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The Productivity Commission

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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

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

VOLUME 2

Part D: Funding, impacts and implementation

These appendixes are available from the Commission's website (www.pc.gov.au).

Acknowledgments

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

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Education and Care Quality Authority, and State and Territory Governments, including through the provision of unpublished administration data and helpful responses to many questions about existing arrangements.

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.

PART C: EVALUATION AND OPTIONS FOR IMPROVEMENT

7 Regulation of ECEC providers

Key points

- Governments regulate ECEC to ensure minimum standards and assist parents in evaluating quality. The cumulative impact of ECEC regulation is considerable.
- There is broad support for the National Quality Framework (NQF), which has established a minimum national standard for ECEC and is acknowledged as improving the quality of care provided.
  - It has reduced some regulatory burdens for providers, but the overall burden could be further reduced without detrimentally affecting the quality of care provided. This could be achieved by:
    - simplifying the National Quality Standard, while remaining conscious that the sector has recently adapted to new requirements and any changes should be implemented at an appropriate pace
    - tailoring requirements that are currently in excess of those needed to ensure acceptable quality, so they are more appropriate to the nature of the care provided (such as by removing child-based reporting for outside school hours care services)
    - adopting the national requirements in jurisdictions that currently mandate staff ratios and qualification requirements that are stricter than those prescribed under the NQF.
- The scope of the NQF should be extended to include all services that receive Australian Government subsidies as soon as practicable, with suitable tailoring of requirements.
- Qualification requirements for centre-based services should be amended so that services have the flexibility to determine a sufficient number of diploma qualified staff for children aged under 36 months, rather than this number being prescribed. The number of early childhood teachers required is based only on the number of children aged over 36 months. Staff ratios for home-based services should be amended to allow educators to care for more children when all children in care are aged over 24 months. National requirements should be developed for school age children.
  - National staff ratios and qualification requirements should be reviewed as evidence emerges on their appropriateness.
- Quality assessment and ratings processes need to be urgently revised:
  - changes should be made to how a service's overall rating is determined to ensure it more accurately reflects service quality
  - the pace of assessments must be increased.
- There is scope to reduce the burden of state and territory regulations by harmonising 'working with children checks' and streamlining food safety requirements.
- Local government planning regulations (such as limitations on service size and parking requirements) can reduce the viability of ECEC services. Planning requirements should specifically allow for convenient siting of future ECEC services, such as close to schools or other community facilities. Local governments should not regulate building interiors or children's outdoor areas within the property.

7.1 Rationales for regulating ECEC

There are two key rationales for regulating ECEC:

- ensuring that minimum quality standards are maintained across all services to safeguard children's safety and improve developmental outcomes
- supporting family decisions through the provision of information — helping reduce the asymmetry between families and service providers by making it easier to determine service quality; thereby also acting as an incentive for services to provide higher quality care.

By supporting these rationales, regulations also help ensure that taxpayer funds are efficiently spent (on care that is of acceptable quality).

Minimum standards should include requirements that are essential to operating an ECEC service, such as required outcomes of educational programs, and standards that are likely to alleviate substantial risks for children, such as those relating to health and safety and the physical environment.

Such standards should be strictly enforced — that is, failure to comply with a minimum standard should attract a penalty corresponding to the significance of the non-compliance, with the service's licence revoked in the most extreme cases. Enforcement of such standards gives families confidence in the quality of ECEC services by providing an assurance that their children will be safe and their basic educational needs will be met.

Governments may then also choose to introduce further measures that are not essential to the operation of a service, such as a quality rating system, to help inform families of ECEC quality beyond these minimum standards (and therefore improve the operation of the ECEC market). In such a system, services have the option to offer higher quality care and families can choose to seek out such services. By making it easier for families to identify higher quality services, a regulatory system that includes information provision mechanisms can also provide an additional incentive for services to exceed minimum quality standards.

