address disadvantage. For example, The Benevolent Society said:

... the Benevolent Society believes that one of the best ways to support disadvantaged families is to embed high quality early childhood education and care in integrated child and family centres where emerging issues within families can be identified early and a range of wraparound health and welfare supports provided. (sub. 86, p. 5)

The Brotherhood of St Laurence commented:

Disadvantaged families often have multiple and complex needs which can benefit significantly from the linkage or integration of various service streams. ... there is good evidence that integration results in improved access and convenience for consumers, which in turn results in improved service effectiveness and efficiency.

For families struggling with disadvantage, it is considered especially important to join together the various education, health and community services so that children and families can engage with the key services they need. (sub. 208, p. 12)

Goodstart Early Learning noted:

ECEC services can impact outcomes for individual children but cannot on their own address cycles of disadvantage for families or the communities in which they live. The whole service system must be supported to work together to approach community-level disadvantage and achieve sustainable change. This requires significant investment and change at policy, services system, and service delivery levels to provide truly integrated services for children and families. (sub. 395, p. 34)

Has service integration worked?

Given the relatively short time that Australia's integrated services have been operating, there is only limited evidence as to their impact on development outcomes. Moreover, any longer-term benefits from these type of programs will not yet be evident.

In evaluating the Sure Start Program in the United Kingdom, Melhuish et al. (2011) noted that although the benefits of early childhood interventions can be significant, they do not emerge until 15 years after the intervention begins. This was because the long-term benefits of such interventions come in the form of higher earnings in adulthood, lower rates of problematic behaviour and lower rates of offending and crime. However, in the short term the national evaluation of the Sure Start Program found that parents living in those areas where the program operated moved into paid work more quickly than parents in comparison areas. Also, the resulting less harsh discipline in the home, lower rates of family chaos and an improved home learning environment had the potential to generate benefits in the future (Melhuish et al. 2011).

Evaluations of the Toronto First Duty program found short-term positive effects on children's Early Development Index Scores as assessed by school teachers at the end of kindergarten in comparison to demographically matched children who did not attend the program. The evaluation also found greater parent involvement, reduced stresses on families and improved service quality and coherence (Corter, Zeenat and Pelletier 2012).

In Australia, an evaluation of the Queensland Early Years Centres based on surveys and interviews of parents and children found evidence of improved social, behavioural and development outcomes for children attending the centres. Parents also expressed greater confidence in their parenting skills. However, the extent to which health outcomes had improved was unclear (Department of Education, Training and Employment, Queensland 2013).

The South Australian Children's Centres are currently being evaluated by the Telethon Institute for Child Health Research with the evaluation to be completed in 2015. An interim evaluation report which detailed the finding from focus groups and interviews with those working in, working with or utilising the centres was completed in late 2013. Some of the key impacts of the centres identified by the evaluation were an increased workforce capacity to meet community needs through the exchange of information, knowledge and practice in early childhood teams. There was also an increased utilisation of services by

providing access to services for hard to reach children, improved coordination of services and improved family wellbeing through connecting parents with other parents and the wider community in a non-judgmental and ‘safe’ environment. In general, those centres that had been in operation for longer displayed better levels of integration and coordination of often disparate services than those centres that were not as well established (Harman-Smith and Brinkman 2013).

Although there is not yet any strong Australian evidence of long-term benefits for developmentally vulnerable and at risk children attending these centres, there appears to be some short-term improvement in their development outcomes, benefits for parents and the potential for longer-term benefits to develop. These one stop shop centres do provide the opportunity for the early identification of additional needs children, particularly developmentally vulnerable and at risk children, and can provide universal services as well as targeted programs to meet any specific needs in early learning, health and parenting support. Also, where it is not feasible to physically establish an individual centre there may be scope to ‘virtually’ integrate and better coordinate services through information exchanges between health, family and community support and ECEC service providers as to the needs of children and families.

As service integration is a relatively recent initiative, further monitoring and evaluation of the outcomes of the children attending these centres and receiving these services is required. This will enable an assessment of what particular programs and mix of programs deliver desired outcomes in the short term and do so at least cost. Longer-term monitoring of the developmental outcomes will assist in determining which effects persist. A potential future role for integrated ECEC and childhood services is discussed further in chapter 13.

Other approaches to improve development outcomes for children from disadvantaged backgrounds

A range of other intervention measures have been used to improve development outcomes for children from disadvantaged backgrounds. These include home visiting and parent education, mobile childcare facilities and early entry to preschool (box 5.4).

For example, the Home Interaction Program for Parents and Youngsters (HIPPY) is a home based parenting and early childhood development intervention program. It aims to improve interactions between parents and their children, early literacy development and to develop an early learning environment in the home. There are also mobile early learning services, providing both preschool and childcare that are used to provide services to rural and remote communities.

A number of jurisdictions provide early entry to preschool for 3 year olds, for certain groups of children considered to be developmentally vulnerable, such as Indigenous children and those from disadvantaged backgrounds. Other interventions include priority of access to ECEC services for particular children where there are waiting lists and there have also been trials of sustained home nurse visits. These interventions are discussed further in box 5.4.

Box 5.4 **Other interventions to improve development outcomes**

Home Interaction Program for Parents and Youngsters (HIPPY)

HIPPY is a home based parenting and early childhood development intervention program that commences in the year before school. It provides support to improve interactions between parents and their children with a focus on early literacy development and developing an early learning environment in the home. The Brotherhood of St Laurence holds the licence to operate the HIPPY program in Australia and partners with other agencies to provide the service. In 2008 the Australian Government commenced a roll out of the service in over 50 sites across Australia focusing on disadvantaged communities. The program receives Australian Government funding — \$13 million in 2012-13 — as well as funding from corporate and philanthropic groups (Hippy Australia 2014).

Mobile services

Mobile early learning services provide preschool and childcare to rural and remote communities, and some mobile services provide parenting and family support services. These services are usually provided by community groups and local governments and funded by the relevant state government and the Australian Government.

Early entry to preschool

Some jurisdictions offer early entry to preschool for selected groups, usually Indigenous children, at risk and developmentally vulnerable children and children with English as a second language. For example, Indigenous children in South Australia, Victoria and the Northern Territory and children considered at risk in Victoria and South Australia can commence preschool at age 3.

Priority entry to ECEC services

Where there is a waiting list for ECEC services, the Australian Government has priority of access guidelines. These guidelines give first priority to children at risk of serious abuse or neglect, second priority to children from low income families who satisfy the work/training/study test and third priority to any other child. There is also emergency care provided on the advice of a social worker from the relevant state or territory government department of children's and family services. This care is often provided in family day care or occasional care.

Home nurse visits

The use of sustained nurse home visits as part of a wider maternal and early childhood health strategy is also being investigated as another approach to improve children's developmental outcomes. These nurse visits provide a range of health, parenting support and early learning services to families in their home as well as providing links to other services in the community. The Australian Research Alliance for Children and Youth and the University of New South Wales' Centre for Community Child Health is currently conducting a trial of its *right@home* sustained nurse home visit program (sub. 168).

How successful have they been?

Many of the early interventions discussed above and in box 5.4 have not been evaluated. However, there has been an evaluation of HIPPY for the Department of Education, Employment and Workplace Relations and of the Mobile Preschool program in the Northern Territory.

The evaluation of the Mobile Preschool program used to provide preschool services to Indigenous children in remote communities in the Northern Territory found short-term benefits from preschool attendance. Children who attended a full year of preschool were less likely to be developmentally vulnerable, as measured by the AEDI, in their first year at primary school. For every term or 50 days of mobile preschool attendance, children were 70 per cent more likely to not be developmentally vulnerable on two or more of the AEDI domains (Nutton, Bell and Fraser 2013).

The HIPPY evaluation for the Australian Government's Department of Education, Employment and Workplace Relations found improvements in parents' confidence as their child's first teacher, a less hostile parenting style, more involvement in activities with their children and greater contact with the school. However, in terms of outcomes for the child, there were few significant differences between the HIPPY child and children from similar backgrounds who did not take part in the program. The evaluation noted that such benefits may take time to appear and a later assessment of school progress should be undertaken (Liddell et al. 2011).

The Brotherhood of St Laurence (sub. DR879) indicated that it was seeking to establish a longitudinal study of the impacts of HIPPY. It also pointed to academic research from PhD theses which indicated children who had attended HIPPY had improved socio-emotional and social development outcomes. For example, children who were socio-emotionally below their age norm prior to entering HIPPY were found to be able to function at a similar socio-emotional level to their age peers after completing HIPPY (Godfrey 2007 cited in sub. DR879, pp. 16–17). Another study found HIPPY children had improved and sustained social development outcomes, compared to a group of more advantaged peers, although there were less striking improvements in academic developments (Green 2007 cited in sub. DR879, p. 17)

In responding to the draft report recommendation that any further Australian Government funding for HIPPY should be outside the ECEC budget, the Brotherhood of St Laurence, the licence holder for HIPPY in Australia, said:

HIPPY is an early learning program, which also delivers tangible benefits for parents and for the broader community. HIPPY is an important component of the continuum of early learning programs for children from families experiencing disadvantage, and for communities with limited access to other ECEC services. (sub. DR879, p. 13)

Although HIPPY has provided benefits to parents and families, the Commission is of the view that programs that primarily focus on building parenting skills lie outside the formal ECEC services and should not be included in ECEC funding. While such programs may

well be worthwhile they should be provided as part of the social services support and case management for disadvantaged and at risk families. Options for funding ECEC are discussed in chapter 14.

RECOMMENDATION 5.1

Australian Government ECEC funding should be limited to funding approved ECEC services and those closely integrated with approved ECEC services, and not be allocated to fund social services that largely support parents, families and communities. Any further Australian Government support for the Home Interaction Program for Parents and Youngsters (HIPPY) should be outside of the ECEC budget allocation.

5.4 What are the benefits to the individual and the wider community from attending ECEC?

A key issue for this inquiry is to examine the learning and development benefits to the individual and the wider community from Australian children's participation in ECEC. It is not easy to empirically verify these benefits due to the difficulty in isolating and establishing the causal effects of participating in ECEC from all the other factors that influence a child's learning and development outcomes and to the relatively few data sets that allow proper analysis.

The research to date does provide a guide as to the benefits available from attending ECEC. As noted in section 5.1, there are benefits for individual children and their families from participation in ECEC, such as: improved cognitive ability and socialisation; and increased readiness for primary school. Those children from homes where the quality of care and the learning environment is below that available in ECEC are most likely to benefit from participation in ECEC. But there is also the potential for negative effects, such as the emergence of behavioural problems later in childhood, the closer to birth the child commences in ECEC and the longer the time the child spends in care.

Moreover, there are benefits from attending preschool in the year before the start of formal schooling. These benefits include lower levels of developmental vulnerability problems at the commencement of primary school and improved academic performance during primary school. Beyond primary school some benefits of preschool attendance for the wider population have been found to 'fade out' over time as the effects diminish relative to other factors — such as family characteristics, the quality of the school experience, peer groups, the surrounding community and life events — that impact on learning and development outcomes.

As noted above, ECEC programs that target children from disadvantaged backgrounds can lead to improved outcomes for the individual into adulthood and offer the greatest

possibility of long-term benefits to the wider community. The long-term benefits include higher incomes and lower rates of welfare dependency, substance abuse, criminal behaviour and incarceration. To assess these potential benefits, which take a number of years to appear, requires adequate data collection, evaluation and assessment.

To highlight the potential wider economic benefits, ARACY used the results from a Canadian study to estimate the potential increase in Australia's GDP from reducing levels of developmental vulnerability as measured by the AEDI.

Evidence from Canada shows that reducing the costs of early childhood vulnerability from their current rate of 29% to a projected rate of 20% (by 2020) would result in an increase in GDP of more than 20% over 60 years. ... In Australia, it is estimated that reducing Australia's early childhood vulnerability from 22% to 15% (by 2020), as proposed in this action agenda, would lead to an increase in Australian GDP of 7.35% over 60 years. (sub. 168, p. 5)

However, developing sound estimates of the potential increases in GDP from reductions in measured early childhood vulnerability is extremely contentious, given the multitude of factors that impact on aggregate measures of national output and on learning and development outcomes of individuals from their early childhood through to their adulthood. The nature and extent of the assumptions, projections and estimates used in the Canadian study indicate the difficulties in attempting to link any reductions in early childhood vulnerability to plausible estimates of increases in GDP (box 5.5).

A PwC paper (sub. DR684) examined the impact on Australia's GDP of increasing the participation of children from disadvantaged backgrounds in ECEC. They assumed 103 000 children aged 0 to 5 years of age from the lowest income groups who would be the most likely not to currently participate in ECEC participate and subsequent cohorts of similar children attend ECEC through to 2050. This scenario resulted in a cumulative \$13.4 billion benefit to Australia's GDP to 2050.

The PwC modelling drew on the benefit to cost ratios found in the highly intensive, highly targeted intervention programs such as the Perry Preschool program and Abecedarian project conducted in the United States in the 1960s and 1970s. PwC recognised that the context of these studies were different from contemporary Australia and the problems in applying these benefit to cost ratios to the overall modelling results.

The assumed public BCR [benefit cost ratio] we use is \$2.69 in public benefits for every dollar spent. This is the lower bound of international results identified and we acknowledge that in the Australian context results would be expected to be lower than the results of modelling using this BCR. (sub. DR684, attachment, p. 33)

While these US studies indicate the benefit to disadvantaged children from attending ECEC, the benefit to cost ratios from these studies do not provide a sound basis from which to develop a plausible estimate of increases to Australia's GDP from increasing disadvantaged children's participation in ECEC. The relevance of these US studies to guide policy in Australia and the evaluation of early childhood programs more generally is discussed further below.

Box 5.5 Estimates of increased GDP from lower developmental vulnerability scores in British Columbia

The study aimed to estimate the economic costs of developmental vulnerability of children in the Canadian province of British Columbia. The study used a number of compounding assumptions based on a measured reduction in the proportion of children in the province being assessed on entering kindergarten as developmentally vulnerable in one or more of the Canadian Early Development Index (EDI) domains from 29 per cent to 10 per cent:

- this lower level of vulnerability was used to develop a 'synthetic cohort' of children with a trajectory of assumed improved performance in standardised test results in years 4 and 7 and then on to year 12
- the projected improvement in year 12 school performance would then be assumed to result in higher levels of high school graduation, an increase in university entrance grades and a reduction in crime in British Columbia.

Translating this into improvements in GDP was based on studies by Hanushek et al. (2008) to determine the importance of quality (cognitive skills as measured by school test scores) relative to quantity (educational attainment or years of schooling) in developing a country's human capital. These studies indicated that if a country's population-wide test scores for school students aged 9 to 15 were higher than another country's during the 1960s, the first country's annual GDP growth rate would be higher over the following 40 years from the relative improvements in human capital.

Further assumptions were then used to link the relativities of different country's test scores and GDP increases with lower levels of measured developmental vulnerability in British Columbia:

- improvements in educational outcomes in British Columbia from lowering the level of vulnerability were assumed to provide improvements in test performance for the province's school students
- this would then provide additional annual GDP growth (of 0.63 per cent based on Hanushek et al. (2008) which would increase the province's GDP by 20 per cent over the working life of the first cohort of children to benefit from lower levels of developmental vulnerability at school entry.

Source: Kershaw et al. (2010); Hanushek et al. (2008).

Improving evaluation and avoiding possible pitfalls

There has been limited use of cost-benefit analysis to evaluate intervention programs. Most of the evaluations undertaken have been for highly targeted groups in overseas programs and studies, particularly in the United States. Those studies that have followed the children into adulthood, such as the Perry Preschool program and the Abecedarian project, have found significant returns due to higher earnings, reduced welfare dependency, reduced involvement in crime and lower rates of incarceration (table 5.2).

Table 5.2 Benefit to cost results of selected early childhood intervention programs for disadvantaged children

<i>Program</i>	<i>Benefit to cost ratio^a</i>
Perry Preschool Project (US)	8.74 (at age 21)
Targeted centre based preschool program with parent participation	17.07 (at age 40)
Abecedarian project (US)	3.23 (at age 21)
Targeted centre based child development program with parent participation	
Chicago CPC (US)	7.14 (at age 21)
Targeted centre based preschool program with parent involvement	
HIPPY (US)	1.80
Home visits to targeted families	
HIPPY (Australia)	0.85 to 2.09 ^b
Home visits to targeted families	

^a The benefit to cost ratio is based on the return for each dollar invested (Net Present Value basis). There may be some variation in the benefit to cost ratio produced by a particular program depending on the approach used by the researchers to estimate the effects of the program. ^b Based on applying discount rates of 3 and 7 per cent with the assumption that medium-term benefits are produced within 15 years and long-term benefits over 30 years.

Source: Liddell et al. (2011); Mitchell, Wylie and Carr (2008).

The significant returns from the Perry Preschool Project and the analysis of this program by James Heckman, for example (Heckman, Pinto and Savelyev 2013), have been referred to by some participants (Kathy Gelding sub. DR515; East West Childcare sub. DR497) to support further investment in ECEC more generally, although the program was specifically targeted at disadvantaged African American children and the benefits from attending the program would not typically apply to the wider community.

A major difficulty of undertaking cost-benefit analysis of early childhood programs is that many of the benefits cannot be measured until the children in the program reach adulthood. As Karoly (2001) noted:

Although program costs are fairly well known, one issue for any cost-benefit analysis of early intervention programs ... is that many of the benefits that can be readily expressed in dollar terms are not observed until years after the intervention ends and the participating children reach adolescence and young adulthood. (p. 326)

Without longitudinal studies, the important longer-term benefits (such as higher income, reduced welfare dependency and lower involvement in crime) cannot be fully assessed, yet they are critical to the overall net benefit of the program. For example, the assessment of the HIPPY program found that until the potential longer-term benefits were factored in, the costs of the program exceeded the benefits over the short and medium term (Liddell et al. 2011). Similarly, a modelling exercise of the costs and benefits of implementing a universal ECEC program in the United Kingdom similar to that provided in Denmark or Sweden, found that in the short term the benefits barely exceeded the costs, but that the longer-term benefits significantly exceeded costs over a 65 year period (Cleveland 2012).

In a report for the Australian Government Department of Family and Community Services as to the effectiveness of these programs, Wise et al. (2005) said:

The need for longitudinal study after an early childhood intervention is clear. This is important to understand what is needed to sustain and enhance intervention effects, how long programs should last, and to appreciate possible influences of program participation on later stages of development. (p. 49)

A further caution surrounds the transferability of successful programs into other locations. Wise et al. (2005) commented:

Unfortunately, however, no evaluation can demonstrate that a program that worked well in one setting will have similar positive results when adopted in a new location. Thus, evaluations that are conducted in the Australian context are essential to understand the potential benefits of early childhood interventions undertaken here. (p. 51)

Also, what worked in the past may not work as well in the present. The intensive experimental programs from the United States (Perry Preschool and Abecedarian) that delivered significant benefits to specific small communities 40 and 50 years ago may not be as successful if implemented on a larger scale today. Karoly (2001) said:

Most of these programs were implemented on a small scale, for specialized populations, during the 1960s, 1970s and 1980s. Thus, there is considerable uncertainty as to whether similar results could be obtained for full-scale versions of these programs, implemented in diverse communities, with a vastly different set of issues facing families and communities today compared with the past. (p. 325)

Comparing and evaluating intervention programs can be difficult. Heckman and Kautz (2013) noted that, first many programs are only evaluated with short-term follow ups which can provide upward biased estimates of the returns if the effects of the program dissipate or downward biased estimates if the benefits appear later in life. Second, not all studies measure similar outcomes. Third, many of these programs target specific demographic groups and applying the findings from one group to another is problematic if these groups benefit differently from specific programs.

In summary, there is strong evidence from the large volume of literature and research that intervention programs to improve the development outcomes of children from disadvantaged backgrounds provide benefits for those children in the short term and potentially into adulthood as well as for the wider community. The broad approach of these various initiatives to target children from disadvantaged backgrounds and provide parenting support, improved home learning environments and early access to ECEC services and preschool are underpinned by evidence drawn from the research. However, how effective a particular model or intervention program is in addressing the development needs of these children should be assessed by ongoing monitoring and evaluation. Any cost-benefit analysis of a particular intervention should also include the impact on the parent's work force participation.

RECOMMENDATION 5.2

Early intervention programs to address the development needs of children from disadvantaged backgrounds should be underpinned by research. Their impact on the development outcomes of the children attending ECEC should be subject to ongoing monitoring and evaluation, including through the use of longitudinal studies.

6 Workforce participation

Key points

- The workforce participation rate of mothers with a child aged under 15 years (consistent with that for all women) has grown substantially in recent decades, from 57 per cent in 1994 to 67 per cent in 2014. This trend is evident for partnered and single mothers, and across different ages and numbers of children. There are notable differences in the participation rates of these groups.
- More mothers work part time than full time — in 2014, around 58 per cent of employed mothers with a child aged under 15 years worked part time. Unlike the growth in the maternal participation rate, there has been little change in the proportion of employed mothers working part time in recent decades.
- Mothers' workforce participation in 2014 — in terms of the participation rate and full-time share of employment — is well below that of fathers (93 per cent and 92 per cent) and women aged 25 to 54 years without children (84 per cent and 7 per cent). Using the most recent comparable data, Australia's maternal employment rate in 2009 (62 per cent) was below the Organisation of Economic Co-operation and Development average (66 per cent) and trails that of many other countries. In couple families, mothers are often regarded as the second income earner. Mothers also tend to have primary responsibility for the care of their children and household activities.
- Increased workforce participation can result in benefits to the wider community through for example: reduced social and economic disadvantage; increased economic output and productivity; and improvements in the Government's fiscal position.
- Roughly 165 000 parents (on a full-time equivalent basis) with children aged under 13 years would like to work, or work more hours (most of them part time), but are not able to do so because they are experiencing difficulties with the affordability and accessibility of suitable early childhood education and care (ECEC) services.
- The workforce participation of mothers is affected not just by the out-of-pocket costs and accessibility of suitable ECEC services but also by the preferences of mothers, which in turn can be affected by such factors as the stresses of managing paid and unpaid work at home and, in couple families, the support of partners. Another important positive driver is the availability by employers of flexible work and other family-friendly arrangements,
- A driver that reduces the workforce participation of mothers are high effective marginal tax rates facing second income earners in couple families and low income single parent families.
- Along with addressing the affordability and accessibility of ECEC services, improving the availability and uptake of flexible work and other family-friendly arrangements would help support the workforce participation of mothers.

6.1 Why are we interested in the workforce participation of parents?

There are a range of benefits from increasing the workforce participation of mothers — whether in terms of their joining the workforce or increasing the hours of work of those already in the workforce. Many participants and others have commented on these benefits (box 6.1).

Private benefits (benefits to the mother and her family) include or arise from:

- the mother's receipt of wages, on-the-job training, opportunities for career progression, superannuation and other work-related benefits
- increased satisfaction for the mother in engaging with others in the community beyond the family.

Community-wide benefits from increased maternal workforce participation, which incorporate the private benefits above, may include or arise from:

- a boost in measured economic output
- increased productivity of the workforce by ensuring the continued workforce attachment of educated and skilled working parents
- reduced risk of long-term unemployment and reliance on the welfare system
- increased return on public expenditure on higher education of women (including the repayment of HECS-HELP loans)
- increased tax revenues and reduced government expenditures (such as on the Newstart Allowance, Parenting Payment and Age Pension)
- improved level of social engagement.

Some studies have estimated the gross value to the economy from improving the workforce participation of women — that is, not including factors such as the value of unpaid activities (such as childcare) undertaken by women prior to entering the workforce. PriceWaterhouseCoopers (sub. DR648, 2014, pp. 4, 19, 29) estimated that the employment of an extra 0.3 per cent of the female partnered working age population would increase gross domestic product (GDP) in net present value terms by \$3.7 billion. The Grattan Institute (sub. 445, p. 4) estimated that GDP would be \$25 billion higher in a decade if Australian women did as much paid work as women in Canada — implying an extra 6 per cent of women in the workforce. The Organisation of Economic Co-operation and Development (OECD 2012a) estimated that increasing the workforce participation of women (so as to reduce the gap with men by 75 per cent) could increase Australia's projected average annual growth in GDP per capita between 2011 and 2030 from 2.0 per cent to 2.4 per cent. The Commission considers that the workforce impacts from changing Early Childhood Education and Care (ECEC) funding are likely to have complex effects on GDP. These effects are discussed in chapter 16.

Box 6.1 **The benefits of increasing maternal workforce participation**

... increased female workforce participation ... will generate income growth, create more significant business prospects, enhance inter-firm competitiveness and promote innovative thinking. (Australian Women Chamber of Commerce and Industry, sub. 336, p. 10)

There are a number of policy reasons to encourage workforce participation of women. ... 1. Children in workless households are at greater risk of poverty; 2. Underemployment affects the ability of women to save for their retirement; and 3. Lower participation rates for women than men constitute a significant source of labour to [increase] productivity in the Australian economy. (Coleman and Hodgson 2011, p. 38)

Paid employment generates a range of positive impacts for individuals and families, including higher income, greater savings and the enjoyment and fulfilment derived from work. (Goodstart Early Learning, sub 395, p. 24)

Besides the initial boost to economic growth that comes from increased labour force participation, there are longer-term benefits for both individual women and for the country as a whole. The longer women stay out of the labour force after having children, the more difficult it is for them to return to work, and the more likely they are not to return at all. When they do return, they may do so on lower wages. Because they earn less over their lives, they end up with much lower retirement savings than would otherwise be the case. Not only does this leave many women economically vulnerable as they age, but it also increases the number reliant on the Age Pension and other government support services. (Grattan Institute, sub. 445, p. 6)

The negative implications of middle-ranking women leaving the workforce to look after children at home are extremely severe for the Australian economy and society at large. Firstly, tertiary-educated women dropping out of the workforce results in a massive brain drain for the Australian economy, especially given that 57% [in 2011] of university students are women. This also leads to a major investment loss of the community, as the women who do not participate in the workforce do not repay their HECS [Higher Education Contribution Scheme] debts. ... There is also a long-term cost to Australian employers from training then losing their skilled staff and executives. Secondly, women who drop out of the workforce stop paying taxes, stop contributing to superannuation for their retirement, rapidly lose professional skills and become dependent on their husbands' salaries and government assistance ... Thirdly, the need to care for children directly contributes to the low numbers of women in senior management roles. ... (Louise McBride et al., sub. 431, p. 8)

Employment generates benefits for individuals, their families and the broader community. The benefits of work go beyond the clear financial rewards into other areas such as health, social connectedness and psychological wellbeing. These benefits are not only felt by the person working, they also extend to other family members. (RGWR 2014b, p. 24)

Apart from contributing to increasing national wealth, women's earned incomes have reduced inequality between families in recent years ..., promoting families' wellbeing and social cohesion. (Women and Work Research Group, sub. DR800, p. 3)

Paid work also increases women's own economic independence and well-being throughout the life cycle. It enables them to provide for their families in the event of marriage breakdown, widowhood or a partner's disability. (Woman and Work Research Group, sub. DR800, p. 4)

The prime child-rearing years coincide with what is known as the 'Golden Decade' for career development, from age 30 to 40, and being out of the workforce during these years – or working in jobs that may be career-limiting rather than career-enhancing – makes it highly unlikely that this parent will be able to reinvigorate their career later in life. The length of parental leave taken also impacts on employees' abilities to re-enter the workforce and maintain their career momentum. This combination of factors has flow-on effects in terms of less accrued human capital substantially reduced superannuation savings and lower lifetime earnings, all of which impact on financial security after existing from paid employment. (Workplace Gender Equality Agency, sub. 89, p. 7)

There are potential trade-offs in achieving higher maternal workforce participation particularly in terms of reductions in unpaid work currently performed by mothers, reductions in the workforce participation of fathers and those providing informal childcare (for example, grandparents), and the added stresses in achieving work-life balance. Indeed, several participants considered it very important to not lose sight of these impacts. For example, Endeavour Forum (trans., p. 42, Melbourne, 18 August 2014), Moody (sub. DR490) and Family Voice (sub. DR894) emphasised the important contribution that stay at home parents make to the community and the wider economy, and urged that recognition be given to this in considering the wider impacts of achieving higher paid workforce participation.

Pursuing an objective of supporting workforce participation through an ECEC system should not be divorced from another important objective — namely, enabling greater child learning and development (discussed in chapter 5). Nor does it mean that having children should be seen as a barrier to the workforce participation of mothers. As one parent commented: ‘children are young for a short time compared to the length of their parents’ working lives. The fact that most parents need to adjust and adapt their working lives needn’t be defined as a problem that needs solving’ (comment no. 96, ECEC user).

This chapter begins by examining current patterns and trends in the workforce participation of parents, particularly of mothers (section 6.2). It then considers whether there is scope for increasing current maternal workforce participation by examining the factors driving participation and possible trade-offs from any increases (section 6.3). The relationship between participation and future childcare needs is then examined (section 6.4). The chapter concludes by discussing options to support participation focusing on flexible work and other family-friendly arrangements in workplaces (section 6.5). Other options that support participation are covered in chapters 10 (improving accessibility of ECEC services) and 15 (improving affordability and funding of ECEC services and expanding the forms of ECEC services eligible for assistance).

6.2 Current workforce participation patterns and trends

Over the past 30 years or so, the workforce participation rate of Australian women in their prime working years has grown substantially. In September 2014, 76 per cent of women aged 25 to 54 years were in the workforce compared with 50 per cent of women in February 1978 (ABS 2014g).^{1,2} In contrast, the workforce participation rate of men aged 25 to 54 years has fallen over the period — from 95 per cent to 90 per cent.

¹ The participation rate is the proportion of persons of working age in the population who are employed or unemployed, but looking for work.

² This age group was selected as typically resembling the age of most parents with children aged under 15 years. It also includes those age groups of females for which fertility rates are highest, which in 2012 was 25 to 34 years of age (material supplementing PC 2013a).

More women than men work part time, although there is a growing proportion of men who work part time. In September 2014, around 41 per cent of employed women aged 25 to 54 years worked part time, broadly unchanged from the proportion in February 1978 (ABS 2014g). In contrast, the proportion of men aged 25 to 54 years who work part time was 10 per cent in late 2014 compared with 3 per cent in early 1978.

There are a number of factors explaining these patterns and trends, including: lower fertility rates (and the introduction and widespread use of birth control); changes to workplace relations laws and conditions (for example, in relation to anti-discrimination, equal pay and flexibility in work arrangements); changes in the structure of the economy (for example, the decline in manufacturing and the increase in services); technological change (leading to new occupations and industries); and the more widespread education of women.

These same factors also explain the patterns and trends in the workforce participation of parents, which is the focus of this chapter. Of additional relevance to parents are such factors as: changing community attitudes to working mothers, particularly those who return to work soon after their children are born (including attitudes to mothers breastfeeding in the workplace); the later age at which women have children and the scope for career development prior to that; changing family structures (particularly, the large growth in single parent families); greater acceptance among employers of providing flexible work and other family-friendly arrangements for their employees; and government policies targeting families such as on childcare (with Australian Government funding first introduced in 1972), the Paid Parental Leave scheme (2011), and welfare payments targeting parents — for example, the Maternity Allowance (1996 to 2004), the Parenting Payment (1998), the Family Tax Benefit (2000), the Baby Bonus (2004) and the Welfare to Work reforms (2006).

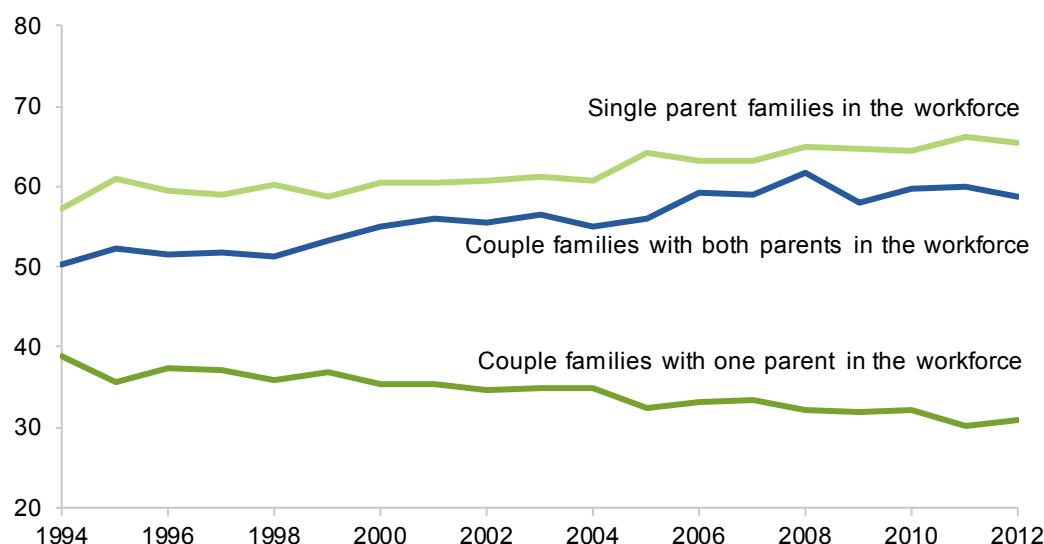
The remainder of this section describes the main patterns and trends in the workforce participation of parents. It draws largely on the Australian Bureau of Statistics (ABS) Labour Force Survey, with more details contained in appendix C.

The traditional model of Australian families in the workforce is changing

The traditional model of couple families with just one parent in the workforce has continued to decline over recent decades, whereas there are increasing proportions of single parent families in the workforce and of couple families where both parents are in the workforce (figure 6.1).

Figure 6.1 Participation rates by family types, with a child aged under 15 years^{a,b}

Per cent



^a As at June. ^b Participation rates by family types are measured as follows: single parent families — the number of single parent families in the workforce as a proportion of all single parent families; couple families — the number of couple families with one or both parents in the workforce as proportions of all couple families.

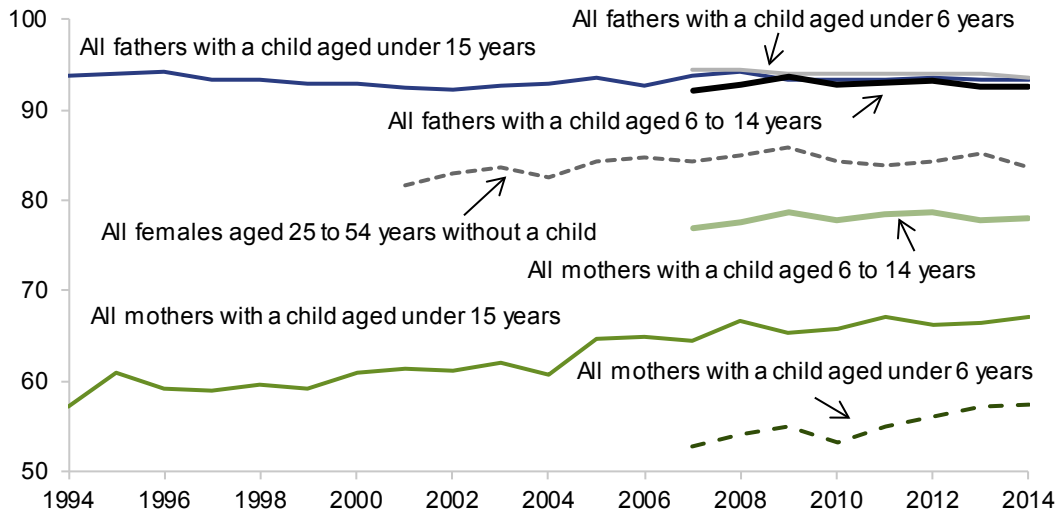
Source: Productivity Commission calculations based on ABS (2005, 2013g).

Maternal workforce participation rates have risen but remain relatively low

Consistent with the growth in the participation rate of women, the workforce participation rate of mothers of children aged under 15 years has grown substantially in recent decades — from 57 per cent in 1994 to 67 per cent in 2014 (figure 6.2). However, maternal participation rates are well below those of fathers and women without children (figures 6.2 and 6.3).

The overall growth in the participation rate of mothers is reflected in that of both partnered and single mothers, for mothers with different ages of children, and mothers with different numbers of children.

Figure 6.2 Participation rates: parents and females without children^{a,b,c,d}
Per cent



^a Data are as at June for all fathers and mothers with a child aged under 15 years, and all females aged 25 to 54 years without a child. Data are for the financial year for all fathers and all mothers with a child aged 0 to 5 years, and all fathers and mothers with a child aged 6 to 14 years. ^b All females aged 25 to 54 years include single females who are assumed to cover 'dependent students', 'non-dependent child', 'other family person', 'person living alone' and 'non-family members not living alone'. ^c The earliest data for females aged 25 to 54 years are at 2000-01. ^d Data for all mothers and fathers with a child aged under 15 years covering 1994 to 2012 are based on ABS (2005, 2013g), with data for 2013 and 2014 based on ABS (2014g).

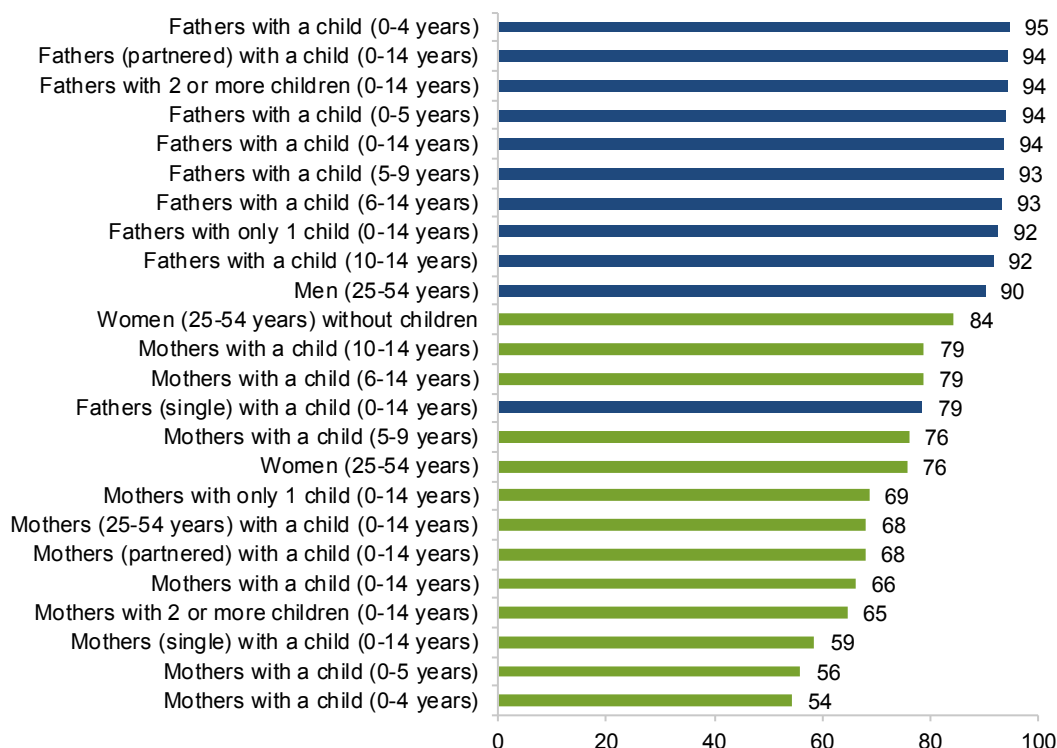
Source: Productivity Commission calculations based on ABS (2005, 2013g, 2014d, 2014g).

However, there are notable variations in the participation rates of these different groups (figure 6.3).

- The participation rate of partnered mothers is above that for single mothers across all age groups of children and by numbers of children.
- The participation rate of mothers of older children is substantially higher than that for mothers of younger children.
- The participation rate of mothers decreases with the number of children.

Figure 6.3 Participation rates of various groups^{a,b}

Per cent



^a Data are as at June 2012 apart from data for mothers and fathers with a child aged 0 to 5 years, and mothers and fathers with a child aged 6 to 14 years, which are for 2011-12. ^b Based on the age of the youngest child.

Source: Appendix C; ABS (2014d).

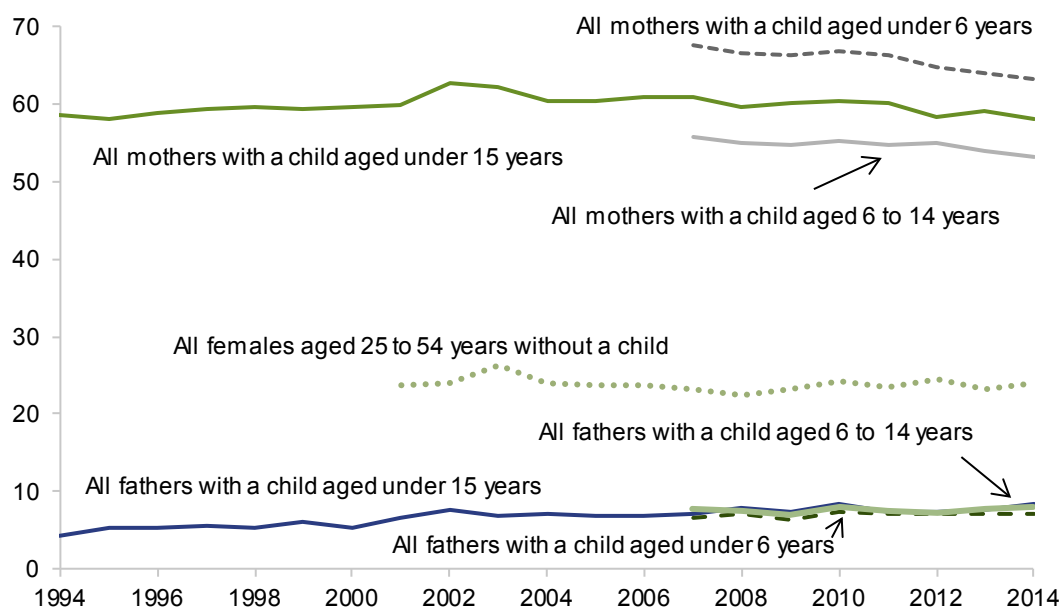
More employed mothers work part time than full time

More employed mothers work part time than full time — in 2014, around 58 per cent of employed mothers worked part time (figure 6.4). The tendency of employed mothers to work part time occurs largely irrespective of the age group of their youngest child or the number of children they have. It is also particularly noticeable in comparison with fathers and women without children (figures 6.4 and 6.5). Employed partnered mothers are also more likely to work part time compared with employed single mothers, but both groups tend to increase their hours of work as their children get older.