In addition to national regulations, ECEC services are also affected by additional state and territory and local government regulations (figure 7.1). The remainder of this chapter explores both the core national regulations (section 7.2), which include enforceable standards and a quality rating system, and a selection of other state and local regulations affecting ECEC services (section 7.3).

Figure 7.1 **Broad types of regulations affecting ECEC services**

National regulations	• The National Quality Framework (discussed in section 7.2 and appendix F)[a] • Family Assistance Law Requirements (discussed in chapter 10) – operational requirements for services approved to receive Government assistance • Other standards and licensing • for some Budget Based Funded services
State and territory government regulations (discussed in section 7.3)	• Education legislation – for some preschools (particularly those attached to schools) • Other standards and licensing for: – some Budget Based Funded services – some other services outside Australian Government funding arrangements • Child protection (background checks for educators) • Food safety
Local government regulations (discussed in section 7.3)	• Planning and zoning – Locational criteria – Parking requirements – Noise restrictions – Size and operational restrictions

[a] The National Quality Framework, while implemented nationally, is established by laws enacted in each state and territory.

7.2 The National Quality Framework

The National Quality Framework (NQF) — further details in appendix F — is the most significant suite of regulations affecting the ECEC sector. It sets the minimum standards and establishes a ratings system for most long day care (LDC), family day care (FDC), preschool and outside school hours care (OSHC) services in Australia.

The NQF has been in operation since 2012 and most aspects have been generally positively received by ECEC stakeholders. A summary of findings from consultations with more than 2 000 interested parties (including ECEC providers, peak ECEC bodies and organisations and parents) for the 2014 National Quality Framework Review (discussed later) found:

> The majority of stakeholders believe the implementation of the National Quality Framework has resulted in improved quality of early childhood education and care across the sector …
>
> Respondents from the sector felt the National Quality Framework has enhanced the professionalisation of the workforce due to the qualification requirements and the increased focus on ongoing professional learning and development and reflective practice.
>
> While families' awareness of the National Quality Framework was extremely limited, those who were consulted supported the goal of the National Quality Framework to increase the quality of education and care within a nationally consistent sector. (Woolcott Research 2014, p. 4)

Inquiry participants (for example, Guardian Early Learning Group, sub. 274; UnitingCare Children's Services, sub. 326; Early Childhood Australia, sub. 383; Helen Dalgleish, sub. 56; Denise Harden, sub. 105) also expressed support for the NQF.

The introduction of the NQF reduced some regulatory burdens for ECEC providers, particularly by lowering overlap between separate jurisdictional regulations. However, many in the sector have raised concerns regarding the compliance costs resulting from, and administration of, some aspects of the NQF (such as Goodstart Early Learning, sub. 395; who are otherwise broadly positive about its implementation). These concerns particularly relate to administrative burden and inconsistency in assessments (see for example, Minister's Education and Care Advisory Council, Tasmania, sub. 290; Australian Childcare Alliance, sub. 310).

Although the NQF was developed over a number of years by the Council of Australian Governments (COAG) and a regulatory impact analysis was conducted to consider its costs and benefits, the net benefits of the reforms have not been clearly established. This is because a key challenge with ECEC policy is that the benefits of regulations in the sector are difficult to reliably quantify (box 7.1). Notwithstanding this challenge, the COAG regulatory impact statement for the NQF concluded that it will deliver net benefits over the long term:

> A definitive assessment of the net impacts … is clearly impeded by the inability to reliably quantify the benefits of the proposed reforms. … [W]hile a reliable quantitative analysis of the net benefits is not possible, it is the expert view of the NECDSC [National Early Childhood Development Steering Committee] that the reforms will deliver net benefits over the long term. (2009e, p. 55)

Given the substantial costs of the NQF (box 7.1) and the difficulty of reliably quantifying benefits, it is important to examine claims of undue regulatory burden in the sector and determine the potential to reduce this burden in a manner that does not significantly impact on the quality of education and care provided. Some in the sector have suggested that reform of the National Quality Standard (NQS) should not be considered before all services have been assessed and rated. However, the Commission is of the strong view that the process of considering and implementing changes to the NQS should begin now since, as noted by ACECQA (sub. DR641), the process of securing agreement from governments and making any necessary amendments to the National Law or National Regulations means that changes would likely not come into effect until 2016 — by which time most services will have been assessed and rated.