Despite the strong growth in the participation rate of mothers, the proportion of employed mothers working part time is about the same now as it was 20 years ago.

Figure 6.4 Part-time shares of employment: parents and females without children^{a,b,c,d}

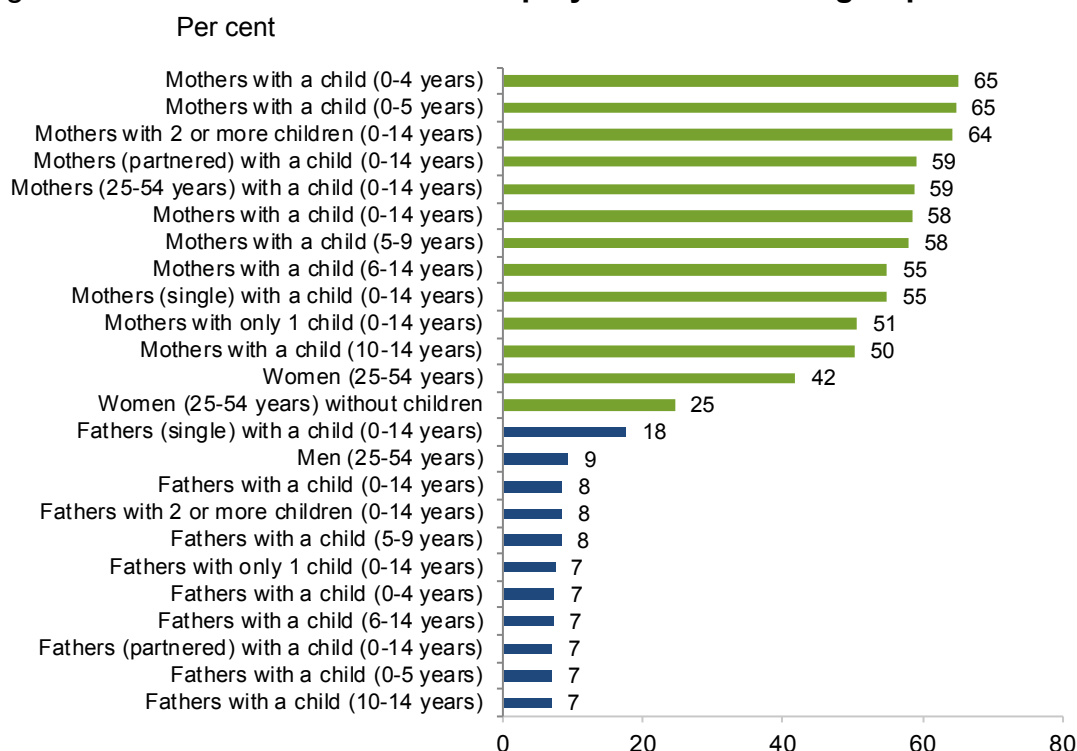
Per cent



^a Data are as at June for all fathers and mothers with a child aged under 15 years, and all females aged 25 to 54 years without a child. Data are for the financial year for all fathers and all mothers with a child aged 0 to 5 years, and all fathers and mothers with a child aged 6 to 14 years. ^b All females aged 25 to 54 years include single females who are assumed to cover 'dependent students', 'non-dependent child', 'other family person', 'person living alone' and 'non-family members not living alone'. ^c The earliest data for females aged 25 to 54 years are at 2000-01. ^d Data for all mothers and fathers with a child aged under 15 years covering 1994 to 2012 are based on ABS (2005, 2013g), with data for 2013 and 2014 based on ABS (2014g).

Source: Productivity Commission calculations based on ABS(2005, 2013g, 2014d, 2014g).

Figure 6.5 Part-time shares of employment of various groups^{a,b}



^a Data are as at June 2012 apart from data for mothers and fathers with a child aged 0 to 5 years, and mothers and fathers with a child aged 6 to 14 years, which are for 2011-12. ^b Based on the age of the youngest child.

Source: Appendix C; ABS (2014d).

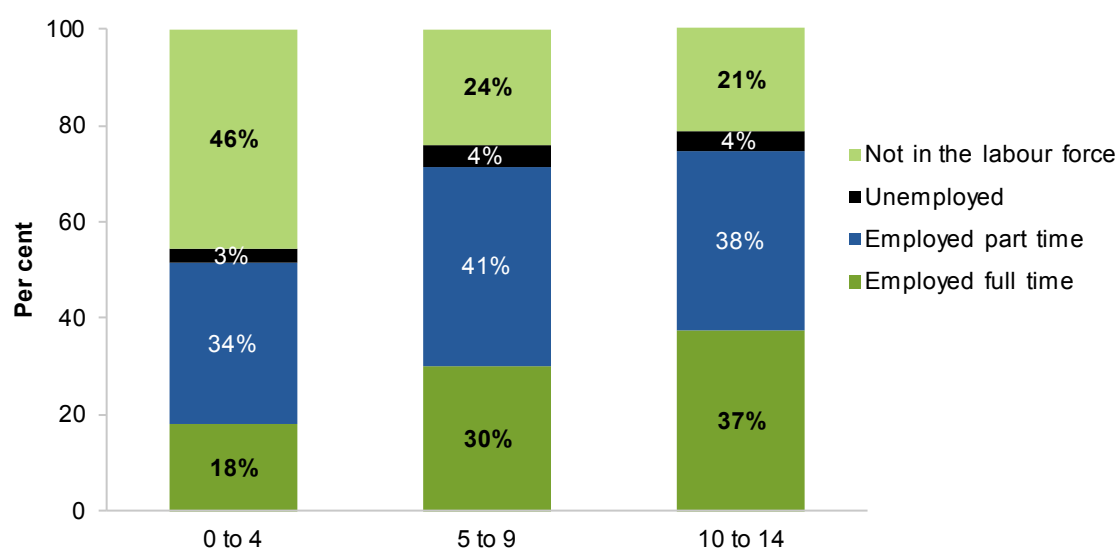
Overall workforce participation of mothers increases with the age of their youngest child

The participation of mothers in the workforce — in terms of joining the workforce and hours worked — is highly dependent on the age of their youngest child (figure 6.6). The proportion of mothers in the workforce with a child aged 10 years or older is around 24 percentage points more than that of mothers with a child aged under 5 years. The proportion working full time is also higher amongst those with older children.

In terms of average hours worked, employed mothers — whether working full time or part time — worked more hours per week when their youngest child was school-aged. In 2013-14, mothers working full time whose youngest child was aged 6 to 14 years worked on average five hours per week more than those whose youngest children was aged 0 to 5 years (ABS 2014d). Similarly, mothers working part time whose youngest child was aged 6 to 14 years worked on average 2 hours per week more than those whose youngest child was aged 0 to 5 years.

Looking at the flip-side, there is a relatively large number of mothers, particularly mothers of very young children, who are not in the workforce. Overall, of the 5.5 million persons who were not in the workforce in 2012-13, around 17 per cent (911 400) were women with children aged under 15 years (ABS 2013a). Around 48 per cent (440 800) of these mothers had children aged under 2 years. By comparison, fathers with children aged under 15 years accounted for around 3 per cent of persons (180 500) not in the workforce. Around 30 per cent (54 700) of these fathers had children aged under 2 years.

Figure 6.6 **Mothers' workforce status by age of youngest child^{a,b,c}**



a As at June 2012. **b** The figure shows the proportion of mothers working part time, full time, unemployed or not in the labour force in all mothers by age group of youngest child. **c** The share of mothers working part time in this figure differ from the share of employed mothers working part time in figure 6.2 as the denominators are different — the first has all mothers in the denominator, the second has only employed mothers.

Source: Productivity Commission calculations based on ABS (2013g).

Soon after the birth of a child, the workforce participation of mothers is very low and, for those who do participate, there appears to be a preference for part-time work. Many mothers do not participate in the workforce within the first two years or so following the birth of their child.

- Of mothers with at least one child aged under 2 years (523 300), 61 per cent did not start or return to work after the birth of their child with most of this group designated as not in the workforce (ABS 2012e, p. 4). This group may, however, start or return to work sometime in the future when their children are older.
- Of mothers with at least one child aged under 2 years who had a job while pregnant (357 500), around 29 per cent left their job permanently (ABS 2012e).

There also appears to be a small number of mothers of very young children who have had little or no workforce attachment prior to the birth of their child. There were around 165 800 women with a child aged under 2 years in November 2011 who did not have a job while pregnant (ABS 2012e, p. 3).³

Of mothers who did start or return to work in the two years following the birth of their child (205 500), more than half did so by the time the child was 6 months old (table 6.1). The majority of these mothers (84 per cent) started or returned to part-time work — 39 per cent worked up to 15 hours a week and 45 per cent worked between 15 and 34 hours a week (ABS 2012e).

Table 6.1 Time taken by mothers to start or return to work after the birth of a child^{a,b}

<i>Age of child when mother started or returned to work after birth</i>	<i>Number</i>	<i>Per cent</i>
	'000	%
0 to 3 months	59.4	29
4 to 6 months	57.8	28
7 to 12 months	69.6	34
13 to less than 24 months	18.7	9
All mothers who started or returned to work after birth	205.5	100
All mothers with a child aged less than 2 years	523.3	

^a November 2011. ^b Covers mothers with a child under 2 years who started or returned to work after the birth of a child.

Source: ABS (2012e, p. 27).

Some of these numbers may well have changed since the introduction of the Paid Parental Leave scheme in January 2011. The scheme provides eligible parents up to 18 weeks Paid Parental Leave pay, which is paid at the rate of the national minimum wage, following the birth or recent adoption of a child.

There is some evidence of the impacts of the scheme on mothers' return to work decisions (although the evidence is not strictly comparable with the numbers in table 6.1). A legislative review and evaluation of the scheme found the following:

- Baseline data indicated that, of mothers of children who gave birth prior to the introduction of the scheme, 71 per cent returned to work within 13 months of birth, with the average age of babies when these mothers returned to work being 6.7 months. Following the introduction of the scheme, the evaluation found that there was only a 'marginal increase' in the average age of babies when their mothers returned to work (DSS 2014, p. 40; Martin et al. 2012, p. x).

³ It is not clear how many of these women require more than just ECEC services in order to participate in the workforce.

-
- The introduction of the scheme delayed mothers' return to work during the first 6 months following a birth. Consequently, more mothers stayed at home for at least 18 weeks after the birth of their baby. Furthermore, mothers' tendency to return to work in the longer-term was slightly increased, such that more mothers had returned to work by 12 months after the birth of their baby (DSS 2014, pp. 7, 40).
 - The scheme had a particularly strong impact on mothers with lower incomes and lower formal education, who were either employed on casual contracts or self-employed before the birth of their child (DSS 2014, p. 40).
 - The vast majority of mothers who received Paid Parental Leave (99 per cent) took the full 18 weeks of payments (Martin et al. 2013, pp. xvi, 67). This result suggests a preference of mothers to take time off work to care for their child where they are in a financial position to do so.

The Millennium Mums survey of women who had a baby after the introduction of the scheme found that, within 12 months of the birth, 73 per cent had returned to work with 37 per cent doing so by the time their baby was six months old (Women and Work Research Group, sub. DR800, pp. 4–5). The survey also found that the mean age of the baby was 10.67 months when mothers first used formal care (National Foundation of Australian Women, sub. DR606, p. 8).

Taken together with the legislative review and evaluation of the Paid Parental Leave scheme, the Millennium Mum's survey findings suggest an increase in the time that women take to return to work resulting from the introduction of the Paid Parental Leave scheme. However, caution is required in drawing comparisons between them. It is important to compare post-scheme with pre-scheme return to work outcomes using similar measures — for example, the same time frames for mothers returning to work and the workforce status of the sample population need to be consistent.

Workforce participation rates of fathers resembles that of all prime-aged men

Unlike the growth in the maternal workforce participation rate, the participation rate of fathers of children aged under 15 years has remained steady at around 93 to 94 per cent over the past 20 years (figure 6.2). The participation rate of single fathers appears to have increased over this period (from 70 per cent in 1994 to 76 per cent in 2014),⁴ whereas that for partnered fathers is largely unchanged (sitting at around 94 per cent from 1994 to 2014).⁵

As noted, the workforce participation rate of fathers remains well above the maternal participation rate (figures 6.2 and 6.3). It is also relatively unresponsive to the age and

⁴ There is a very high relative standard error associated with the estimated participation rate and part-time share of employment for single fathers with a child aged under 5 years, which could affect confidence in the estimates for single fathers of a child aged under 15 years.

⁵ Data for 1994 and 2014 are based on ABS (2005, 2014g), respectively.

number of children. In contrast to mothers, the participation rate of fathers is slightly lower when they have younger children and slightly higher when they have more children.

As for most prime-aged men, fathers tend to work full time (figures 6.4 and 6.5). Although fathers of children aged under 15 years have a much lower part-time share of employment than mothers (in 2014, 9 per cent compared with 58 per cent), there has been some growth in the proportion working part time over the past 20 years. This growth is particularly noticeable for single fathers (despite significant variability over the period).

The workforce participation of Australian parents is noticeably different from that of parents in other OECD countries

Compared with the OECD, the workforce participation of Australian parents is noticeably lower. Around, 62 per cent of Australian mothers with a child under 15 years undertook some form of work in 2009. This is about the same employment rate as in New Zealand, but lower than the OECD average of 66 per cent (OECD 2012b).⁶ The largest discrepancy between Australia and the OECD average is in employment rates for those mothers with a child aged 3 to 5 years (figure 6.7). For this group, the 60 per cent employment rate of Australian mothers is below the OECD average of 64 per cent and trails many comparable countries such as Sweden, Denmark and Canada but is similar to New Zealand and the United States. Australia's employment rate for mothers with a child aged under 3 years is slightly below that for the OECD average and for mothers with a child aged 6 to 14 years is slightly above the OECD average.

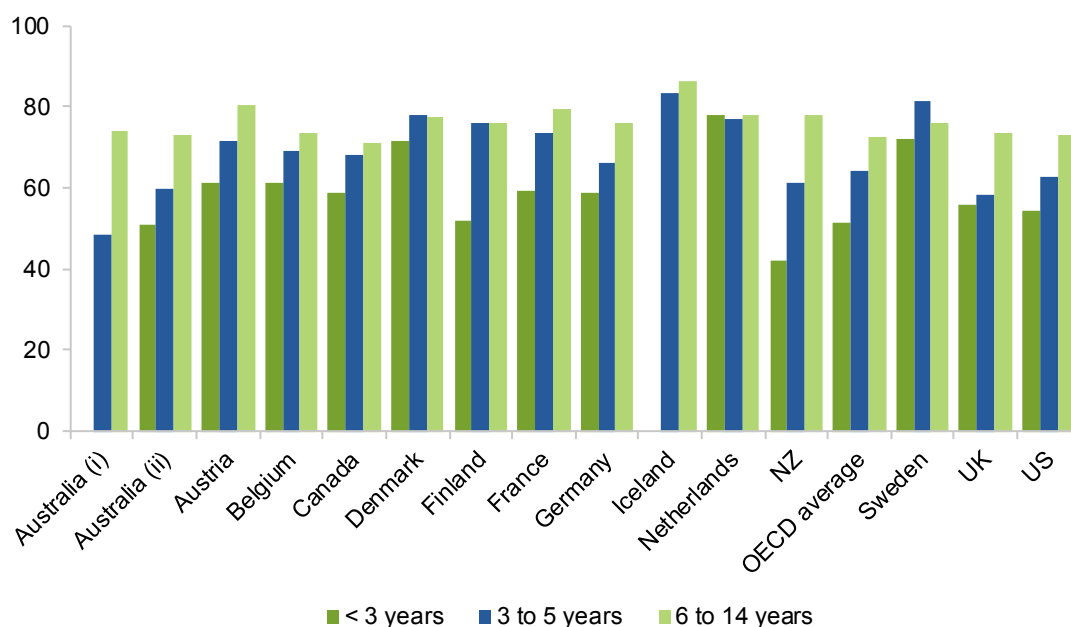
The workforce participation of Australian parents also stands out from the OECD average in relation to family type and hours worked.⁷

- Australia's employment rates for single parents (60 per cent for single mothers and 72 per cent for single fathers) are well below the OECD average (67 per cent for single mothers and 80 per cent for single fathers).
- Compared with the OECD average, a much lower proportion of employed single parents in Australia work full time, a much higher proportion work part time, and a higher proportion do not work at all.
- A higher proportion of Australia's employed couple families than the OECD average involves one parent employed full time and the other part time (38 per cent compared with 24 per cent) and a lower proportion involves both parents employed full time (21 per cent compared with 37 per cent).

⁶ The proportion of persons of working age in the population who are employed.

⁷ The World Values Survey data also show that in 2000 Australian mothers, like mothers in the United Kingdom, have a greater tendency to work part time than Germany, Norway, Sweden and Spain (Baird 2013, p. 6).

Figure 6.7 Employment rates of mothers by age of child in selected OECD countries^{a,b,c}
2009, per cent



^a Some of the data underpinning the employment rates refer to different time periods: 2011 for Australia (ii) 2007 for Sweden; 2005 for the United States; 2002 for Iceland; 2001 for Canada; 1999 for Denmark. ^b Some of the data underpinning employment rates refer to different ages of children: data for Australia(i) and Iceland refer to mothers with a child aged less than 5; data for Canada, Denmark, Iceland, Sweden, and the United States refer to mothers with a child aged between 6 and 16. ^c The OECD average covers Australia (i), Austria, Belgium, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Source: Australia (i) and all other countries — OECD (2013d); Australia (ii) — DSS (2013b).

Workforce participation differences between Australia and other OECD countries are due to a number of factors including differences in total fertility rates, tax and welfare systems, paid parental leave policies, childcare policies, social norms and attitudes. Population coverage in national labour force surveys also contribute to differences.

Adjusting workforce participation indicators to reflect these differences, therefore, can yield different results. For example, the Australian Institute of Family Studies (AIFS, sub. 391, p. 6) found that after excluding those on all forms of leave (including maternity leave) the rate of Australian mothers with a child aged under 3 years ‘in work’ was above that for Finland, Austria and Germany, but ‘somewhat lower’ than the Netherlands, the United Kingdom and France.

Non-standard working hours are common

Several participants noted that non-standard work hours are becoming more common across the economy (for example, the AI Group, subs. 295, DR735).

This is also the case for families with employed parents and dependent children (ABS 2009b, p. 22). About half of all couple families where both parents worked, one or both parents worked variable hours or were on call.

- Working at night was also a feature of working life for many parents. In nearly 60 per cent of couple families, one or both parents usually worked some hours between 7 pm and 7 am.
- Among couples with children, putting in extra hours at work was the usual practice for one parent (41 per cent of cases) and both parents (17 per cent of cases).
- Working extra hours was especially common in families where both parents were employed full time. One or both parents usually worked extra hours in 70 per cent of these families. They were mainly working extra hours to get the work done and meet deadlines.
- Working both during the week and on weekends was also very common amongst parents. Half of all couple families where both parents worked and one-third of single parent families where the parent worked usually worked a combination of weekdays and weekends.

Shift work accounted for 13 per cent of work arrangements used by either parent in families to help care for children aged under 13 years (ABS 2012b). This is consistent with the use of shift work across a broader population of employed persons where around 16 per cent usually worked shift work (box 6.2).

Women are becoming more educated

The proportion of domestic students completing higher education who were women was 60 per cent in 2013, up by 3 percentage points since 2001 (Department of Education 2014). Women tend to dominate some fields of study (for example, education, health, society and culture, and the creative arts) whereas men tend to dominate in others (for example, engineering and related technologies, information technology, architecture and building).

Using Census data, the AIFS noted that mothers' level of educational attainment increased significantly over the past decade or so (sub. 391, pp. 11–12). It estimated that the percentage of mothers having only incomplete secondary education fell from 43 per cent of mothers in 2001 to 19 per cent in 2011, whereas the percentage with bachelor degrees or higher increased from 17 per cent in 2001 to 30 per cent in 2011.

Box 6.2 **Shift work in Australia**

- 16 per cent of all employees usually worked shift work in their main job in November 2012, a slight fall since November 2006 (17 per cent).
- Men are more likely to undertake shift work than women. In November 2012, 18 per cent of male employees compared with 14 per cent of female employees worked shift work. This pattern was also evident in November 2006, although the proportions of male and female employees undertaking shift work were higher.
- The most common type of shift work in November 2012 was the rotating shift (a shift which periodically changes from one time period to another) undertaken by 45 per cent of those who worked shift work. The next most common types of shifts worked were regular shifts (28 per cent) and irregular shifts, split shifts or shifts on call (27 per cent).
- Industries with the highest proportion of employees usually working shift work in November 2012 were mining (43 per cent); accommodation and food services (38 per cent); transport, postal and warehousing (31 per cent); and health care and social assistance (31 per cent). Although similar proportions of employees were usually working shift work in November 2006 in the mining and the transport, postal and warehousing industries, the proportions in the accommodation and food services industry and in the health care and social assistance industry were higher.
- The industries with the highest proportion of female employees who usually worked shift work in November 2012 were accommodation and food services (33 per cent) and healthcare and social assistance (30 per cent), while for men it was mining (47 per cent) and accommodation and food services (44 per cent).
- Occupations attracting the highest proportions of shift work in November 2012 included community and personal service workers (37 per cent), machinery operators and drivers (31 per cent) and labourers (20 per cent). Although these occupations were also the most common for shift work in November 2006, the proportion of shift work done by community and personal service workers and labourers were higher.
- Occupations with the highest proportion of female employees who usually worked shift were machinery operators and drivers (31 per cent) and community and personal service workers (29 per cent). For men, it was community and personal service workers (54 per cent) and machinery operator and drivers (31 per cent).