The NQF encompasses a number of elements, each of which will be considered below:

- the National Quality Standard
  - including staffing requirements (educator-to-child ratios and qualification requirements), which will be considered in a separate section of this chapter
- the assessment and rating process
- administrative requirements
- the exclusion of some service types.

Box 7.1 Quantifying the net benefits of the NQF

Benefits

The benefits of regulating ECEC generally relate to children's developmental outcomes, are challenging to quantify, and also appear to vary substantially. Influences on benefits include not only aspects relating to ECEC services (such as the educational program, staffing arrangements, environment etc.), but also a range of other family and child related factors (chapter 5). The precise way in which aspects of ECEC provision affect these benefits is largely unclear. As stated by COAG:

> It needs to be noted that while research has shown that certain [ECEC] programs have returned positive cost benefit results, there is as yet insufficient information to conclude which aspects or characteristics of a program underlie this success, in particular in relation to experience prior to kindergarten. (COAG 2009e, p. 50)

Costs

In contrast, the incremental cost of the reforms — that is, the additional cost imposed on top of previously existing regulatory costs — are easier to quantify and were estimated to be $1.6 billion over 10 years, measured in 2009 dollars, mostly due to increased staffing costs (COAG 2009e, p. 55). The former Australian Government Department of Education, Employment and Workplace Relations estimated that parents will bear approximately 50 per cent of this cost, the Commonwealth Government 47 per cent, and services, their staff and state and territory governments the remaining 3 per cent (COAG 2009e, p. 41).

Source: COAG (2009e).

In parallel with this inquiry, there are additional review processes being undertaken by the Australian Children's Education and Care Quality Authority (ACECQA) and the Australian and state and territory governments (the 2014 Review of the NQF) (box 7.2). Where possible throughout the inquiry, the Commission has taken the streamlining work of ACECQA into account, and also understands that this inquiry will inform the further work of ACECQA and the 2014 Review of the NQF.

Box 7.2 2014 Review of the NQF and ACECQA's streamlining work

The 2014 Review of the NQF

The arrangements of the National Partnership Agreement (NPA) on the National Quality Agenda for Early Childhood Education and Care (the agreement between the Commonwealth, states and territories to implement the NQF) are to be reviewed every five years, beginning in 2014.

The 2014 review aims to assess whether the objectives and outcomes of the NPA have been achieved and consider whether further changes should be made to ensure its objectives can be achieved in the most practical and effective way. The review will examine, among other matters:

- whether the NQF has improved the efficiency and cost-effectiveness of the regulation of services
- whether the NQF has reduced the regulatory burden for providers and regulatory authorities
- the effectiveness of the assessment and rating process
- governance arrangements for the NQF, including the role of ACECQA.

ACECQA's streamlining process

In addition to the above review, the Commission understands that ACECQA will continue to explore ways to streamline the NQF's assessment and ratings processes (some changes have already been made, discussed below). Changes to these processes can be made easily, since they do not require amendments to the National Law or National Regulations.

The National Quality Standard

The National Quality Standard (NQS, box 7.3) and the associated quality ratings system establish a benchmark for the quality of ECEC services that fall under the NQF (detail in appendix F). There appears to be widespread recognition that the regulatory burden on services could be further reduced by streamlining the NQS (as noted in ACECQA 2013i) (box 7.4) and removing or altering individual elements of the NQS that are unnecessarily burdensome. This section also explores ways to tailor the NQS to different service types, where doing so will not reduce regulatory effectiveness or net benefits for the community. Adopting the changes proposed in this section, and those relating to staff ratios and qualification requirements in the next section, will reduce unnecessary red tape for services and make assessment an easier process for both services and regulators.

Box 7.3 The National Quality Standard

The NQS groups standard for ECEC into seven broad 'quality areas' (QA):

- educational program and practice (QA1)
- children's health and safety (QA2)
- physical environment (QA3)
- staffing arrangements (QA4)
- relationships with children (QA5)
- collaborative partnerships with families and communities (QA6)
- leadership and service management (QA7).

Simplifying the NQS while maintaining net benefits to the community

The Commission understands that the 2014 Review of the NQF will be exploring ways to simplify the NQS. The Commission has sought in this report to identify an appropriate framework and underlying principles for simplifying the NQS that can inform the review process and guide reforms.

To be worthwhile, any process of simplifying the NQS must result in net benefits to the community (box 7.4). The Commission agrees with ACECQA's contention that the NQS can be simplified without compromising the integrity of the rating instrument:

> Simplifying the NQS would have a direct measurable benefit to providers, educators and the state and territory governments in reduced paperwork, compliance costs and administration overheads.
>
> … ACECQA contends that NQS simplification must and can maintain the benefit to children, and the NQF's focus on improving service quality while reducing paperwork.
>
> … Feedback from regulatory authorities is that some features of the NQS could be removed or modified without compromising the instrument's benefit to children and families. (2013i, p. 11)

Simplifying the NQS could involve either removing or amending some elements (the types of elements that may be appropriate to change are discussed below). On balance, the Commission considers that removing elements, where possible, is preferable to amending them because this makes the process of simplifying the NQS straightforward and allows for consistency between past and future ratings; since past ratings can be amended to not include any elements that have been removed. This is not to say, however, that amending some elements should not still be considered as a feasible option.

Box 7.4 Potential benefits of simplifying the NQS

- Reduction in the time and effort involved in preparing and maintaining Quality Improvement Plans (which must be linked back to the NQS) and preparing for quality assessment visits.
- Reduction in the number of times service policies and procedures must link to the NQS, reducing the volume of paperwork.
- Reduction in the resources regulatory authorities require to conduct a quality assessment and rating cycle of all services.
- Reduction in the complexity of individual rating visits; making it easier to more consistently assess services and provide useful feedback and reducing the time it takes to do so.
- Reduction in the volume and complexity of professional development, training and guidance materials for providers, educators and state and territory regulatory staff.
- Increased focus of providers and educators and time spent on those standards that contribute most benefit to children.
- Ratings are made 'fairer' by removing unnecessary elements, since not meeting one element results in a lower overall rating (discussed later in the chapter).

Source: Adapted from ACECQA (2013h).

When considering ways to simplify the NQS, policy makers should also remain conscious that the sector has recently adapted to the NQS and any changes should be implemented at an appropriate pace that ensures excess burden is reduced as soon as practically possible, while avoiding reform fatigue.

Elements that could be removed from the NQS are those that do not align with the rationale for the NQS (that is, they do not assist in ensuring minimum quality standards and/or provide no or limited benefit to families because they do not provide useful information about quality that reduces the information asymmetry between families and services), in particular elements that:

- are not reflective of the quality of care for children (for example, elements relating to a service's 'sustainability', discussed in box 7.5)
- have little or no measurable significance to the service's quality area or overall rating levels (that is, their removal would not compromise the integrity of the information provided to families)
- reflect minimum standards in the National Regulations (that is, they represent the standard practice of all services and are therefore separate from the quality rating instrument).

While some of the elements identified through these three approaches may not be particularly complex or impose a significant cost on services, simplifying the NQS aims to address the issue of *cumulative* burden; meaning any element that imposes a cost on services while providing limited or no benefits should, as far as practicable, be removed where this will result in net benefits to the community.

Box 7.5 Sustainability elements in Standard 3.3

There are two elements in the NQS that relate to sustainability and environmental practices:

- Standard 3.3 — The service takes an active role in caring for its environment and contributes to a sustainable future.
  - Element 3.3.1 — Sustainable practices are embedded in service operations.
  - Element 3.3.2 — Children are supported to become environmentally responsible and show respect for the environment.