Source: ABS (2007b, pp. 9, 19, 2013k, pp. 9, 24).

More women are becoming self-employed or primary ‘breadwinners’

Several participants and others (for example, AIFS, sub. 391; Australian Women Chamber of Commerce and Industry (AWCCI), sub. 336; Baird 2013; Bankwest 2013) noted an emerging trend in women and mothers moving into self-employment. AWCCI considered that women were doing so with the aim of ‘creating greater flexibility’ (sub. 336 p. 11). The trend towards women becoming the primary ‘breadwinners’ in couple families has also been noted by Baird (2013), Cassells et al. (2013), and Wooden and Hahn (2014). Further details about these trends are in appendix C.

FINDING 6.1

The workforce participation rate of mothers with children aged under 15 years has grown substantially in recent decades, in line with that for all women. However, the participation rate of mothers is below that of fathers and women without children. The employment rate of Australian mothers is also below the OECD average.

FINDING 6.2

Of employed mothers with children aged under 15 years, more work part time than full time. The part-time share of employed mothers is much higher than that of fathers and women without children. Australia has a higher proportion of couple families where one parent works full time and the other part time than the OECD average.

6.3 What scope is there for increasing the workforce participation of mothers?

Whether or not there is scope for further increases in the workforce participation of mothers — particularly through changes to the ECEC system — depends on addressing the following questions:

- What are the factors determining mothers' workforce participation decisions and, in particular, the relative significance of mothers' preferences for looking after their children, and the affordability and accessibility of suitable ECEC services as factors?
- What are the trade-offs in increasing the workforce participation of mothers?

Determinants of the workforce participation of mothers

There are a number of factors affecting mothers workforce participation decisions, of which childcare is but one. Many parties have commented on these factors and the complexity involved in that decision making (box 6.3).

Box 6.3 **Participants' views on the factors affecting the workforce participation of mothers**

... we know that decision-making about employment is complex, with the availability of suitable childcare being part of the story ... Also, mothers' employment decisions will depend upon the availability of suitable employment and the degree to which parents can share the care of children (whether in couple or separated families). Financial considerations are likely to matter to some families, as are the specific needs of individual children. These complexities clearly need to be taken into account when thinking about associations between childcare and maternal employment. (AIFS, sub. 391, p. 44)

Maternal labour force participation rates are affected not only by taxation considerations, but also by educational level, earnings capacity and the need to purchase services to replace those the primary carer would normally provide – particularly childcare and other domestic services. (economic Security4Women, sub. 291, p. 5)

The drivers of women's choices about labour force participation are complex. ... For mothers with dependent children, they may include:

- The income available from paid work, after accounting for tax paid, family benefits lost, and child care costs.
- The availability, affordability and quality of child care.
- The availability of job opportunities that are suited to their skills, appropriately located, and sufficiently flexible to enable them to balance work and family.
- Personal and cultural beliefs and preferences about how children should be raised, and the role of women in the family and society. (Grattan Institute, sub. 445, p. 7)

Beyond the payment system and financial support for childcare, there are numerous other areas of policy impacting on women's participation in the workforce. While traditional models of caring for children through extended family members continue to play an important role in supporting women's participation in the workforce, changing family structures, geographically dispersed extended families, and changing workplace practices all impact on a women's decision to participate. The availability and affordability of childcare is critical to supporting changes in these areas. (Mission Australia, sub. 164, p. 14)

While affordable and accessible childcare is a critical driver of workforce participation, there are other levers that can impact on women's abilities to enter paid work and move up the leadership ladder. The provision of adequate and appropriate paid parental leave is one of these key levers. Research also suggests a range of structural and cultural barriers exist in the workplace that limit women's abilities to stay in paid employment and progress at the same rate as men. These include limitations in workplace flexibility, the persistent gender gap (currently 17.5% nationally), cultural norms that prescribe 'suitable occupations' for women and men, and constraints on the support available for pregnant women and new parents. (Workplace Gender Equality Agency, sub. 89, p. 5)

Factors include:

- preferences — of mothers (and their families) for working compared with providing parental-based childcare in the home, undertaking domestic chores and engaging in other non-work activities (for example, recreation)
- mothers' characteristics — age; educational attainment level; workforce attachment prior to having children
- financial — mothers' wages (including the mothers' 'reservation wage' — the minimum wage and conditions at which mothers are prepared to accept employment or increase their hours of work); out-of-pocket childcare costs; work-related costs such as

transport, meals and clothing; partner's wage-related income; the family's non-labour income; tax and welfare treatment of family income; household expenditure (including on non-market activities previously provided by the mother)

- family's characteristics — family type (couple or single parent families); age, number and spacing of children; cultural background; health and disability status of family members; geographical location (whether in rural and remote areas of Australia or in urban areas)
- other factors —the accessibility, flexibility and quality of childcare; availability of family-friendly workplace arrangements for parents — such as flexible work arrangements, paid parental leave and carers leave; school hours and holidays.

The remainder of this section considers some of these factors.

Mothers' preferences

Mothers' preferences to be the primary carer for their children compared with undertaking paid work is probably the single most important factor determining their workforce participation.

Mothers' preferences can be conditioned by the mothers' own upbringing, the preferences of their partners, employers' attitudes, as well as wider community attitudes about gender roles. They can change as their circumstances change over time, particularly as children get older. Some of these factors — particularly relating to unpaid work, attitudes to gender roles, the extent of fathers' support and work-life balance — are considered later in this chapter.

Many mothers appear to not want a paid job nor work more hours. According to ABS data, of the mothers with children aged under 15 years who were not in the workforce in 2012-13, only 37 per cent wanted a paid job (table 6.2). Of the mothers who were working part time, only 23 per cent preferred to work more hours. Their preferences for a paid job or more hours are higher when their children are older. (Conversely, when children are older, fathers who were not in the workforce had a higher preference for not working and fathers who worked part time had a higher preference for more hours.)

Similar findings were evident from the 2012 Australian Work Life Index survey of 2800 working Australians undertaken by the University of South Australia Centre for Work + Life (Skinner, Hutchinson and Pocock 2012, pp. 35–36).⁸ According to that

⁸ The Australian Work Life Index contains five measures, which assess respondents' perceptions of 'work-life interference' across five domains: 'general interference' — the frequency that work interferes with responsibilities or activities outside work; 'time strain' — the frequency that work restricts time with family or friends; 'work-to-community interference' — the frequency that work affects works' ability to develop or maintain connections and friendships their local community; 'satisfaction with overall work-life balance'; and frequency of 'feeling rushed or pressed for time' There have been five surveys since the first one in 2007.

survey, single and partnered parents prefer to work, respectively, 1.3 and 4.6 fewer hours than they actually do. Single and partnered fathers preferred to work, respectively, 4.0 and 6.6 fewer hours. A greater proportion of mothers working full time (42 per cent) would prefer to become part time than would women without children (32 per cent).

An issue is the extent to which these ‘preferences’ not to get a paid job or more hours reflect a genuine desire by mothers to look after their own children or result from some other factor such as difficulties associated with the affordability or accessibility of suitable ECEC services. Baird noted that this is a critical issue and a major research question for many people, with no ‘absolute’ answer: ‘[m]ost of the academic research talks about preference and constrained choice, so there are two camps (trans., p. 9, Canberra, 25 August 2014).

Table 6.2 Preferences of parents for a paid job or to work more hours^a
2012–13, per cent

	<i>Parent not in the labour force</i>		<i>Parents who usually worked part time^b</i>	
	<i>Wanted a paid job</i>	<i>Did not want a paid job^c</i>	<i>Preferred to work more hours</i>	<i>Did not prefer to work more hours^d</i>
Mothers				
With children aged:				
0 to 2	32	68	21	80
3 to 4	37	63	22	78
5 to 9	40	60	25	75
10 to 14	46	54	23	77
0 to 14	37	63	23	77
Partnered with dependents	37	63	19	82
Single parent	33	67	41	59
Fathers				
With children aged: ^e				
0 to 2	29	71	63	37
3 to 4	69	31	27	73
5 to 9	60	40	22	78
10 to 14	40	60	49	51
0 to 14	47	53	42	58
Partnered with dependents	17	83	13	87
Single parent	22 ^f	78	49 ^f	51 ^f

^a Persons aged 18 years or more ^b Worked up to 34 hours a week. ^c Includes people who reported ‘maybe/it depends’ ^d Includes people who reported ‘did not know’ ^e Commission calculations, which should be used with caution because of the small numbers involved. ^f Estimate has a relative standard error of 25 per cent to 50 per cent and should be used with caution.

Source: Productivity Commission calculations based on ABS (2013a).

According to ABS data, for those women who said the main reason they were not available to commence work or work more hours was ‘caring for children’ (around 158 000),⁹ the main childcare reason why 41 per cent of them were not available was childcare affordability and accessibility, with 50 per cent reporting they ‘preferred to look after children’ or said their children were ‘too young or too old for childcare’ (table 6.3).¹⁰

Table 6.3 Main childcare reason for not looking for work or more hours^{a,b}

<i>Main childcare reason for not looking for work/more hours</i>	<i>Females</i>		<i>Males^c</i>		<i>All persons</i>	
	<i>'000</i>	<i>%</i>	<i>'000</i>	<i>%</i>	<i>'000</i>	<i>%</i>
<i>Preference</i>						
Children too young or too old for childcare	21.4 ^d	14 ^d	4.2	24	25.6	15
Preferred to look after children	57.2	36	7.7	44	64.9	37
<i>Childcare issue</i>						
Childcare not available/childcare booked out/no childcare in locality	31.2	20	0.0	0	31.2	18
Cost/too expensive	34.4	22	3.4	19	37.8	22
<i>Other childcare reason</i>	14.2 ^d	9 ^d	2.1	12	16.3 ^d	9 ^d
Total persons for childcare reasons	158.4	100	17.5	100	175.9	100
Total persons not looking for work or more hours	797.6	65	430.7	35	1 228.3	100

^a The table refers to 2012-13. ^b The table refers to persons 18 years and over who were not in the labour force who wanted a job/more hours who were available to start work/more hours who said that the main reason for their not looking for work/more hours was ‘caring for children’. ^c The numbers for males are derived from published data for females and all persons. Because of the small numbers involved they are likely to have high relative standard errors and should be used with caution. ^d Estimate has a relative standard error of 25 per cent to 50 per cent and should be used with caution.

Source: ABS (2013a).

The above data relate to mothers with children aged under 15 years. Focusing only on mothers with a child aged under 2 years, preferences to look after their own children appear to be a larger factor keeping mothers of young children out of the workplace than the affordability and accessibility of suitable ECEC services. For these women, the main reason for:

- not starting or returning to work after the birth of their child was ‘to care for child’ (accounting for 91 per cent of responses) followed by ‘problems finding suitable childcare arrangements’ (9 per cent) (table 6.4)

⁹ This number refers to women not in the workforce and does not include unemployed women.

¹⁰ Similar results were apparent from the ABS Survey of Income and Housing for 2011-12 for parents who were not working or were working part time (appendix D) and from the ABS Not in the Labour Force Survey (September 2012).

- permanently leaving a job held during pregnancy was to 'care for child' (accounting for 49 per cent of responses) and not 'problems with child care' (ABS 2012e).¹¹

Similar findings emerge from other surveys (for example, the Baseline Australian Mothers Survey 2010 and the Care4Kids Survey 2014). For example, the Baseline Australian Mothers Survey 2010 of some 2600 mothers (Martin et al. 2012, p. 51) found that, among the reasons why mothers did not return to work before 13 months, 89 per cent said they 'prefer to be at home looking after children', 63 per cent said that 'both parents prefer to look after children and partner earns enough', whereas 24 per cent said they 'can't get suitable childcare'.¹²

Table 6.4 All reasons why mothers with a child under 2 years did not start or return to work since birth^{a,b}

<i>Reason</i>	<i>Number</i>	<i>Per cent</i>
	'000	%
To care for child	247.1	90.9
Problems finding suitable childcare arrangements	23.9	8.8
No longer wanted/needed work	16.3	6.0
On leave/away from work	5.1 ^c	1.9 ^c
Unsatisfactory conditions of employment	3.4 ^c	1.3 ^c
No work available /not enough work	3.0 ^c	1.1 ^c
Part-time hours not available	3.0 ^c	1.1 ^c
Employer went out of business	1.4 ^d	0.5 ^d
Temporary job	1.4 ^d	0.5 ^d
Wanted less responsibility/different duties	1.2 ^d	0.4 ^d
Other reasons	27.5	10.1
Total number of women who did not start or return to work since birth of child	271.7	100.0

^a The table refers to November, 2011 ^b More than one response can be provided so that components do not sum to the total. ^c Estimate has a relative standard error greater than 50 per cent as is considered too unreliable for general use. ^d Estimate has a relative standard error between 25 and 50 per cent and should be used with caution.

Source: ABS (2012e, p. 26).

¹¹ 'Problems with childcare' accounted for 1 per cent of responses. However, this should be viewed as unreliable as it is associated with a relative standard error greater than 50 per cent.

¹² The Survey covers mothers who had babies in October or November 2009 who would have met the eligibility requirements for the Government's Paid Parental Leave scheme if it had been in place at the time of the birth.

Baird noted that it is clear from academic research that part-time work is important for older mothers who have established careers before becoming mothers and that there is a strong maternal culture in Australia:

... women, because they're having children slightly later in life, now, in their early 30s, this is at a crunch point in their careers as well and ... whereas in the past women ... came to motherhood with not much work experience, they now come to motherhood with a career behind them, and it's important to them to keep that investment in their education and their career ongoing. One way to do that is to try and work what systems and policies are available to keep one foot in the labour market and look after their children.

I think there is a very strong maternal culture in Australia, that women with young children do either have a preference for, or a desire to, have someone in the family, typically themselves, looking after preschool-aged children particularly and then later, but this is not to say they would prefer that over other arrangements if they were available. That's where we're not exactly sure to what degree that would shift if more quality childcare was made available. (trans., pp. 9-10, Canberra, 25 August 2014)

Obstacles to workforce participation

Affordability and accessibility of suitable ECEC services

Regardless of the role that mothers' preferences play, the affordability and accessibility of suitable ECEC services are viewed by many participants as a critical factor affecting mothers' workforce participation decisions.¹³ (The accessibility and affordability of ECEC services is also discussed in chapters 10 and 11.)

Parents variously pointed out to the Commission how the affordability and accessibility of suitable ECEC services have:

- discouraged them from joining the workforce or returning to work after the birth of a child
- discouraged them from working full time
- discouraged them from working non-standard working hours
- led to them missing out on career advancement or better employment
- added to the stresses of managing work
- added to their costs of getting to and from work
- discouraged them from remaining in the workforce (box 6.4).

¹³ For example, Australian Human Rights Commission, sub. 456; Chief Executive Women, sub. 464; Department of Education, sub. 147; economic Security4Women, sub. 291; Grattan Institute, sub. 445; National Foundation for Australian Women, sub. 59; United Voice, sub. 319.

Box 6.4 Participants' views on the impact of ECEC affordability and accessibility on parents' workforce participation

Discouraged from joining the workforce or returning to work

How am I supposed to rejoin the workforce when I can't find a child care place with 17 months' notice. (comment no. 19, ECEC user)

I have been out of the workforce for four years now with only one child due to the difficulty in obtaining a place for her in childcare that is in our area (Eastern suburbs of Sydney) short of hiring a nanny the only option was to place her on several waitlists and for me to stay at home. (comment no. 43, ECEC user)

Discouraged from working full time

I am ready to return to full time hours, but cannot do so as we cannot secure childcare for our daughter on the days that we need. We have to wait until at least March at this stage for a spot to open up for her. (Westpac employee, Westpac, sub. 327, p. 5)

... the current cap of \$7500 at a centre charging translates to only 3 days/week of subsidised care at my centre (fees are approximately \$95/day). This has heavily influenced my decision to only return to work 3 days/week. (comment no. 68, ECEC user)

I am a female lawyer in a senior role who has been forced to work part-time in order to keep child care fees down so we can afford our mortgage and an average lifestyle. It does not make any financial sense for me to return full-time. (Murray, sub. DR514, p. 1)

Discouraged from working non-standard hours

I often lose a whole days work because I am unable to obtain childcare for a measly hour and a half. An example of this is if my shift starts at 9 pm and my husband's doesn't finish until 10 pm. (comment no. 314, ECEC user)

... I stopped taking shifts on weekends because it became ridiculous and a joke. I was taking on shift to cover the childcare fees but at the same time my fees went up because I was earning X amount of money which subsequently reduced my Centrelink contribution because I earned over the threshold. (comment no. 151, ECEC user)

Missed out on career advancement or better employment

When I became a mother at the height of an exciting and demanding career in my 30s I didn't realise that the lack of access to quality childcare would in fact result in my career stalling, possibly never recovering, due to years of part-time work and the associated stigma this creates among my male senior colleagues. (comment no. 147, ECEC user)

... I have found that 7 am – 6 pm day care offering of long day care centres is not flexible enough for women trying to climb the corporate ladder; in my experience, it is less stressful for the women to opt out. (Louise McBride et al., sub. 431, p. 4)

Added to the stresses of managing work

One employee reported that their child was in a centre where children would be expelled if they were picked up late on three occasions. This increases the pressure on employees to make sure they are leaving early enough to travel to childcare and limits their ability to manage any unexpected events eg urgent issues at work. (Westpac, sub. 327, p. 6)

My childcare centre operates from 7.30 am to 6 pm. It takes 45 minutes to commute from Childcare to work. This means that it is difficult to get to work by 8.30, and I need to leave at 5. On preschool days, this is even more stretched. I am constantly stressed and trying to complete my work in these hours and there is the perception that I do not work as hard due to my reduced work hours. (comment no. 90, ECEC user)

(continued next page)

Box 6.4 (continued)

Added to the costs of getting to or from work

... I have to say that parking was the worst, especially where I needed a car for transiting the kids, only to find there were no parks left at the office. I have had days were I just go home. (comment no. 162, ECEC user)

I will have to have my daughter in care for nearly 12 hours each day, even though I only work 8 hours, because of transport. (comment no. 237, ECEC user)

Discouraged from remaining in the workforce

I am currently facing resigning from my workplace, if they are unable to give me unpaid leave, as the subsidy for childcare runs out mid-April, and our family cannot afford the \$720 per week that will need to be paid. The capped rebate means that as the secondary earner in the family, it is my job that will have to be sacrificed. (comment, no. 49, ECEC user)

If we did not receive the [childcare] subsidy then the full cost of childcare would outweigh my daily wages therefore it would be cheaper for me not to work (Mission Australia, sub. 164, p. 13, parent responding to survey)

Some participants have undertaken their own surveys to gauge the relevance of affordability and accessibility of suitable ECEC services to mothers' (or parents') workforce participation decisions (box 6.5). Caution is needed in interpreting the results of these surveys as they did not involve randomly selected sample populations.

The views of these participants are borne out by ABS data that shows around 70 per cent of 1.8 million women with children or caring for children, who were not employed or worked part time, rated 'access to childcare places' and 'financial assistance with childcare costs' as 'very important' or 'somewhat important' incentives to join or increase participation in the workforce (figure 6.8). However, these childcare-related incentives appear to rate below other incentives such as 'ability to work part-time hours' and 'work a set number of hours on set days'.

The relative significance of ECEC in mothers' workforce participation decisions may loom larger where mothers are employed in some industries or occupations (box 6.6) or for particular families who: are on low income; have children with disability; have more than one child; or have multiple births (such as twins) (for example, the Department of Education, sub. 147; AIFS, sub. 391, p. 19; website comments from ECEC users).

Box 6.5 Participants' surveys on the relationship between ECEC and workforce participation decisions

The Australian Childcare Alliance (ACA) Parent Survey August 2014 of over 2600 parents of children in long day care centres indicated that: if out-of-pocket childcare fees were to increase by 10 per cent, 36 per cent reported they would not change their workforce participation and 36 per cent would reduce work hours; 66 per cent reported that childcare related issues were preventing them from participating in the workforce or undertaking further study; 84 per cent reported that the cost of childcare was the main barrier to work and study; and 90 reported that childcare was a major/primary influence on their workforce participation (sub. DR823, p. 12). What Parents Want Survey 2013 of 1430 parents reported that 60 per cent said that if they found that they could not afford any increased cost in childcare they would leave the paid workforce entirely.

Care4Kids.com.au annual survey in 2014 of around 2000 parents (mostly mothers) found that 31 per cent of working mothers said that work is not 'actually financial viable'. Of mothers who are not currently working but were before, the main reason for not returning to work was that: it was 'not financially viable' for 19 per cent; 9 per cent could not 'find suitable childcare'; and 19 per cent decided they 'wanted to stay at home with children'.

Daycare Decisions survey of over 700 parents suggests that of the three factors of accessibility, flexibility and affordability of early childhood education and care services, affordability has the most significant effect on whether parents choose to return to work (sub. 91, p. 4). Many parents noted that, due to the high cost of childcare, they were financially better off to remain at home. Accessibility followed by flexibility of childcare were the next relevant factors shaping return to work decisions.

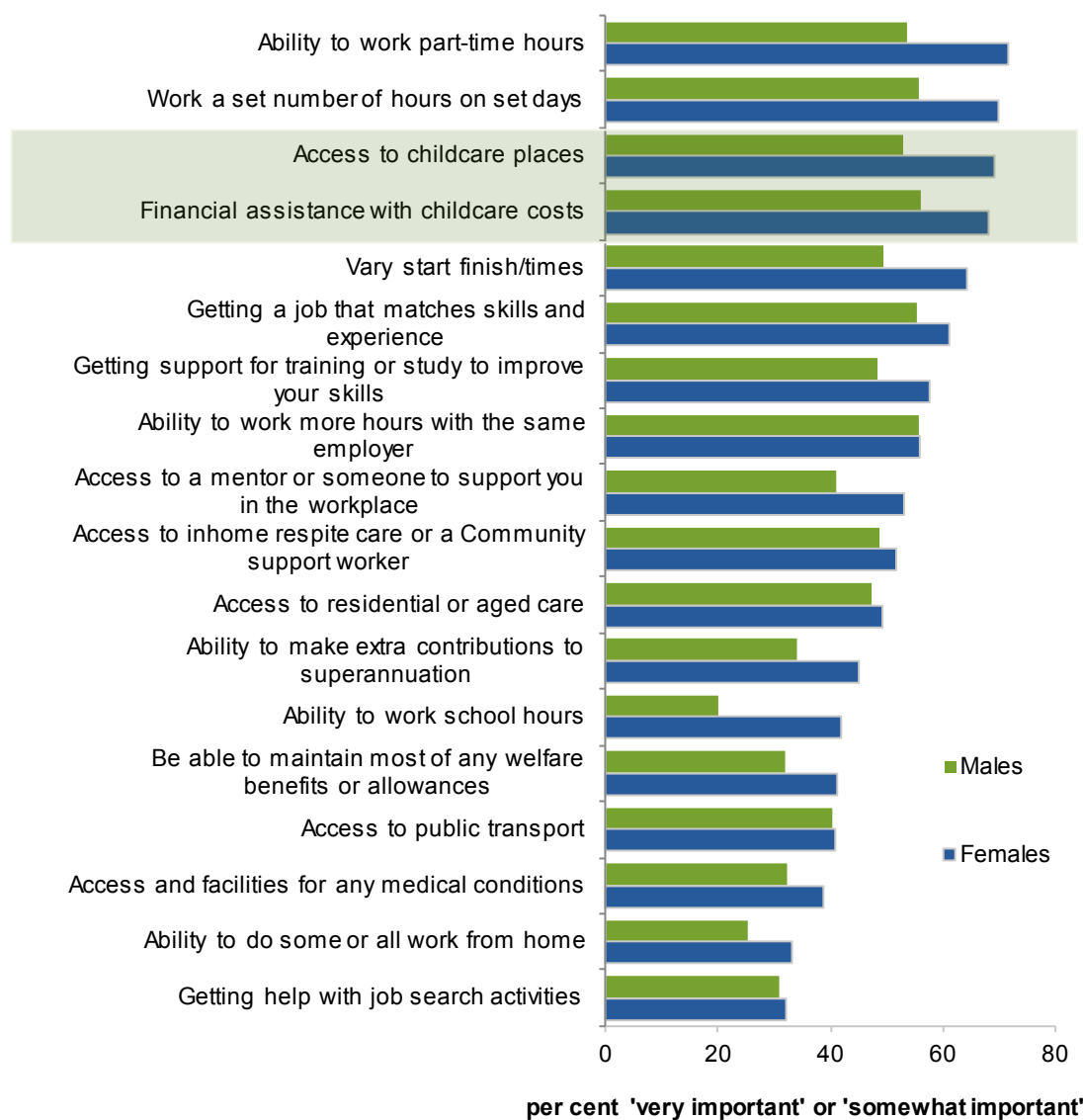
Diversity Council Australia's survey of member employers and their employees found that: 95 per cent of employers indicated that access to and availability of childcare presented difficulties for their employees; 97 per cent of employers reported that access to childcare limited the number of hours their employees were available to work; and close to half of parent employees had problems with access, flexibility, cost or quality of childcare that were preventing them from undertaking work or affecting the number of hours they prefer to work (sub. 356, pp. 13, 18).

Mission Australia's survey of over 600 parents with children enrolled in their childcare centres (sub. 164, p. 12) reported that, if the government subsidy for childcare was reduced, around 37 per cent would reduce their work hours and 23 per cent would stop working altogether. Those in the most disadvantaged quintile were the most likely to say they would stop working if the childcare subsidy was reduced with 33 per cent saying they would do so (sub. 164, p. 7.)

The Parenthood's online survey of 1015 respondents, conducted before the draft report, found that three in four reported they would reduce hours (43 per cent) or stop working altogether (33 per cent) if the childcare rebate was reduced or means-tested (sub. 407, pp. 2–3). Half said they would increase their working hours if the childcare rebate was increased or extended.¹⁴

¹⁴ The Parenthood did not repeat these questions in its online survey following the draft report.

Figure 6.8 **Incentives affecting workforce participation^{a,b,c}**
2012-13



^a Covers persons aged 18 years or more who were not in the labour force, or unemployed, or usually worked less than 35 hours a week. ^b The childcare related incentives were only asked of persons with children or who were caring for children. ^c The caring related incentives of access to residential or aged care or access to in-home respite care or a Community support worker were only asked of persons who were caring for ill/disabled/elderly persons.

Source: ABS (2013a).

Box 6.6**ECEC issues in specific industries and occupations****Mining**

The Australian Women Chamber of Commerce and Industry (sub. 336, p. 18) noted that women represent approximately 18 per cent of the minerals industry workforce (both on-site and corporate offices) compared with the national workforce participation rate of 45 per cent. The 2012 *Attracting and Retaining Women in the Australian Mining Industry* report revealed that women represent just over three per cent of all employees at mine sites. Further, the age profile of women in the industry is concentrated at those aged 34 and under. The report also found that access to childcare, particularly facilities that catered for shift work and long rosters for women in residential mining towns, was almost impossible.

Retail

The Shop, Distributive and Allied Employees Association (sub. 74, p. 1), which represents employees in retail, warehousing and distribution, fast food, petrol stations, pharmacy, beauty and modelling industries, noted that 60 per cent of its members were women. For many of its members, 'extended trading hours, decreasing permanency of employment and increasing financial pressures mean they often have limited choice about working arrangements, particularly in regard to evening and weekend work' (sub. 74, p. 7).

Banking

The Westpac Group noted that 59 per cent of its 33 000 employees were women (sub. 327, p. 2), with most earning less than \$100 000 a year. Its Diversity Survey found that 85 per cent of employees expect to have caring responsibilities in 2015.

A survey of Finance Sector Union members reported that a quarter of finance sector workers find arranging childcare difficult with cost, accessibility and flexibility of childcare affecting their workforce participation (Finance Sector Union, sub. 174, p. 7). Nearly one third of members who contacted the Union for assistance on childcare decreased their workforce participation through accessing unpaid leave or left employment altogether even though they preferred to continue working (Finance Sector Union, sub. DR689, p. 3).

Nursing

The Queensland Nurses Union (sub. 65, pp. 2, 3, 9) noted that the nursing and midwife workforce is dominated by women (around 90 per cent). The workforce requires 'affordable, quality, flexible childcare' that is continuously available at the workplace or elsewhere over the 24-hour-a day, 7-day-a-week cycle as the majority of nurses work shifts. A survey of its members found that in 2010 half had 'significant family responsibilities', and between 21 per cent and 38 per cent had a dependent child (depending on whether they were in age care, private or public sectors) (sub. 65, p. 8).

(Continued next page)

Box 6.6 (continued)**Policing**

The Police Federation of Australia (sub. 94, pp. 1, 2; sub. DR737, pp. 3–4) noted the unpredictable nature of policing work and the difficulties it poses for police who are parents. The round-the-clock demands of policing mean that police need childcare outside the standard 9-5 hours and away from centre based childcare. The participation of women in the police force (currently around 27 per cent) and the proportion of those who work part time are low compared with what occurs nationally. A report found that a large proportion of female officers do not seek promotion because of conflicts with domestic commitments and that 90 per cent work part time because childcare options are unavailable. Research into part-time police officers in 2008 found that, for 90 per cent, the main reason for commencing part-time work was to facilitate care responsibilities. Thirty seven per cent changed duty type to do this and. For many this involved a move from front line policing. Three quarters thought working part-time had reduced their access to training, relief work, and promotional opportunities.

Law

The Law Institute of Victoria and the Victorian Bar noted that women represent the majority of law graduates, yet comprise only 46 per cent of the practising profession and are not equally represented in senior roles (sub. DR898, p. 1). Several studies have found: high attrition of women lawyers from private practice; that family responsibilities were a key driver of women's attrition from the profession and contributed to stalled career progression; that women who were the primary carer of children or who worked part-time believed they were more likely to experience discrimination; and that lawyers with parental responsibilities had challenges returning to work including lack of workplace flexibility.

The NSW Bar Association noted that barristers work long hours (typically up to 12 hours a day) well outside the hours 8.00 am to 6.00 pm (sub. DR891, pp. 3, 4, 5). Their hours are dependent on court sitting times, time sensitivities and the pressures of litigation. Part-time work is not an option. A survey found that over 86 per cent of Association members considered the availability of childcare places was a problem.

Some participants also drew the Commission's attention to high maternal participation rates in countries with generous ECEC systems such as in Canada (particularly Quebec — box 6.7), France and Nordic countries such as Denmark and Sweden (for example, ACCS, sub. DR567; AWCCI, sub. 336; BPW Australia, sub. 85; Cleveland, sub. 234; Grattan Institute, sub. 445; Pascal, sub. 83).

The mix of ECEC may also particularly affect single parents' workforce participation. Brady and Perales (sub. 309, pp. 4–5) using data from the Household, Income and Labour Dynamics in Australia Survey found that single mothers who used a mix of formal and informal childcare worked on average 4 more hours compared with those who used either formal or informal care. In contrast, they found that the hours worked of partnered mothers who used a mix of formal and informal childcare were no different from those who used either formal or informal care. Brady and Perales (sub. 309, pp. 5–6) considered that the flexibility of a mix of informal and formal childcare is particularly important for single mothers as they do not have partners to assist with childcare.

Box 6.7 **Quebec: a policy case study**

At the provincial level, Quebec stands out for its ‘unique’ universal childcare program. In 1997, Quebec introduced a very low fee (at the time C\$5 dollars a day) for day care for children aged 4 years. Over time, the age requirement progressively decreased and the number of subsidised places increased. By 2000, the low fee policy applied to all children aged 0 to 5 years. In 2004, the fee increased to C\$7 a day (approximately A\$7) and has remained at that level.

The program was accompanied by a large increase in the number of Quebec women in the workforce from 1996 to 2008. Though the participation rates of mothers increased in Ontario and Canada as a whole, the increases in Quebec were much more substantial.

Fortin et al. (2012) estimated that, in 2008, Quebec’s childcare program induced 69 700 more mothers to hold jobs than would have been the case without it. This was equivalent to a 4 per cent increase of the total employment of women in Quebec. They also reported evidence that:

- the program had a large impact on the employment rate of mothers with a university degree as early as 2000 but for mothers with a lower education attainment, the impact was smaller but eventually managed to reach the same level as for higher educated mothers after 2004
- mothers’ employment rate was raised not only during the early period of a child’s life, but later, when the child entered school. They said that the program’s impact thus had a ‘dynamic extension’ and ‘would persist over the long term’.

Despite the positive effects on the workforce participation of mothers, the early learning and child development outcomes of Quebec’s program appeared to be very poor initially (Baker, Gruber and Milligan 2005). The authors found evidence that children were worse off in a variety of behavioural and health dimensions and that it led to more ‘hostile, less consistent parenting, worse parental health, and lower quality parental relationships’. Pascal (pers. comm, 5 September 2014) noted however, that a recent study by the Institute de la Statistique du Quebec (2013) found less vulnerability among those attending childcare centres than would be predicted by socio-economic status. He suggested that quality in centres and, thus, outcomes have improved as the Quebec program matured without the need for regulation.

How many parents are prevented from working more because of ECEC issues?

The extent of parents’ inability to find suitable ECEC services to enable them to work when they prefer to can provide a guide as to the scope for increasing the workforce participation of parents (appendix D).

According to the ABS Survey of Income and Housing for 2011-12, an estimated 444 000 parents (mostly mothers) of children aged under 13 years who were not working or were working part time — accounting for 24 per cent of all parents with children aged under 13 years — reported that a lack of suitable ECEC prevented them from increasing their labour supply. This was most prevalent for low income households, single parents and parents of children aged under 5 years.

However, the estimate of 444 000 parents is an overestimate of the extent to which labour supply could be increased. It masks a wide distribution of preferred working hours by these parents: from under 9 hours to 35 hours or more. Also, a large proportion of these parents (38 per cent) stated that the main childcare reason stopping them from working (or

working more) was that they preferred to look after their own child or the child was too young/too old. Other reasons stopping parents from working or working more were cost (36 per cent) and access (26 per cent).

Taking into account the hours that individual parents who reported they wanted to work but could not because of childcare, there could have been an estimated 242 000 additional parents (mostly mothers), on a full-time equivalent basis (38 hours per week), in the workforce in 2011-12, had suitable ECEC been available. Excluding the 38 per cent of parents who expressed a preference to care for their own child or stated that their child was too young/old, this would further reduce the potential increase in workforce participation to 156 000 additional parents who could have been in the workforce in 2011-12. Based on more recent estimates of the population of parents for July 2014, this suggests that the supply of labour could increase by roughly 165 000 parents on a full-time equivalent basis if parents' difficulties with the affordability and accessibility of suitable ECEC services could be addressed.

FINDING 6.3

Roughly 165 000 parents (on a full-time equivalent basis) with children aged under 13 years who would like to work but are not able to because they are experiencing difficulties with the costs and accessibility of suitable childcare, could potentially be added to the workforce.

Responsiveness of workforce participation of mothers to childcare prices

Australian studies indicate a broad range of estimates for the responsiveness of workforce participation of mothers to changes in childcare prices ('elasticities') (table 6.5).

Using the most recently published estimates of Gong and Breunig (2012b), the elasticities mean, for example, that a 10 per cent increase in net childcare prices or out-of-pocket costs (around \$5 to \$6 per week) could decrease the employment rate of partnered mothers of young children by 0.6 per cent (from 54.8 to 54.5 per cent, which is equivalent to a reduction of 3100 partnered mothers in the workforce) and decrease the hours worked by 1 per cent (across all mothers this means a decrease of an average of 144 200 hours a week or 3800 partnered mothers working on a full-time equivalent basis of 38 hours a week).¹⁵

¹⁵ As the elasticity relates to mothers with a child under 5 years, data were used that reflected as far as possible the same population of children and mothers as covered by the elasticity estimates. The following assumptions apply a) *Hours worked*. There are no data on hours of work for partnered mothers of young children. Department of Education administrative data (2011-12) suggest that the median hours of childcare used per week in long day care centres, which caters for children aged under 5 years, is 23.75 hours. For the purpose of illustrating how to interpret workforce participation elasticities, it is assumed that the median estimated hours of childcare used is the same as the hours worked by a partnered mother. However, in reality, this is unlikely to be the case. b) *Number of employed partnered mothers*. ABS data on the workforce participation of parents for 2011-12 show that the number of partnered mothers of children aged under 5 years who were employed was 521 000 out of a population of 951 000 (ABS 2013g). c) *Hours of full-time work*. The full-time equivalent of 38 hours a week is the maximum

Table 6.5 Australian estimates of maternal workforce participation elasticities

Author	Child population (age in years)	Labour supply population (sample size)	Elasticities – impact of a one per cent increase in childcare price on maternal workforce participation		
			Gross or net price elasticity ^a	Participation (participation rate or employment rate)	Hours worked
				%	%
Doiron and Kalb (2005)	0 to 12	All adults (5 305 couples, 1 116 single parents)	Net	Single ^b -0.10 Partnered -0.02	Single ^b -0.15 Partnered -0.03
			Gross	Single ^b -0.05 Partnered -0.02	Single ^b -0.05 Partnered -0.02
Rammohan and Whelan (2007)	Under 15	Partnered women (1 138 mothers)	Gross	Partnered (part-time) ^c -0.07 Partnered (full-time) ^c -0.21	ne
Kalb and Lee (2008)	0 to 12	All adults (3 404 couples, 731 single parents)	Net	Single ^b -0.19 Partnered -0.02	Single ^b -0.14 Partnered -0.03
			Gross	Single ^b -0.19 Partnered -0.00	Single ^b -0.16 Partnered -0.00
Apps et al. (2012)	0 to 12	Partnered women (1 456 mothers)	Net	ne	Partnered -0.08
Gong and Breunig (2012a)	0 to 5	Partnered women (1 015 mothers)	Net	Partnered -0.06	Partnered -0.10
			Gross	Partnered -0.09	Partnered -0.14
Breunig, Gong and King (2012) ^d	0 to 13	Partnered women (4 184 mothers)	Gross	Partnered -0.29	Partnered -0.65
Gong and Breunig (2012b)	0 to 5	Partnered women (978 mothers)	Net	Partnered -0.06	Partnered -0.10
			Gross	Partnered -0.07	Partnered -0.11
Lee (2013) ^e	0 to 12	Single parents (738 mothers)	Net	Single -0.03	Single -0.08

ne – not estimated

^a Gross price elasticity is the elasticity with respect to the price charged by the childcare provider. Net price elasticity is the elasticity with respect to the price charged by the childcare provider less any government assistance (or out-of-pocket costs). Evidence that parents on average pay 37 per cent of the full childcare costs and that most parents receive their childcare benefit and/or rebate close to the time they pay for the service suggests that the net price is more relevant than the gross price to their workforce participation decisions. ^b Mothers and fathers combined. ^c The authors found that the predicted cost of childcare had no statistically significant influence on maternal employment status. ^d Breunig, Gong and King (2012, p. 52) noted that their estimate of the participation elasticity for partnered mothers of children aged under 14 years of -0.29 was near the mean of what was found in other OECD countries. ^e Unpublished manuscript.

weekly hours of work per week as per the National Employment Standards. e) *Out-of-pocket costs*. Department of Education administrative data (2011–12) indicate that the median hourly fee after subsidies is \$2.28.

While it is difficult to compare the estimates of the different studies or to draw firm conclusions about the magnitude of mothers' workforce participation responsiveness to changes in childcare prices,¹⁶ the most recent studies confirm that there is a negative and statistically significant relationship between the workforce participation of mothers and childcare prices (both the charged prices and out-of-pocket costs).

The nature of the relationship between the workforce participation of mothers and childcare prices in these Australian studies is confirmed by two OECD panel data studies by Jaumotte (2003) and Thevenon (2013), which included data on Australia. Both studies found that public spending on childcare services for young children appeared to stimulate full-time workforce participation of women aged 25 to 54 years (box 6.8).

Box 6.8 OECD panel data studies

Two OECD panel data studies by Jaumotte (2003) and Thevenon (2013), which included data on Australia, found that public spending on childcare services for young children appeared to stimulate full-time workforce participation of women aged 25 to 54 years.

The earlier Jaumotte study, which covered 17 OECD countries over the period 1985 to 1999 also found that public spending on childcare (formal day care and pre-primary school) appeared to stimulate the full-time participation rate of women aged 25 to 54 years (with a positive coefficient of 0.05) (2003, pp. 17,19, 26, 34). The study concluded that inadequate childcare is more a constraint for full-time than part-time work.

The more recent study by Thevenon, covering 18 countries for the period 1980 to 2007, found that the full-time employment rate was unambiguously stimulated by public spending on childcare services for children aged under 3 years (with positive 'elasticity' coefficients of between 0.0125 and 0.0163) (2013, pp. 26, 27, 39). However, in some model specifications, public spending on childcare services was found to have a negative influence on part-time work (with negative 'elasticity' coefficients of between -0.0958 and -0.0882). The study concluded that increased public spending on childcare does not necessarily lead to more part-time employment, but may facilitate moves into full-time work or improve the quality of childcare without affecting hours worked per week.

A number of the Australian studies find that the workforce participation of certain groups of mothers are more responsive to childcare prices than that of other groups. For example, Gong and Breunig (2012a) found larger elasticities for partnered mothers of children aged under 5 years:

- in lower income households than in higher income households
- who did not have a tertiary education compared with those who did
- with more than one child compared with those with only one child.

¹⁶ It is difficult to compare estimates as studies employ different estimation techniques or data.

Lee (2013) reached similar preliminary findings in his study of single mothers of children aged under 13 years. Earlier studies by Doiron and Kalb (2005) and Kalb and Lee (2008) found larger elasticities for single parents than for partnered mothers.