While some stakeholders expressed support for these elements (for example, UnitingCare Children’s Services, sub. 326), many submissions argued that they should be removed. Submissions claimed that these elements are:

- too subjective and therefore challenging to comply with (for example, St Leonards Primary School Out of School Hours Care, sub. 110; Montessori Australia Foundation, sub. 357)
- unnecessarily adding to the cumulative burden on services because they do not directly relate to the quality of the service (for example, Centre Support Pty Ltd., sub. 268; Australian Childcare Alliance, sub. 310) — that is, sustainability in ECEC services is not something that should be regulated by government.

The following view reflects such concerns:

> Educators are finding they are diverting their attention away from actually engaging with the children to planning how they are going to ‘engage’ the broader community in their sustainability program. Assessors are rating services low in this area even though services are connecting with recycle agencies, water authorities and such. There are no set bench marks or stated criteria that educators can draw upon as a basis for this element and this is causing a great deal of angst. (Australian Childcare Alliance, sub. 310, appendix 2, pp. 4-5)

Over one-fifth of all services do not meet at least one of the sustainability elements (and therefore receive a Working Towards NQS rating for Standard 3.3) (ACECQA administrative data, 20 January 2014). The proportion of services not meeting these two elements is a cause for concern, given the way that a single unmet element can lower a service’s overall rating (discussed later in the chapter).

Tailoring elements of the NQS to different service types

The Commission considers that some NQS elements are not appropriate for all service types. In particular, given that children attending OSHC will spend, or will have spent, a full day in a formal schooling environment with a degree qualified teacher, it seems excessive to require OSHC (or vacation care) services to develop and document a curriculum and record educational outcomes for every child — especially considering that many children may be in care for as little as one hour per session and may only attend sessions sporadically. As noted by the Maitland Baptist Church:

> … the educational and child-based reporting requirements are impossible to implement [in OSHC] due to the many and varied times that children come and go and as parents pick up and drop off. (sub. 480, p. 7)

This view has been repeated in numerous submissions (for example, AlburyCity OOSH Services, sub, DR746; YWCA Australia, sub. DR752) and is supported by research conducted by ACECQA (2013h, p. 18, appendix D), which indicates that many educators in the OSHC sector perceive themselves as primarily offering 'care' rather than 'education'. ACECQA notes that:

> … some OSHC providers thought that educational programming and documentation requirements were not appropriate to the specific characteristics of OSHC. … This finding was also supported by open-ended feedback obtained through the perception survey [conducted by ACECQA for the *Report on the National Quality Framework and Regulatory Burden*], which indicated a perception that documenting children's learning is impractical due to the large numbers of children enrolled at the services for relatively short periods of time, and the higher turnover of staff in the sector. (2013i, p. 14)

The Commission considers that some requirements relating to educational programming should not apply to OSHC (and vacation care) services. These include at least all elements of, and regulations associated with, QA1 (educational program and practice) (box 7.6). Since educational programming represents the largest ongoing administrative cost related to the NQF (ACECQA 2013h), removing or modifying these requirements should significantly reduce the regulatory burden on OSHC and vacation care services. In addition, some elements of QA6 (collaborative partnerships with families and communities) appear to reflect services and responsibilities that a school is likely to already provide and should similarly not apply to OSHC and vacation care services (box 7.6). This does not mean that these services should not strive to deliver outcomes associated with these elements; simply that governments should not require them to do so.

Box 7.6 **NQS elements that should not apply to OSHC services**

QA1

Services should still be expected to use the My Time, Our Place framework for school age care to help guide a play-based educational program. However, elements of QA1 should be removed or significantly altered in a way that means services are not required to provide child-specific documentation and programming. This requirement appears to be the underlying source of administration costs associated with QA1 and, given the relatively informal and sometimes sporadic nature of the care provided and short care sessions, unnecessary for OSHC services.