While elasticity estimates appear to be small ('inelastic'), they relate to a 1 per cent change in childcare prices. Larger changes in childcare prices may have a material impact on their workforce participation. However, considerable caution is required in estimating the impact on workforce participation of large changes in childcare prices.¹⁷

Another way of thinking about the responsiveness of mothers to changes in net childcare prices is in terms of their reservation wage. Zero out-of-pocket costs will increase the likelihood of their workforce participation (whether entering employment or increasing their hours of work). However, many mothers are likely to increase their workforce participation even if they have to pay out-of-pocket costs as long as their net wage (wage after tax, any loss in welfare benefits, out-of-pocket childcare costs) exceeds their reservation wage. The reservation wage is likely to be lower if they enjoy work, expect their work experience to have a positive effect on their future wages, and view their workforce participation and ECEC services as having positive effects on their children.

Tax-welfare system

Many participants noted that the interaction of tax and welfare benefits reduced financial incentives for parents, particularly for second income earners, to enter the workforce or to work full time (for example, AHRC, sub. 456; Goodstart Early Learning, sub. 395; Grattan Institute, sub. 445; Law Institute of Victoria and Victorian Bar, sub. DR898; McMillan Shakespeare Group, sub. 439; Mission Australia, sub. 164; Workplace Gender Equality Agency, sub. 89). Many (for example, Finance Sector Union, sub. 174) also noted the reduced financial incentive of parents to work more than three days created by the current childcare rebate cap. Others such as the National Foundation for Australian Women (sub. 59, pp. 2–3) downplayed the relative significance of the tax-welfare system on women's workforce participation compared with the affordability and accessibility of childcare.

The effective marginal tax rate (EMTR) is a measure of the combined effect on a person's earnings of income tax and the withdrawal of welfare benefits. It measures how much money a person would retain from earning an extra dollar after income tax and the loss of welfare benefits.

¹⁷ This is partly because of the standard errors associated with the initial estimates, but also the fact that elasticities measure average changes for a population whereas workforce participation responsiveness to price changes can vary widely across a population.

Several recent reports have estimated relatively high effective marginal tax rates for families with children, which include the out-of-pocket cost of childcare — for example, AMP.NATSEM (2014), Grattan Institute (sub. 445) and PriceWaterhouseCoopers (MacMillan Shakespeare Group, sub. 439). For example, the AMP.NATSEM report estimated that partnered mothers from low income families with two children — one in long day care and one in out-of-school hours care — would lose between 69 per cent (for 20 hours work) and 75 per cent (for 40 hours work) of her pay to income tax, loss of Government benefits, and childcare costs (2014).

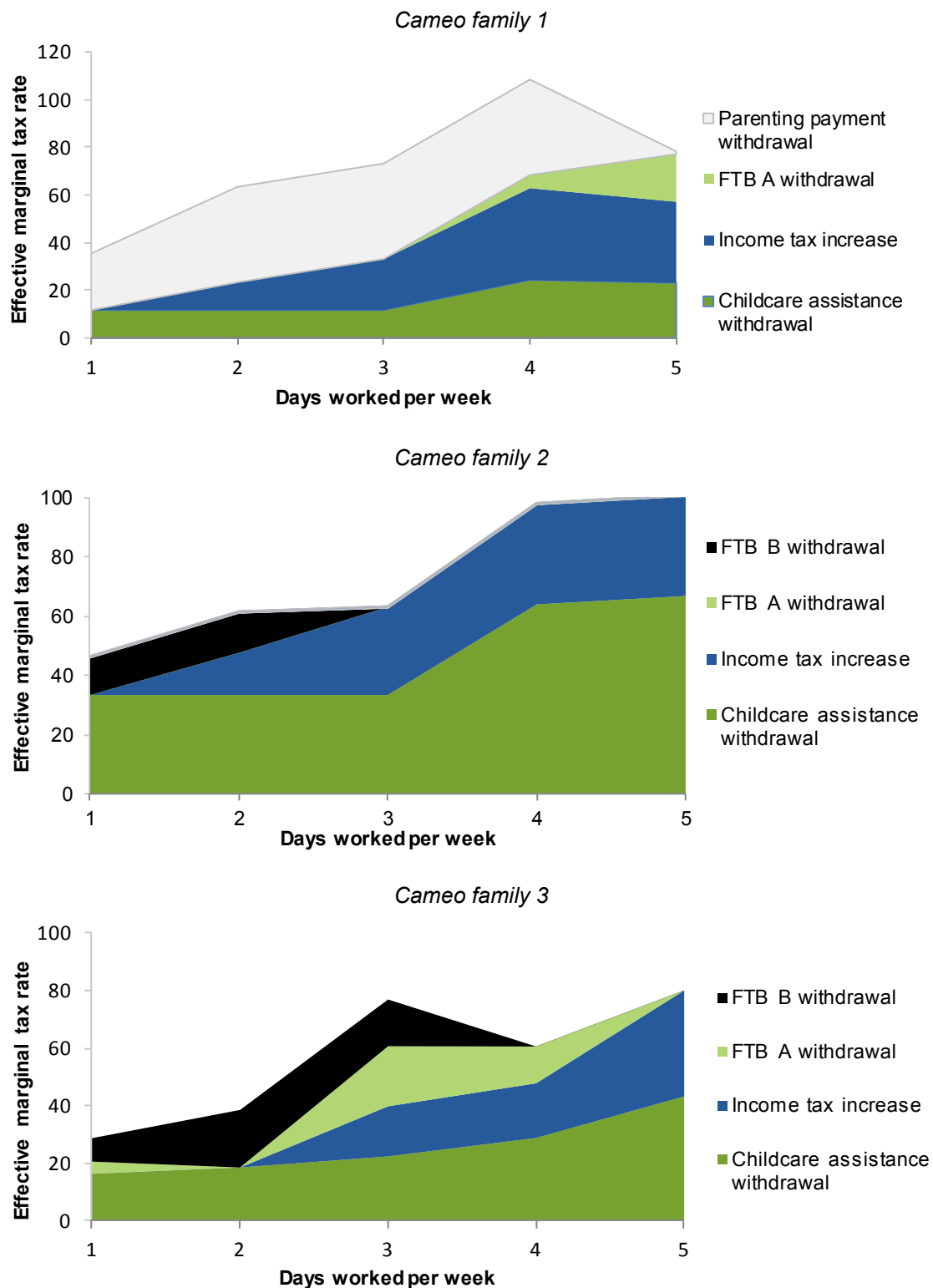
The Commission has undertaken its own analysis of EMTRs focusing on the cumulative effects of different components of the tax and welfare system on a number of cameo families (appendix E). The tax-welfare system components included are: childcare assistance in the form the Child Care Benefit and the Child Care Rebate; income tax; Family Tax Benefits (Parts A and B); and the Parenting Payment.

The Commission's analysis shows that EMTRs facing the second income earner will vary according to the circumstances of each family, and particularly according to their household income. For example, EMTRs are typically higher for families on low to middle household incomes than for families on higher household incomes.

The EMTRs for three cameo families show how different circumstances can matter (figure 6.9).

- A single parent family with two children aged under 5 years with the parent earning \$31.54 an hour (cameo family 1) could face an EMTR exceeding 100 per cent if the parent worked four days.
- A couple family with two children aged under 5 years with the mother being the primary income earner earning \$140 000 a year and the partner earning \$35 an hour (cameo family 2). The partner could face an EMTR exceeding 90 per cent if they worked four days.
- A couple family with two children — one child aged under 5 years and one child aged over 5 years — with the mother being the second income earner earning \$21 an hour and the partner earning \$78 000 a year (cameo family 3). The mother could face an EMTR exceeding 70 per cent if she worked three days.

Figure 6.9 **Effective marginal tax rates for second income earners in 3 cameo families**



Source: Appendix E.

These very high EMTRs suggest there are significant disincentives for second income earners in couple families and single parent families with children under school age (particularly those attending long day care) to increase their workforce participation. In its interim report, the Reference Group on Welfare Reform (RGWR 2014a) set out ‘future directions’ for Australia’s welfare system, which may have implications for EMTRs. The Reference Group’s interim proposals, among other things, are intended to provide incentives to work for those who are able to work and adequately support those who are genuinely not able to work. They involve a simpler architecture, a ‘fair rate structure’, a common approach to adjusting payments, support for families with children and young people, effective rent assistance and rewards for work and targeting assistance to need. Two specific proposals of relevance to families with dependent children are: a new child payment that could combine payments for dependent children and young people including the Family Tax Benefit, Youth Allowance and ABSTUDY; and a single working age payment that could combine existing payments targeted at working age people such as the Newstart Allowance, the Parenting Payment and Austudy Payment. The final report is expected in the second half of 2014.

As shown in appendix E, the Commission’s recommendations for ECEC funding, which are set out in chapter 15, are likely to flatten EMTRs associated with the withdrawal of childcare assistance, but peaks and troughs within the EMTR profile remain due to the interplay elsewhere in the tax-welfare system.

The Australian Government has proposed a White Paper on the Reform of Australia’s Tax System. This presents a good opportunity for a reconsideration of the objectives of payments provided to families with young children — particularly, the Family Tax Benefit and the Parenting Payment — and the impacts of these payments on workforce participation.

FINDING 6.4

Secondary income earners in couple families and single parent families with children under school age could face a significant disincentive to work more than 3 days a week due to high effective marginal tax rates from the cumulative impact of income tax and the withdrawal of childcare assistance, Family Tax Benefits and the Parenting Payment.

RECOMMENDATION 6.1

The proposed White Paper on the Reform of Australia’s Tax System should include consideration of how taxation and the design of family income support and transfer payments impact on effective marginal tax rates.

Discrimination

A factor raised by participants as affecting the workforce participation of mothers is workplace discrimination (for example, ACTU, sub. 167; Diversity Council Australia, sub. 356; Finance Sector Union, sub. DR689 and sub. 174; Law Council of Australia, sub. DR466; Shop Distributive Allied Employees Association, sub. 74).

The *Sex Discrimination Act 1984* (Cth) ('Sex Discrimination Act') aims to ensure that women and men are treated equally and have the same opportunities (AHRC 2012). The Act protects against discrimination in many areas including in employment such as getting a job, the terms and conditions of a job, training, promotion and dismissal. It makes it illegal to treat persons unfairly because of their: sex, marital status, family responsibilities, pregnancy (or possible pregnancy); or breastfeeding. Persons who experience discrimination may deal with the situation themselves or by making a complaint to the Australian Human Rights Commission (AHRC), which then investigates the complaint and tries to resolve it by conciliation. If the complaint is not resolved a person can take the matter to the Federal Court of Australia or the Federal Circuit Court of Australia.

Despite the Act, workplace discrimination such as in relation to gender, pregnancy and family responsibilities have been noted in several reports in recent years (ABS 2012e; AHRC 2014; Coleman and Hodgson 2011).

In response to the complaints it received, the AHRC commenced a national review in 2013 to identify the prevalence, nature and consequences of discrimination in relation to pregnancy (hereafter called the pregnancy and return to work national review). It included a survey of 2000 mothers and 1000 fathers (AHRC 2014),¹⁸ which, among other things found the following:

- Around 49 per cent of mothers reported that they experienced discrimination in the workplace at some point during pregnancy, parental leave or on return to work. Despite taking very short periods of parental leave, 27 per cent of fathers (and same sex partners) reported that they experienced discrimination during parental leave or when they returned to work (pp. 26, 49).
- Parents experienced more than one type of discrimination during pregnancy, parental leave and return to work ranging from negative attitudes in the workplace through to job loss (pp. 27, 49). Of the mothers who reported experiencing discrimination upon return to work, 63 per cent reported receiving negative attitudes or comments from colleagues or managers/employers, 50 per cent reported discrimination when they requested flexible work arrangements, and 38 per cent reported discrimination in relation to pay, conditions and duties (p. 29). Similarly, of the fathers who reported

¹⁸ The AHRC noted that the survey captures respondents' perceptions of the ways in which they were treated as a result of their pregnancy, parental leave and return to work following parental leave (2014, p. 25). The survey used a plain English definition of discrimination. Respondents were asked whether at particular points in time if they had ever been 'treated unfairly or disadvantaged'. As the AHRC noted, only a court can determine whether there has been a breach of the relevant legislation and that the survey results should not be interpreted as findings as to whether unlawful discrimination had in fact occurred.

experiencing discrimination when requesting or during parental leave and on return to work, 49 per cent reported receiving negative attitudes and comments from colleagues or managers/employers, 46 per cent reported discrimination with respect to pay, conditions and duties, and 35 per cent reported discrimination with respect to flexible work (p. 49).

- Discrimination had a negative impact on both mothers and fathers engagement in workforce and their attachment to the workplace. For example, nearly a third of mothers who said they experienced discrimination at some point looked for another job or resigned (p. 33). Around 18 per cent indicated they were made redundant, their jobs were restructured, they were dismissed or that their contracts were not renewed during their pregnancy, when they requested or took parental leave, or when they returned to work (p. 27).

The AHRC's pregnancy and return to work national review concluded that the survey's findings '... demonstrate that discrimination towards pregnant employees and working parents remains a widespread and systemic issue which inhibits the full and equal participation of working parents, and in particular, women in the labour force' (2014, p. 8).

It recommended specific strategies and actions that government, workplaces and the wider Australian community could undertake to: address the prevalence of discrimination; strengthen existing laws, policies, procedures and practices; promote leading approaches; and identify areas for further monitoring, evaluation and research (AHRC 2014, pp. 9–13). For example, it recommended specific amendments to the Sex Discrimination Act, the *Fair Work Act 2009* (Cth) (the 'Fair Work Act'), and the National Employment Standards of the Fair Work Act and the preparation of guidance material for employers to provide clarity about rights and obligations in the workplace (AHRC 2014, p. 12, rec. 3). In relation to the Sex Discrimination Act, the AHRC recommended amendments to extend the discrimination ground of 'family responsibilities' to include indirect discrimination and to include a positive duty on employers to reasonably accommodate the needs of workers who are pregnant and/or have family responsibilities. Its recommended amendments with respect to the Fair Work Act are discussed in section 6.5.

Following the release of the AHRC's report, the Government announced it was providing \$150 000 to the AHRC to develop a resource kit detailing employers' obligations, employee's rights and leading best practices strategies/practices to manage pregnant women and parents returning to work.

Cultural barriers

Several participants and commentators considered that ingrained attitudes towards gender roles and other 'cultural barriers' were limiting the ability of women and parents to participate in the workforce (for example, ACCI, sub. 324; ACTU, sub. 167; AHRC (2014); Chief Executive Women, sub. 464; Doutney, sub. DR 510 Department of

Education, sub. 147; Workplace Gender Equality Agency, sub. 89). For example, Chief Executive Women considered that:

[T]he vast majority of women perceived a different barrier stalling their progression: a preferences within the organisation for a different “leadership style”. ... While gender bias and subtle (and not so subtle) cultural norms continue to exist without challenge, Australia will continue to pay a substantial opportunity cost in the form of lost or reduced participation and productivity. (sub. 464, p. 5)

There are signs of changes in attitudes about appropriate gender roles and the capability of women. In its report on paid parental leave, the Commission (PC 2009, p. 6.13) noted that younger men tend to believe more in gender equality — and its implications for fathers’ role in caring and in domestic duties — than older men, which also suggests changing societal norms. Cornish (2013) reported a shift in attitudes whereby more fathers are taking up part-time work and other forms of flexible work arrangements to be with their children. The AIFS (sub. 391, pp. 24–6) reported responses from fathers and mothers in the Housing, Income and Labour Dynamics in Australia survey (wave 11) showing positive attitudes towards mothers’ workforce participation. The CareforKids.com.au survey of 2000 parents in 2014 found that, although 56 per cent of respondents said that mothers take most of the responsibility for childcare issues in families such as pick up and drop off, doctors’ appointments and sick days, 34 per cent said that there was an equal share amongst parents.

However, given the survey findings associated with the AHRC’s pregnancy and return to work national review and other evidence provided by participants, there appears to be scope for progressing such attitudinal changes further as the trend in the increasing workforce participation of mothers continues. The option of doing so under the Fair Work Act is considered in section 6.5.

Flexible work and other family-friendly arrangements

In contrast to the negative drivers of maternal workforce participation discussed above, is the availability of flexible work and other family-friendly arrangements, which is a key positive workforce participation driver (as noted, for example, by the ACTU, trans., pp. 109, 113–14, Melbourne, 18 August 2014). It can be viewed as a complement to accessible and affordable childcare:

Flexible and caring friendly working arrangements are not a substitute of accessible and affordable good quality childcare, rather they work together to enhance the abilities of mothers and fathers to undertake paid employment whilst having children. (Women and Work Research Group, sub. DR800, p. 7)

These arrangements cover:

- changing the hours of work (for example, working part time or changing start or finish times)
- changing patterns of work (for example, working split shifts, or job sharing)

-
- changing the place of work (for example, working from home)
 - using leave arrangements including paid parental leave
 - adopting specific occupational health and safety measures (for example, for pregnant employees)
 - applying specific employer supports such as for ECEC (for example, employers providing onsite childcare or reserving places in a childcare centre).

For women who are not in the workforce or who work part time, the ability to ‘work part time hours’, ‘vary start finish/times’ and ‘work school hours’ are ‘very important’ or ‘somewhat important’ incentives to join or increase participation in the workforce, particularly when compared with men (figure 6.8). Indeed, some of these incentives rate above childcare-related incentives.

Most mothers used some type of flexible work or other family-friendly arrangements to assist with childcare (table 6.6). Around 74 per cent of mothers with a child aged under 13 years (around 1.3 million) and around 86 per cent of mothers with a child aged under 2 years who started or returned to work after the birth of their child (205 500) used some sort of work arrangement to assist with the care of their child. The most common working arrangements used were part-time work, flexible work hours and working from home. However, 7 per cent (over 14 000) of these mothers reported that flexible working arrangements were not available to use.

The findings of other surveys — for example, the Australian Institute of Management Survey 2008 of executives; Baseline Australian Mothers Survey 2010; CareforKids.com.au Survey 2014 of parents; and the Finance Sector Union survey of its members (sub. 174, p. 4) — also reinforce the importance to parents of the availability of flexible work and other family-friendly arrangements. For example, the Baseline Australian Mothers Survey (Martin et al. 2012, pp. 50–51) of some 2600 mothers found that in 2010, many mothers who returned to work after the birth of their child made use of flexible work and other arrangements — 57 per cent used flexible hours, 54 per cent went permanent part time, 39 per cent used shorter hours and 33 per cent worked from home. Also, 70 per cent of mothers who changed jobs on or following return to work did so because they wanted shorter or more flexible hours. A reason for 18 per cent of mothers not returning to work before 13 months was ‘couldn’t negotiate suitable work conditions’.

There are differences between mothers and fathers in their use of flexible work and other family-friendly arrangements. For example, ABS data indicate that mothers are more likely than fathers to use paid and unpaid leave to provide care, whereas fathers are more likely to use flexible working hours or rostered days off, or work from home to provide care (table 6.7). The subsequent introduction of the Australian Government’s Paid Parental Leave scheme is likely to have had an impact on the uptake of parental leave since the survey was undertaken.

Table 6.6 Use of work arrangements by mothers to assist with the care of children
2011

	<i>Mothers with a child aged under 2 years</i>		<i>Mothers with a child aged under 13 years</i>	
	'000	%	'000	%
Part-time work	134.1	76	532.6	57
Flexible working hours	71.3	40	533.1	57
Work from home	53.3	30	226.1	24
Shift work	18.9	11	86.8	9
Job sharing	13.1	7	27.6	3
Any other work arrangements ^a	10.5	6	21.9	2
All work arrangements used to assist with care of child^b	176.5		942.5	

^a Includes women who used leave arrangements. ^b Individual components do not sum to all work arrangements as more than one working arrangement might be used.

Source: ABS (2012a, 2012b, p. 28).

Table 6.7 Parents' use of working arrangements to provide care^a
2007

<i>Working arrangement</i>	<i>Mothers</i>	<i>Fathers</i>	<i>All parents</i>
	%	%	%
Paid leave			
Carers/family leave	10.6	11.0	10.8
Parental/maternity/paternity leave	5.0 ^b	2.9 ^b	4.1
Flex leave	4.6 ^b	5.6 ^b	5.0
Annual, holiday or recreation leave	13.2	11.7	12.6
Other	6.7	5.3 ^b	6.1
Unpaid leave or other arrangement			
Unpaid leave	20.8	10.5	16.2
Flexible working hours	31.0	37.6	34.0
Rostered day off	6.3	10.4	8.1
Working from home	11.5	10.6	11.1
Informal arrangement with employer	14.5	12.4	13.6
Took children to work	11.8 ^b	8.6	10.4
Total^c	100.0	100.0	100.0

^a Parents with a child aged under 15 years. ^b Estimate has a relative standard error of 25 per cent of 50 per cent and should be used with caution. ^c Components may add up to more than the total as persons may have more than one type of working arrangement to provide care.

Source: ABS (2009d).

Trade-offs in increasing the workforce participation of mothers

Although lifting workforce participation of mothers could generate benefits to mothers and their families, as well as to the wider community, there are possible trade-offs relating to: reductions in time spent on other activities performed by mothers such as unpaid work, and recreation and leisure; reductions in the workforce participation of fathers in couple families and extended family members; and the stresses on mothers and their families of managing a work-life balance.

Some of these factors are also crucial to influencing mothers' workforce decisions and shaping their preferences between work and care giving.