QA6

Further to these educational elements, a number of elements in QA6 appear to reflect services and responsibilities that a school is likely to already provide:

- Element 6.2.2: Current information is available to families about community services and resources to support parenting and family wellbeing
- Element 6.3.1: Links with relevant community and support agencies are established and maintained
- Element 6.3.4: The service builds relationships and engages with the local community.

In addition to elements in QA1 and QA6, the Commission has heard anecdotal evidence of some OSHC and vacation care services (particularly the latter) struggling to meet the physical environment requirements of the NQS (QA3), especially where they operate on school grounds and have to share facilities or otherwise do not have complete control of their facilities. For example, services may not receive permission from schools to build a garden or implement a recycling program, and therefore find it difficult to meet sustainability requirements. The Commission has also heard that some services find it difficult to display required signage for similar reasons. Governments should consider whether these elements of the NQS should also be tailored for OSHC services.

As well as tailoring the NQS to suit OSHC and vacation services, policy makers should appropriately tailor requirements for any new services that might be brought under the scope of the NQF (discussed later in the chapter). The Commission has not heard significant concerns regarding the application of the NQS to FDC services (excluding staff ratios, discussed below), however further tailoring for these services should not be ruled out.

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 7.2

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.

Staff ratios and qualification requirements

The NQF imposes minimum educator-to-child ratios (staff ratios) and qualification requirements for services caring for children under school age, which vary between centre-based and family day care services (detail in appendix F). The key policy challenge regarding these ratios and qualifications is that it is impossible to tell whether they have been set at appropriate levels. This is because there is limited evidence to support specific settings for these requirements or to reliably quantify their benefits. As stated by COAG:

> … the optimal standard for these variables [qualification levels and staff ratios] and the quantitative difference in educational outcomes associated with different levels is unclear.
>
> … It is worth highlighting that the research on the effect of child care quality on children's educational outcomes does not distinguish between different starting points for the improved

> ratios. That is, it says nothing about the relative benefits of an improvement in staff-to-child ratios from 1:5 to 1:4 versus a subsequent move from 1:4 to 1:3. (COAG 2009e, p. 98)

Warren and Haisken-DeNew (2013) — in a study that provides direct comparisons of the effect of the type of qualification held by pre-school teachers on later cognitive outcomes — found that average National Assessment Program – Literacy and Numeracy (NAPLAN) scores were highest among children whose preschool teacher had a diploma level qualification; and the difference between these scores and those of children whose teacher held a degree level qualification were not statistically significant. They also noted that:

> … recent studies of the relationship between pre-school teacher qualifications and children's cognitive outcomes have found contradictory results, and there is no conclusive evidence that a teacher with a Bachelor degree, or any other specific level of education, will ensure a high-quality pre-school classroom or better cognitive outcomes. (Warren and Haisken-DeNew 2013, p. 9)

These general concerns also extend to determining staff ratios and qualification requirements for specific aspects of ECEC, such as for different age groups (chapter 5 and below) or service types (such as family day care, discussed below).

The inability to distinguish the benefits of variations in staff ratios and qualifications is of significant concern, since the vast majority of the additional costs attributable to the NQF are as a result of changes to these requirements (labour costs, discussed in chapter 9 and appendix H, represent around 60 per cent of services' operating costs). Some providers have suggested (see for example, Bankstown Family Day Care Co-op. Ltd., sub. 150; City of Sydney, sub. 196; Australian Childcare Alliance, sub. 310; Merindah Children's Centre, sub. 370) that these costs may cause some services to change their structures, in particular by reducing the number of places available for children aged birth to two — potentially reducing the availability and accessibility of ECEC places for this age group in some areas.

Governments should continue to investigate whether staff ratios and qualification requirements have been set at appropriate levels; recognising that requiring specific ratios and qualifications sets an enforceable minimum standard for the sector. While higher ratios and qualifications than those currently in place may be desired by some stakeholders in the sector and may bring increased benefits to the community, imposing them on the entire sector is likely to result in costs that substantially outweigh these benefits. It should be left up to ECEC providers to decide whether they wish to incur the additional costs associated with exceeding minimum standards in order to position themselves as a 'higher quality' provider.

Staff ratios for home-based care services

A number of submissions raised concerns relating to staff ratios for family day care services (box 7.7).[1] These concerns related to the way in which centre-based ratios appear to have been applied to the family day care setting without consideration as to their appropriateness, and how family day care ratios are less flexible than those for centre-based services.

Box 7.7 **Participant's views on staff ratios for family day care services**

The NSW Family Day Care Association noted:

> There is no research that states what the optimal ratios of children to educators are in our settings. In the absence of this research … [research findings for centre based care settings] have been extrapolated and imposed on Family Day Care services, without the evidence of whether these are required or are optimal. …
>
> … This change seems hard to justify in the absence of research and when many Family Day Care services are already exceeding the NQS with current child numbers. (sub. 253, pp. 6, 9)

Ian Wark, an FDC educator, argued that changes should be made to family day care staff ratios:

> While maintaining the 1:7 ratio for FDC for children from birth to 13 years, we urge the Government to allow FDC a 1:5 ratio for children preschool age or under with a 1:4 ratio for children 24 months and under. The difference may sound small, but it would have a transformative effect on the ability of FDC educators to provide both more care and much more affordable care. (sub. 475, p. 1)

The Commission sympathises with these concerns and — in addition to calling on governments to investigate whether staff ratios and qualification requirements have been set at appropriate levels — proposes that staff ratios for home-based care services should be amended as shown in table 7.1, to closer reflect acceptable standards for centre-based services.

Table 7.1 **Proposed staff ratios for home-based care services**

Age	*Proposed ratio*	*Current ratio*
All children	1:7	1:7
Children aged 25 months to preschool age (if no other children being cared for are aged birth to 24 months)	At most 5 children aged 25 months to preschool age	At most 4 children under preschool age
If at least one child aged birth to 24 months	At most 4 children under preschool age	At most 4 children under preschool age

1 Note that In Home Care services currently operate under the same ratios as FDC services.

The Commission also notes that is has received anecdotal evidence from a small number of stakeholders suggesting that governments should implement prescriptive minimum ratios for the number of home-based coordinators to educators (the National Regulations allow services the flexibility to determine a ‘sufficient’ number of coordinators). However, the Commission has received no systematic evidence that this is a widespread concern in the sector.

Qualification requirements for children aged birth to 36 months

In the inquiry draft report, the Commission recommended that educators working with children aged from birth to 36 months only be required to hold a certificate III or equivalent as there is an absence of consistent evidence that higher qualifications of staff improve child development outcomes for this age group.

Many participants (educators, academics, parents and providers) expressed concerns at this recommendation pointing to the benefits of having qualified childhood teachers deliver ECEC programs to children aged birth to 36 months. For example, the importance of the experiences and environment in the first five years of a child’s life to their longer term development trajectories was raised by many participants as the rationale to have qualified teachers care for under 3 years olds and any lowering of qualifications would lower the quality of care (School of Education – UniSA, sub. DR526; Noranda Childcare Centre, sub. DR517; Australian Community Children’s Services SA, sub. DR518; East West Childcare, sub. DR497; Collaroy Plateau Community Kindergarten Inc, sub. DR482; United Voice sub. DR824; Fiona Sorensen sub. DR491; Sarah Bozala sub. DR583).

To this end, a number of participants pointed to research that indicated an association between the qualification levels of the carer and the quality of the interactions between the carer and child and in turn, the overall level of quality of the care (Collette Tayler, sub. DR496; Gowrie Australia, sub. DR554; Sheila Degotardi and Sandra Cheeseman sub. DR672). The University of Wollongong (sub. DR553) highlighted that the quality of care was a ‘multi-dimensional construct’ drawing on a range of factors, including staff qualifications, ratios, the physical environment, educational curriculum, social policy and interpersonal relationships.