Impacts on unpaid work and other activities undertaken by mothers

Several participants (for example, Australian Human Rights Commission, sub. 456; Grattan Institute, sub. 445; Louise McBride et al., sub. 431) noted that women and mothers perform more unpaid work than men and fathers. Others (for example, Australian Family Association, sub. 448; Awesome Mothers Association, sub. 303; Endeavour Forum, trans., p. 42, Melbourne, 18 August 2014; and Family Voice, sub. DR894) expressed concerns about the impacts that increasing maternal workforce participation would have on unpaid work, or the lack of recognition given to its value.

The ABS put the total value of unpaid work — defined as household work (domestic work, childcare and shopping) and volunteer and community work undertaken without pay — at between 42 per cent to 59 per cent of GDP in 2006, ranging from \$416 billion to \$586 billion (depending on the estimation method used), with women performing around 65 per cent of it (ABS 2014l). Assuming these proportions continue to hold, based on the value of GDP in 2013–14, the Commission estimates the value of unpaid work to be between \$666 billion and \$936 billion.¹⁹

Mothers with a child aged under 15 years spent up to twice as much time undertaking unpaid work (as a primary activity) as fathers (table 6.8).²⁰ The tendency of mothers to do more unpaid work than fathers occurs regardless of the type of activity and their workforce status. However, mothers do less paid work than fathers. Considering total workload — unpaid and paid work together — the time spent by mothers exceeds that of fathers at all levels of workforce participation.

¹⁹ Based on GDP in current prices in 2013–14 of \$1.586 trillion.

²⁰ Several participants report data from the ABS Time Use Survey (2009a, 2014e) that relate to unpaid work as the primary or secondary activity. Including secondary activities in unpaid work (such as passive child minding while undertaking shopping as a primary activity) can overstate the time genuinely devoted to unpaid work. Some participants also report time spent by all males and females. This population can include persons without children and, thus, not align with parents. Accordingly, only data relating to parents and primary activities are reported in this sub-section.

Table 6.8 How parents spend their time, by workforce status^a

2006, hours and minutes per day

<i>Primary activity^b</i>	<i>Mothers</i>			<i>Fathers</i>		
	<i>Employed full time</i>	<i>Employed part time</i>	<i>Not employed</i>	<i>Employed full time</i>	<i>Employed part time</i>	<i>Not employed</i>
Paid work	4:50	2:45	0:05	7:28	3:33	0:54
Unpaid work ^c	5:57	7:19	9:11	3:04	4:43	5:43
Other activities ^d	13:06	13:53	14:32	13:21	15:21	17:04
Paid and unpaid work	10:47	10:04	9:16	10:32	8:16	6:37
All activities	24:00	24:00	24:00	24:00	24:00	24:00

^a Parents of children aged under 15 years. ^b Not all primary activities are included in this table. Hence, individual components do not add to 24 hours. ^c Unpaid work includes domestic activities, childcare, purchasing goods and services, and voluntary work and care. ^d Other activities include personal care, education, social and community interaction, and recreation and leisure.

Source: Productivity Commission calculations based on ABS (2008).

As mothers' workforce participation increases, the time they spend on unpaid work and other activities decreases (table 6.8).²¹ However, their total workload (consisting of paid and unpaid work) increases. The increase in total workload comes at the expense of time spent on other activities, such as recreation and leisure. A similar picture emerges for mothers in couple families with a child aged under 15 years and the father works full time (table 6.9). As the workforce participation of mothers increases, the time they spend on household work decreases, but their total paid and household work increases. Moreover, for couple families where both parents work full time, the time spent by mothers on paid and household work exceeds that of fathers by 1 hour a week.

In relation to childcare, mothers spend more time on childcare activities than fathers, and mothers of younger children spend more time on childcare activities than mothers of older children (table 6.10).

²¹ This finding is also supported by data from the Longitudinal Study of Australian Children for 2006-2008. These show that, in couple families with a child aged under 5 years, as mothers move from no employment to paid full-time work, the time they spend on unpaid work reduces from about 10.2 hours per day on childcare and housework to 6 hours per day (full-time employment) (Baxter 2013b).

**Table 6.9 Couple families with children aged under 15 years
— time spent on paid work and household work^a**
2006, hours and minutes per week

		Mothers			Fathers		
	Per cent of couple families	Paid work	Household work ^c	Total work	Paid work	Household work ^c	Total work
Male partner employed full time							
Female partner not employed	24.4	0:29 ^b	65:13	65:41	52:30	19:57	72:27
Female partner employed part time	41.5	19:29	50:24	69:53	51:27	21:21	72:48
Female partner employed full time	21.3	32:26	41:32	73:58	52:23	20:32	72:55

^a Primary activities only. ^b Estimate has relative standard error of 25 per cent to 50 per cent and should be used with caution. ^c Household work covers domestic activities, childcare and purchasing goods and services.

Source: ABS (2009a, p. 23).

**Table 6.10 Time spent by parents in childcare activity^a,
by age of youngest child**
2006, hours and minutes per day

<i>Age of youngest child in years</i>	<i>Mothers</i>	<i>Fathers</i>
0 to 4	4:21	1:35
5 to 11	2:03	0:54
12 to 14	0:54	0:27
All ages under 15	3:04	1:11

^a Only childcare activities that are the primary activity are included. Childcare activities include the physical and emotional care of children, teaching/helping/reprimanding children, playing/reading/talking with child, minding child, visiting childcare establishment/school, and associated travel.

Source: Productivity Commission calculations based on (2008).

Impacts on the workforce participation of partnered fathers

In couple families, fathers can respond to the increased workforce participation of their partners in a number of ways by increasing, maintaining, reducing, or otherwise changing their current participation. For example, fathers could reduce their participation by taking up part-time work. Fathers may also change the amount of time they spend on unpaid work.

ABS data suggest that, for fathers, the increasing workforce participation of mothers in couple families is associated with slightly reduced time spent at paid work and slightly increased time spent on unpaid work. Table 6.9 above shows that the time fathers spend on paid work can fall by between 7 minutes a week to 1 hour and 3 minutes a week depending on the initial workforce status of their partners. Fathers' unpaid household work can increase by between 35 minutes a week to 1 hour and 24 minutes a week. The aggregate

impact on fathers' total workload, both paid and unpaid, is small — ranging from between 7 minutes a week to 28 minutes a week and still outweighed by the time spent by their partners on paid and unpaid work.²²

As noted earlier, the attitudes of men and fathers towards gender roles are changing, suggesting that a more substantial response by partnered fathers than evident in table 6.9, which relate to 2006, may occur in future. Nonetheless, evidence suggests that the uptake by men of flexible work arrangements for the purpose of caring for children is low (section 6.5).

Impacts on the workforce participation of grandparents

As noted in chapter 3, 26 per cent of children under the age of 13 are cared for by their grandparents. Some participants noted the role that informal childcare by grandparents and other older family members can have in supporting maternal workforce participation, which can, in turn, affect the workforce participation of older workers (for example, the Australian Federation of Graduate Women, sub. 417; BPW Australia, sub. 85; Council of the Ageing, sub. 412). For example, the Australian Federation of Graduate Women noted:

The use of grandparents raises another issue: older Australians, usually women are leaving the workforce or reducing their working hours to care for children. Productivity is still lost in this scenario although different groups of women are affected. Other issues remain unresolved: older women are less likely to have adequate savings or superannuation to provide for their retirement, yet they are excluding themselves from the workforce to care for children and will necessarily come to rely on the aged pension as a consequence. Moreover caring for children may place an unacceptable burden on the health of their older carers leading to increased strain on the health budget. (sub. 417, p. 2)

The workforce decisions of mothers and that of grandparents (like parents within couple families) can be closely inter-linked. Moreover, the same kind of factors determining maternal workforce participation are also relevant to that of grandparents. For the latter, additional factors include retirement income levels, preferences for recreation and leisure, and health status.

Although several recent Australian studies have examined the wider impacts that providing informal childcare has had on grandparents (for example, Brennan et al. 2013; Horsfall and Dempsey 2013; Jenkins 2010), there appears to be limited research focusing on the workforce participation impacts. Whelan (2012) examined the impact of childcare on employment of working age grandparents using the Housing, Income and Labour Dynamics in Australia Survey and found that a limited amount of caring did not detract

²² This finding is also supported by data from the Longitudinal Study of Australian Children for 2006–2008. In particular, in couple families with a child aged under 5 years, regardless of the mothers' workforce status, most fathers in these couples were in full-time employment and their paid work hours remained relatively high. When mothers moved from not being in paid employment to working full-time hours, employed fathers undertook an hour per week less paid work and seven hours per week more childcare and housework (Baxter 2013b).

from their employment. Indeed, he found that low levels of care are positively correlated with their engagement in the labour market. However, he found that those grandparents spending high levels of time on childcare (more than 12 hours a week) spent less time on paid employment.

Increasing maternal workforce participation can, in principle, potentially prevent grandparents from accessing the same kinds of private benefits as identified in box 6.1 if they sacrifice their paid work in order to provide informal childcare. However, what limited evidence exists suggest that this appears to be unlikely to be the case for most grandparents who currently provide informal childcare for a limited number of hours (up to 10 hours a week) (ABS 2012b and chapter 3).

Stresses from maintaining a work-life balance

Achieving the right balance between work and personal life is a key component of a person's wellbeing as well as of community wellbeing. As the OECD noted:

... too little work may prevent people from earning enough to attain the desired standard of living but too much work may have a negative impact on their well-being if their health or personal lives suffer as a consequence. Work-life balance is not only important for the well-being of the person but also for that of the whole family, in particular children's well-being is strongly affected by the capacity of parents to both work and nurture them. A balanced allocation of time between work and personal life is also important at a society-wide level as it ensures that people have sufficient time to socialise and participate in the life of the community. (2013b, p. 50)

Many participants noted the importance to parents of balancing their work and family life, which can involve undertaking unpaid work as well as recreation and leisure (for example, East West Child Care Centre, sub. DR497, p. 3; Novita Children's Services, sub. 185; Westpac, sub. 327, p. 3).

According to ABS data (2009b, p. 6) parents with children aged under 15 years are more likely to feel rushed or pressed for time than persons without children. In 2007, 82 per cent of couple families with a child aged under 15 years where both parents were employed, one or both parents always or often felt rushed or pressed for time. This compared with 67 per cent of couple families where both partners were working and there were no children aged under 15 years. In employed single parent families with a child aged under 15 years, around two-thirds of parents always or often felt rushed or pressed for time, while just over half (53 per cent) of single parents without dependent children (aged under 15 years) felt rushed. Mothers in couple families tend to feel rushed or pressed for time more often than fathers, regardless of their, or their partners' employment status. Trying to achieve a balance between work and family is one of the main reasons given by working parents feeling rushed or pressed for time.

The 2012 Australian Work Life Index survey of 2800 working Australians undertaken by the University of South Australia Centre for Work + Life (Skinner, Hutchinson and Pocock 2012) reports perceptions about ‘work-life interference’.²³ Among its findings are the following:

- Women’s work-life outcomes are worse than men’s when differences in work hours are taken into account. For example, more women working full time than men working full time report that: work frequently interferes with activities outside work (33 per cent compared with 28 per cent); and they are dissatisfied with their work life balance (28 per cent compared with 18 per cent) (pp. 23–9).
- Parents have worse work-life outcomes than persons without children, whether single or partnered (p. 41).
- Mothers have worse work-life outcomes than fathers, whether single or partnered (p. 41).

There are also international studies that indicate that increases in workforce participation of mothers has added stress to parents and contributed to a deterioration in family life (for example, Baker et al. 2005 in relation to Quebec in box 6.7).

The extent of work-life balance impacts of mothers’ increased workforce participation will depend on individual families, their circumstances and preferences. Some families may bring or buy in extra support to manage (for example, from extended family or paid help). In other families, the partner may adjust their workforce participation (for example, through working part time or adjusting their working hours) in response to the mother increasing her workforce participation. And yet in other families, the mother or partner may simply reduce their recreation and leisure activities.

FINDING 6.5

The workforce participation of mothers of children aged under 15 years is affected by the preferences of parents to look after their own (particularly very young) children. These, in turn, can be affected by such factors as the costs and availability of suitable childcare, the stresses of managing paid work and unpaid work at home, the provision of flexible work and other family-friendly arrangements by employers, the level of contact with the workplace, long-term career prospects and the effective marginal tax rates facing mothers.

²³ The Australian Work Life Index contains five measures, which assess respondents’ perceptions of ‘work-life interference’ across five domains: ‘general interference’ — the frequency that work interferes with responsibilities or activities outside work; ‘time strain’ — the frequency that work restricts time with family or friends; ‘work-to-community interference’ — the frequency that work affects works’ ability to develop or maintain connections and friendships their local community; ‘satisfaction with overall work-life balance’; and frequency of ‘feeling rushed or pressed for time’ There have been five surveys since the first one in 2007.

6.4 Workforce participation and future ECEC needs

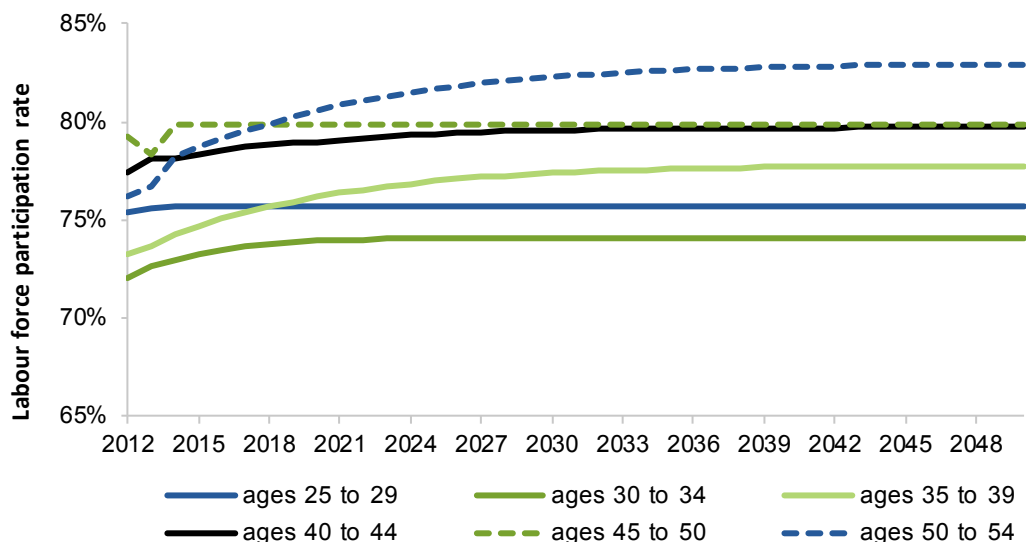
Future childcare needs depend on a range of broad aggregate factors such as trends in child populations (chapter 3); trends in fertility rates particularly towards older mothers and mothers having fewer children; trends in workforce participation; and social trends, particularly in the sharing of parental care and unpaid work between mothers and fathers, and workplace arrangements. Most importantly for this inquiry, future workforce participation is also likely to be affected by the Government's settings for ECEC assistance to families and providers.

For its ageing update report, the Commission (PC 2013a) undertook projections of the workforce participation rates of women (and men) of different age cohorts assuming given policy settings (including in relation to ECEC services) at the time. This showed that, over a fifty year period, the participation rate of women aged 25 to 54 years is projected to remain unchanged over the period (after an initial change) at between 74 per cent (women aged 30 to 35 years) and 83 per cent (women aged 50 to 54 years) (figure 6.10).

These projections mask deeper trends in the workforce participation of parents and in their driving factors, which have ramifications for future childcare demand — both for formal and informal ECEC services.

- The participation rates of partnered and single mothers, and single fathers, of children in all age groups, particularly in older age groups have been increasing and are likely to increase further. There is, thus, likely to be more demand for all forms of childcare, particularly for outside of school hours care and vacation care.
- Non-standard working hours are common among families with a dependent child. This is likely to continue and suggests ongoing pressure for more flexible childcare hours.
- The trend towards self-employed mothers highlighted by some participants is also likely to continue in future, particularly if seen as a means of bypassing problems with the affordability and accessibility of suitable childcare. This trend has the scope to alleviate pressure to provide childcare places in future.
- The availability in workplaces of flexible work and other family-friendly arrangements, and their uptake is important. It can alleviate pressure for full-time childcare as parents are more able to adjust work hours to care for their children, but there is likely to be a greater need for part-time childcare.

Figure 6.10 **Projections of female labour force participation rates, in the absence of a change to ECEC policies^a**



^a According to Commission estimates for 2012, fertility rates are highest for women aged 27 to 34 inclusive. Therefore, labour force participation rates are given for these ages as well as the 25 to 29 year age group and 35 to 39 year age group.

Source: PC (2013a).

6.5 Supporting the workforce participation of parents through family-friendly arrangements

The affordability and accessibility of suitable ECEC services play an important role in supporting the workforce participation of parents. Chapter 15 considers funding options available to government to address childcare affordability, including Fringe Benefits Tax exemptions for employer support for childcare. Chapter 10 considers options to improve the accessibility of ECEC services.

However, as there are many factors that affect workforce participation it is necessary to consider a broader range of options extending beyond childcare that address those factors. Such options might include changes to the Family Tax Benefit arrangements (Goodstart, trans., p. 43, Canberra, 26 August 2014), a closer alignment of school hours and holidays with working hours (Guilfoyle, sub. DR471), and encouraging employers to provide family friendly working conditions (ACTU, sub. 167).

Indeed, many participants supported this view, with some considering that a holistic approach to promoting the workforce participation of mothers was required.²⁴ For example, the National Foundation for Australia Women said:

If parental workforce participation is a major goal of Government policies, then child care is but one of an inter-related suite of policies which must be coordinated. Reformation of child care alone will not produce solutions. (sub. DR606, p. 1)

One set of options for supporting the workforce participation of parents is the availability of flexible work and other family-friendly arrangements by employers. These arrangements can benefit both parents and employers. They enable parents to better manage or balance their work and family responsibilities. They also enable employers to attract skilled staff, reduce staff turnover, reduce recruitment and training costs, lower staff absenteeism and improve productivity.

There is a range of government regulations and schemes that seek to promote flexible work and family friendly arrangements in workplaces including the following:

- The Fair Work Act and National Employment Standards contain minimum entitlements that employers must provide to employees to achieve better work and family balance. Entitlements include the right to request flexible working arrangements, carers leave, a safe work environment and protection from discrimination. There are also provisions enabling employers and employees to negotiate individual flexibility arrangements.
- Australian, state and territory government sex discrimination laws operate to ensure that employees are not discriminated against where they have certain family or carer responsibilities. Some of this legislation also includes a right to request flexible working arrangements.
- The Australian Government's Paid Parental Leave scheme provides financial support for working parents of newborn or recently adopted children.
- The Australian Government's Fringe Benefits Tax exemptions for employer support for childcare.

Many employers already provide flexible work and other family-friendly arrangements, with some exceeding that required or set by government (for example, box 6.9; Chief Executive Women, sub. 464; Diversity Council of Australia, sub. 356). These arrangements extend to maternity or parental leave, carers' leave, childcare support such as through purchasing priority places in childcare services or providing on-site childcare services under Fringe Benefits Tax exemptions, and flexibility in working hours and location. Surveys indicate that many employers are already aware of the importance and benefits of offering such arrangements (for example, the Korn/Ferry Institute 2013).

²⁴ For example, ACCI, sub. 324; ACTU, sub. 167; BPW Australia, sub. 85; Chief Executive Women, sub. 464; Economic Security 4 Women, sub. 291, sub. DR621; Institute of Chartered Accountants, sub. 369; Mission Australia, sub. 164; National Foundation for Australian Women, sub. DR606.

Box 6.9 **Examples of family-friendly arrangements**

ANZ offers working arrangements to help their employees 'balance their life priorities with their career'. These include offering the ability of employees to: work contracted hours in a flexible way (for example, by compressed work weeks); have flexible start/finish times; work at flexible locations (including working from home); have access to flexible scheduling for rostered staff; job share; work part time; take leave from work. ANZ found that 27 per cent of its employees who indicated they have some type of flexible work arrangement reported they were almost 6 per cent more engaged than those who did not. With regard to leave, ANZ offers parental leave in addition to that required under the government funded Paid Parental Leave scheme, 'lifestyle leave' as well as leave without pay. ANZ also has childcare allowance for all employees who return to work full or part time after a period of parental leave. Its childcare allowance was found to have increased its female retention rate post parental leave from 67 per cent in 2009 to 88 per cent in 2013.

Telstra promotes 'inclusion, diversity and flexibility'. It notes that everyone has different needs — children, ageing parents, sport or cultural commitments, study or a community interest. It includes flexibility provisions in all new advertised positions from March 2014. To enable flexible work, Telstra offers part-time work, job sharing, working outside the office, or variable start and finish times, and leave options that include parental leave, cultural leave, and career breaks. Telstra also enables, where possible, for people to work in locations other than their main office and also has quiet rooms and breastfeeding facilities in some of its workplaces. Telstra also encourages its managers to proactively reach out to their teams, to understand their needs for flexibility. During a 3 month All Roles Flex trial, the number of women applying for flexible roles increased from 28 per cent to 37 per cent and female representation rose from 28 to 32 per cent. Of the applicants, 30 per cent said they were attracted by the flexibility.

Source: ANZ (sub. 125); Diversity Council of Australia (sub. 356); Telstra (2014); Workplace Gender Equality Agency (sub. DR829).

Participants held a range of views on the feasibility of more flexible work and other family-friendly arrangements (box 6.10). Some considered that there is scope for employers to do more, with some suggesting specific measures. Other participants drew attention to the difficulties and costs for some employers in providing family-friendly arrangements. And some noted that, even with the availability of such arrangements, it was still difficult for employees to take them up.

This section considers two areas of Australian Government regulation covering family-friendly arrangements:

- requirements under the Fair Work Act and the National Employment Standards relating to the right to request flexible working arrangements and to enable employers and employees to negotiate individual flexibility arrangements
- the Paid Parental Leave scheme.

Box 6.10 **Participants' views on family-friendly arrangements**

Employers can do more

Most [parents] are seeking a balance of formal [child] care with a family friendly work environment that recognises their need to spend time with their children (and their children with them). This is the area in which the least advancement has been made and is a glaringly inadequate part of the support structure working families need. (ACTU, sub. 167, p. 8)

I do think we could actually spend a bit more time thinking about what do we do around those critical moments in the day, at the beginning and the end of the day, and vacation periods. They seem to be the critical times for parents. And perhaps spreading the load of care more between both parents, so that it's not always falling on the mother, for example, to carry that childcare, which ultimately then has this impact on labour force participation. What we get down to is really a need for workplaces that are able to cope with varying numbers of people on site at a particular time, which might require more people to cover those. The pressure on workplaces and organisations, of course, is to control costs all the time. So finding that balance or finding some way of allowing more flexibility around the edges of the day is really, I think, the critical area, and vacation. That does involve both policies and culture in workplaces, or practices and culture. (Baird, trans., p. 7, Canberra, 25 August, 2014)

More could be done to incentivise employers who advocate and support flexible work options, thus improving the perception of flexible work so that it becomes a norm rather than an exception. (BPW Australia, sub. 85, p. 3)

Diversity Council Australia's] recent research projects ... showed that while many people have access to 'basic' flexible work options, meaningful flexible work and careers are still not common practice in Australian workplaces. This is despite mainstreaming flexible work and careers having been found to be a business imperative ... (Diversity Council Australia, sub. 356, p. 9)

... but some employers face difficulties in providing arrangements

Employers make adjustments to accommodate worker needs and fit these with operational needs. While the legislated requirements assume organisations can viably absorb the costs of worker family/carer responsibilities, in many instances such adjustments are costly and difficult to manage. This is particularly the case for small employers who employ around half the workforce. Organisations report difficulty in managing staff costs and coverage to get the job done, plus additional administrative work. This can be particularly pronounced in workforces which are predominantly female. Such workplaces report difficulties in accommodating requests for changes to work hours and shifts and in having sufficient staff available to cover staff absent on various forms of leave for caring purposes. Recruiting additional staff can be extremely difficult in markets where there is a shortage of appropriately skilled and qualified staff and, across the board, hiring additional staff incurs additional wages, on-costs and administration for the organisation. Larger well resourced employers may provide benefits and programs to assist parents with childcare responsibilities where it is in their interest and suits their business objectives. However, such measures are not feasible within the cost and operational constraints of most employers. (Australian Federation of Employers and Industries, sub. 338, p. 8)

... the capacity of [small to medium businesses] to provide childcare for employees is severely limited. While some larger employers provide either in-house child care, or subsidise the cost of child care for employees as part of employment packages, this is at the discretion of that employer and forms part of their particular employment strategy. (Chamber of Commerce and Industry Queensland, sub. 245, pp. 2–3)

(Continued on next page)

Box 6.10 (continued)**... as do employees in taking up flexible arrangements**

... even though there are policies that encourage the use of flexible work arrangements, both in the legislation and in company policy, often it can be very difficult for parents to use those policies. We also know that the uptake ... of those policies is highly gendered and that women use them more than men, which potentially has a scarring effect on their future income earnings and their career prospects. The other side of that is, of course, that men often don't use them or feel that they can't use them because it's still not accepted that men will be responsible for the childcare and the pick-up from work. (Baird, trans., p. 6, Canberra, 25 August 2014)

I'm fortunate, I work for one of the better employers ... We've got all the flexibility that we need. ... regardless of how flexible the workplace practices were ... I can't work out how you can make [combining childcare and work] work. I dropped my hours back to three days and got the kids out of childcare. (Hoskings, trans., p. 7, Melbourne 19 August 2014)

[employer] resistance to flexible working arrangements persists in many places. This makes it difficult for employees to request flexibility, while also making it more likely that requests will be refused. (Workplace Gender Equality Agency, sub. DR829, p. 1)

Fair Work Act provisions relating to flexible work arrangements

The National Employment Standards under the Fair Work Act provide employees who are parents, or have responsibility for the care, of a child of school age or are carers (within the meaning of the *Carer Recognition Act 2010* (Cth)) with a right to request flexible working arrangements from their employer. Flexible working arrangements include changing hours of work, patterns of work or the place of work.

The employee (including a long-term casual employee) is not entitled to make the request unless they have completed at least 12 months of continuous services with the employer immediately before making the request.

Requests must be in writing and set out details of the changes in the working arrangements sought and the reasons for the changes. Employers must give a written response within 21 days, stating whether the request is granted or refused. If refused, the employer then must provide written reasons. An employer may refuse a request 'on reasonable business grounds'. Unless there is an agreement between the parties, employees are not able to appeal to the Fair Work Commission to review their employers' decisions.²⁵

²⁵ Section 739 of the Fair Work Act expressly provides that the Fair Work Commission must not deal with a dispute under a term of a modern award, enterprise agreement or contract of employment to the extent the dispute is about whether an employer had reasonable business grounds to refuse a request by an employee for flexible work arrangements (subsection 65(5) or an extension of unpaid parental leave (subsection 76(4)). However, the Fair Work Commission is able to dispute about reasonable business grounds in these circumstances where this has been agreed to between the parties in a contract of employment, enterprise agreement or other written request (subsection (2)).

The Fair Work Act also encourages the negotiation of individual flexibility arrangements. It provides that all modern awards and enterprise agreements must include a flexibility term enabling an employee and their employer to agree on arrangements (an individual flexibility arrangement) varying the effect of the award or enterprise agreement in relation to the employee and employer. The Act ensures that these arrangements do not undermine minimum employee entitlements by requiring the employer to ensure the employee is better off overall on the individual flexibility arrangement compared with the modern award or enterprise agreement the individual flexibility arrangement varies (known as the ‘better off overall test’).

The Fair Work Amendment Bill 2014 proposes changes to current individual flexibility arrangements provisions, which would among other things allow:

- the requirement for an individual flexibility arrangement to leave an employee better off overall to be satisfied by the provision of non-monetary benefits
- overtime rates, penalty rates, allowances and leave loadings to be traded off in an individual flexibility arrangement.

There are a number of issues, some raised by participants, about the Fair Work Act’s provisions relating to flexible work arrangements.

Improving education and awareness

Statutory bodies (such as the Workplace Gender Equality Agency, the Australian Human Rights Commission and the Fair Work Ombudsman) and other organisations (for example, the Diversity Council of Australia, the ACTU and the Australian Institute of Management) seek to promote flexible work and other family friendly arrangements for employees (Women and Work Research Group, sub. DR800, p. 7).

However, in two reports in 2012 on the right to request flexible working arrangements and on individual flexibility arrangements, the then Fair Work Australia (now the Fair Work Commission) reported the results of a survey of some 2650 employers and 4500 employees that indicated there were issues around the awareness and use of the provisions (O’Neill 2012a, 2012b).

- In relation to the right to request, the survey reported moderate awareness among employers (66 per cent) and employees (51 per cent).
- The exercise of the right was very low (6 per cent of employees), was mainly by women (76 per cent of those exercising the right), and was mainly for the purpose of caring for a child at home (61 per cent of those exercising the right).
- Of those who wanted to change their arrangements but did not exercise a right to request (19 per cent of employees), many (34 per cent) were concerned about the negative implications on employment, their relationship with the employer, or the workplace.

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- In relation to individual flexibility arrangements, the survey reported lower awareness than that of the right to request (54 per cent of employers and 35 per cent of employees). There was also lower use of the arrangements by both employers (15 per cent) and employees (7 per cent).
 - The main source of awareness for employers and employees of the right to request and individual flexibility arrangements were employer and employee associations, the Fair Work Ombudsman/(the then) Fair Work Australia, and media.

The Fair Work Ombudsman, which has a role in educating people about their workplace rights and obligations, has undertaken several measures to improve awareness amongst employers and employees about the flexible work requirements under the Fair Work Act. Through its website, it provides information on flexible work requirements under the Act as well as a ‘workplace online learning centre’ that offers courses for employees and employers such as on ‘difficult conversations in the workplace’. Also, as noted earlier, the AHRC has received funding to develop a resource kit for employers and employees with respect to managing pregnant women and parents’ return to work.

Although better information by the Fair Work Ombudsman and other organisations may help address low awareness and usage of flexible work requirements and entitlements, a more intractable problem is the attitudes held by employers and employees, particularly male employees, towards flexible work.

As noted earlier, the AHRC survey of 2000 mothers and 1000 fathers reported the main types of discrimination experienced by fathers (and same sex partners) related to negative attitudes from colleagues or managers/employers as well as to flexible work (AHRC 2014, p. 49). Also, the CareforKids.com.au annual survey of some 2000 parents reported that, when asked how employers colleagues treated working fathers, 35 per cent said they were pretty flexible and treated fathers and mothers the same, but 42 per cent said that employers and colleagues were ‘less flexible’ with fathers than mothers, and 6 per cent said colleagues were ‘less understanding than employers’.

Addressing attitudes to flexible work requires more than providing information to relevant parties. An innovative approach is required.

RECOMMENDATION 6.2

Employer and employee associations, the Fair Work Ombudsman, the Australian Human Rights Commission and the Workplace Gender Equality Agency should all trial innovative approaches to:

- increase awareness about legal rights and obligations with respect to flexible work
- promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements.

It may well be that, as one participant put it, addressing attitudes among employers and employees to flexible work requires actions extending beyond what can be done by employer and employee associations, the Fair Work Ombudsman, the AHRC, and the Workplace Gender Equality Agency.

Strengthening the right to request flexible work provisions

As noted earlier, unless there is an agreement by the parties, an employee is not able to appeal to the Fair Work Commission to review whether their employer had reasonable business grounds to refuse a request for flexible working arrangements.

The AHRC pregnancy and return to work national review (AHRC 2014) recommended that the Government strengthen the ‘right to request’ provisions under the Fair Work Act, particularly by:

- introducing a ‘positive duty on employers to reasonably accommodate a request for flexible working arrangements’
- establishing a procedural appeals process through the Fair Work Commission for decisions related to the right to request flexible working arrangements to ensure processes set out in the Act have been complied with (AHRC 2014, p. 12, rec. 3).

Several participants (the ACTU, sub. 167 and trans., p. 114, Melbourne, 18 August 2014; Baird, trans., p. 7, Canberra, 25 August; Doutney, sub. DR510; Police Federation of Australia, trans., p. 49, Canberra, 26 August; Women and Work Research Group, sub. DR800; Unions NSW, sub. DR839; Workplace Gender Equality Agency, sub. DR829) supported strengthening the legal requirements around flexible working arrangements, such as by introducing an appeals mechanism. For example, the ACTU considered that education and cultural change was not enough ‘without the laws to lead that’:

... and so we’ve been advocating for a long time that there needs to be an obligation on employers to reasonably accommodate the request, if they can’t that’s fine but they at least need to try. (trans., p. 114, Melbourne, 18 August 2014)

The Workplace Gender Equality Agency suggested:

[e]xpanding the Fair Work Act provisions to ensure that requests for flexible work can only be refused on more clearly specified grounds Including a process of appeal for employees who feel their requests have been unfairly refused would also help to incentivise both employees to request and employers to more carefully consider their reasons for refusing. (sub. DR829, p. 2)

However, the Ai Group observed that the intention of the right to request provisions were to ‘facilitate discussions and agreement between employers and employees about flexible work arrangements, rather than imposing arrangements on employers’ (sub. DR735, p. 5):

The best flexible work arrangements for working parents are not ones mandated by regulation or through prescriptive processes, but come from a genuine desire from business and employees to work co-operatively, understand the other’s interests, and to keep the

employment relationship going. Flexible work arrangements for working parents should be, and often are, a positive experience for both sides. (sub. DR735, p. 6)

There may also be added compliance costs for businesses from strengthening the right to request provisions. The Chamber of Commerce and Industry Queensland (sub. DR870) noted that some employers already have limited operational capacity to offer greater flexibility. This was acknowledged by participants such as the Workplace Gender Equality Agency (sub. DR829) and the Police Federation of Australia (trans., p. 50, Canberra, 26 August 2014).

... employers may not be able to accommodate flexible work; they may not be able to afford it; and they lack incentives to make any effort to introduce it. The first two of these concerns are primarily focused on potential costs to the business of accommodating flexible working arrangements. For example, there may be recruitment costs if a full-time employee shifts to part-time work, or there may be overtime costs if one employee is asked to cover time when another is absent due to flexible work arrangements. The need to adjust schedules and work patterns to accommodate flexible work is also noted as a potential extra administrative cost. (Workplace Gender Equality Agency, sub. DR829, p. 2)

The stated intention of the right to request flexible working arrangements provisions in the Act was to 'promote discussion between employers and employees about the issue' (explanatory memorandum, Fair Work Act Bill 2008). The Discussion Paper on the Exposure Draft of the National Employment Standards noted that where a business had reasonable business grounds for refusing a request for flexible working arrangements there would be no third party involvement (DEEWR 2008, p. 10). It pointed to the UK experience, which showed that simply encouraging employers and employees to discuss options for flexible working arrangements had been successful in promoting arrangements that work for both employers and employees. The need for an appeal mechanism was considered and then rejected by the Post Implementation Review of the Fair Work Act in 2012. The Review Panel said:

Given that the policy rationale of the provision is to facilitate discussion about flexible working arrangements, the Panel is not convinced on the weight of evidence that the policy is currently not meeting its objective ... (McCallum, Moore and Edwards 2012, p. 98)

Strengthening legal requirements along the lines recommended by the AHRC may help employer provision and employee uptake of flexible work arrangements through improved awareness. It may also improve the incentives for employers to provide flexible work arrangements. However, strengthening legal requirements may also impose added compliance costs for some, particularly smaller employers who are not able to accommodate flexible work requests. It may also involve additional administration (monitoring and enforcement) costs for the Australian Government.

Addressing impediments facing employers in offering flexible work arrangements

In the draft report, the Commission sought information about impediments facing employers in offering flexible work arrangements.

A number of participants, as noted above, said that some employers have limited operational capacity to offer flexible work arrangements, or have no incentive to do so given the extra costs (Chamber of Commerce and Industry Queensland, sub. DR870; Workplace Gender Equality Agency, sub. DR829).

The Workplace Gender Equality Agency considered this issue could be addressed by strengthening the incentives facing employers to providing flexible working arrangements (sub. DR829, p. 2). The incentive could be positive (such as through a tax break) or negative (such as by strengthening legal provisions around flexible work arrangements and penalising employers for non-compliance).

A number of participants also noted regulatory impediments created by the Fair Work Act itself (Ai Group, sub. DR735; Chamber of Commerce and Industry Queensland, sub. 245 and sub. DR870; Little Explorers Childcare Centre, sub. DR494). The Ai Group noted that the impediments to employers providing flexible work arrangements to employees include:

- A lack of clarity about how the Better Off Overall Test operates for Individual Flexibility Arrangements (IFAs) made under flexibility terms in awards and enterprise agreements; in particular, whether non-monetary benefits to employees can be taken into account when determining whether an employee is better off. Another problem is the capacity for collective agreements to block the provisions of meaningful flexibility to individual employees through IFAs. The Fair Work (Amendment) Bill 2014 which is before Parliament addresses these problems.
- There are still a few modern awards which do not provide for part-time employment, notwithstanding the right to request part-time work for eligible employees in the National Employment Standards. Other awards have unduly inflexible part-time and/or casual provisions. (sub. DR735, p. 5)

The Chamber of Commerce and Industry Queensland considered that the Fair Work Amendment Bill would enable employers, particularly small to medium sized employers, to negotiate under an individual flexibility arrangement a non-monetary benefit on an employer in exchange for a monetary benefit (sub. DR870).

It is unclear whether the benefits of introducing positive or negative incentives (such as suggested by the Workplace Gender Equality Agency) would exceed the costs of their implementation. However, the Commission considers there is merit in governments reviewing any regulation that has the potential to impede employers from offering flexible work or other family-friendly arrangements.

The Paid Parental Leave scheme

The existing Paid Parental Leave scheme introduced in January 2011 provides eligible employees government-funded Parental Leave Pay at the national minimum wage for a maximum period of 18 weeks. There is an income test to access the scheme of \$150 000 a year. ‘Dad and (same sex) Partner Pay’ introduced in January 2013 provides eligible working fathers and partners up to 2 weeks government-funded pay at the national

minimum age on a use it or lose it basis. The scheme is fairly close to that designed by the Commission for the Australian Government in 2009 (PC 2009).

The major objective of the scheme is to support the welfare of the infant and mother after birth, by enabling the temporary withdrawal of working mothers, while maintaining their link to the workforce.

The Australian Government completed a review of the enabling legislation for the scheme (DSS 2014), which also incorporated an evaluation of the scheme.²⁶ The main findings of the review and evaluation, noted earlier in section 6.2 were that the scheme delayed mothers' return to work and had a strong impact on mothers on lower incomes.

The Australian Government has proposed a new Paid Parental Leave scheme (DSS 2013a) that would be more generous to many mothers. It is proposing from 1 July 2015 to give eligible working parents access to 26 weeks of parental leave pay at a rate based on their wage (subject to a \$100 000 cap) or the national minimum wage, whichever is the greater. The quarantining of 2 weeks paid parental leave to fathers and (same sex) partners is removed. The scheme will also provide for superannuation contributions.

The Government's proposed new scheme has been costed at around \$5.5 billion per annum compared with the \$2 billion current scheme. A number of participants, the National Commission of Audit, and various commentators suggested that childcare is a greater barrier to returning to work for mothers than the availability of paid parental leave and, on that basis, that at least some of the funding for the Government's proposed changes to the scheme be diverted to funding childcare (box 6.11).

The main benefits of a Paid Parental Leave scheme are most likely to be that less well-educated and lower skilled women can take more time off to look after their baby, and return to work at a time that is better for both them and their baby. Low income women and their families have less recourse to savings and cannot necessarily support themselves on a low single income, thus hastening mothers' return to work. Low income women and their families also face the greatest barriers to work given the incentives created by the welfare system.

As the current scheme is largely consistent with that designed by the Commission to maximise net benefits to the community, it seems unlikely that the proposed scheme would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. Consequently, the Commission considers the Government's workforce participation objectives might better be achieved through ECEC than through an expansion of the Paid Parental Leave scheme.

²⁶ As well as a legislative review of the scheme, the Department of Social Services commissioned an evaluation of the scheme to be conducted across four phases to assess the outcomes of the scheme. The results of the first two phases of the evaluation have been published (Martin et al. 2012, 2013). They involve the provision of baseline data of work and family life before the introduction of the scheme and an examination of the implementation of the scheme and the scheme's early impacts on parents and employers. Reports on the third and four phases of the evaluation are expected to be completed in 2014.

Box 6.11 Views on diverting funding of proposed changes to the Paid Parental Leave scheme to the ECEC system

Most industry groups argued that expanding the Paid Parental Leave scheme will do little to improve workforce participation. For example, the Australian Chamber of Commerce and Industry:

... believes that improve [sic] childcare arrangements will have a far greater impact on female participation than the paid parental scheme ... it would be far better to reduce the overall cost of PPL [Paid Parental Leave] and redirect some of the investment into better childcare outcomes. (sub. 324, p. 8)

While the Australian Industry Group reports its members as saying:

... it is access to childcare rather than the generosity of the National PPL [Paid Parental Leave] scheme ... that is the main impediment to greater workforce participation ... (sub. 295, p. 8)

More generally, ECEC is viewed as a priority relative to paid parental leave. Early Childhood Australia cite a Galaxy poll August 2013 that found:

... nearly 70% of individuals surveyed thought affordable early education is more important than PPL [Paid Parental Leave] to young families ... (sub. 383, p. 62).

The National Foundation of Australian Women reported:

We are confident that were the Government to modify its proposed changes to paid parental leave, so as to free up some of the proposed additional expenditure, and instead invest those \$ in the child care sector, there would result greater user satisfaction and measureable improved workforce attachment. (sub. 59, p. 3)

And getting to the heart of the matter, the Guardian Early Learning Group question:

Is it the best allocation of resource to invest \$5 billion into maternity leave when it is clear that a reallocation of perhaps half this money into the childcare sector would have a great economic benefit? (sub. 274, p. 4).

FINDING 6.6

Based on analysis in the Productivity Commission's 2009 inquiry on *Paid Parental Leave: Support for Parents with Newborn Children*, it is unlikely that the Government's proposed changes to the Paid Parental Leave scheme would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. If the Government is seeking increased workforce participation, this may be achieved more effectively through additional funding of ECEC than through the modification of the Paid Parental Leave scheme.