Other participants expressed concerns that certificate III qualifications were a base/entry level qualification to assist more qualified educators, did not provide the necessary training to meet and monitor the developmental needs of children under 3 years of age, and that carers graduating with certificate III qualifications were often too young and inexperienced to provide high quality care for these children (Explore and Develop, sub. DR528; Jay Gomez, sub. DR473; The Gowrie (Qld) sub. DR860; Australian Catholic University sub. DR787; Deakin Univesity sub. DR786; Goodstart Early Learning sub. DR874; Kim Cook, Swallow Street Childcare Association, trans., pp. 66-67, Melbourne, 18 August; CareWest sub. DR814).

A few participants expressed support that ECEC for children under three years of age should focus on quality care rather than the provision of educational programs with qualified educators (Robert Polman, sub. DR522; Martha Birch, Australian Association of Infant Mental Health, trans., p. 46, Sydney, 15 August).

What does the research show?

The first three years are undoubtedly important for a child's longer term development. As discussed in chapter 5, extensive research has highlighted the importance of the quality of interactions between the child and adults, and the environment and experiences the child is exposed to in providing the foundation for early learning. The most important of these interactions for younger children are between the parents and the child. A key finding of the research into early years development is that it is the accumulation of harmful and stressful experiences, such as abuse, neglect and family chaos that have adverse long-term impacts on the child's development (Moore and McDonald 2013; Moore 2014; National Scientific Council on the Developing Child 2007; Shonkoff and Phillips 2000).

As discussed in chapter 5, staff qualifications are important for quality. Studies around classroom quality in childcare centres in the United States have observed a higher quality of care when caregivers with higher level qualifications or who attended workshop training were compared to other caregivers (Burchinal et al. 2002) and that infant classrooms with more highly educated teachers and smaller ratios provided a higher quality of care (Dennehy and Marshall 2005). Children in care have been found to benefit most when the care they receive is warm and responsive and it is those carers with more education and specialised training that provide more responsive and stimulating care for very young children (Dennehy and Marshall 2005). Preliminary analyses from the Australian E4Kids longitudinal study indicates an association between bachelor-level or higher qualifications and higher levels of process quality, the interactions between staff and children, in settings for three to five year old children (Melbourne Graduate School of Education, sub. DR865; Marianne Fenech, sub. DR712)

In the United Kingdom, the Effective Provision of Preschool Education (EPPE) study, which examined the impact of preschool on children aged three years and over, found there was a significant relationship between the quality of the preschool centre and improved child outcomes and a positive relationship between staff qualifications and ratings of quality. Having trained teachers working with children for a substantial proportion of the time had the greatest impact on quality and was linked with improved reading and social/behavioural outcomes (Sylva et al. 2004).

The EPPE study also found that given there was a complex inter-relationship between staff qualifications, ratios, quality and the type of provision, plus the extent of variation between individual centres of the same type, these influences on reading and social/behavioural outcomes may be confounded and noted:

> It may be more relevant for policy makers and practitioners to consider the impacts of *packages* of provision, rather than to try to separate the impact of particular features in isolation. (Sylva et al. 2004, p. 28 and 32, emphasis in the original)

While the research evidence indicates that staff qualifications are important, they are one of many factors that impact on quality, and that it is the overall quality of the provision not just the qualification of the carer that delivers improved learning and development outcomes for young children.

Moreover, there is a lack of consistent evidence from the existing research that higher qualifications for carers — particularly degree qualifications — deliver improved learning and development outcomes for children under three years of age.

For example, in the United Kingdom, an 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).

In the United States, research has found an association between higher qualifications and improved development outcomes for very young children from low-income backgrounds. A longitudinal study involving 89 children who entered a childcare program between 1 and 11 months of age found that the quality of care was a consistent predictor of cognitive development during the first three years for African American children from predominantly low-income families. With regard to degree qualifications, its analysis suggested that girls, but not boys, tended to have higher cognitive and language scores when in classrooms with teachers with a bachelor degree (Burchinal et al. 2000). Degotardi and Cheeseman (sub. DR672) noted that while large scale studies around infant educator qualifications and development outcomes had not been conducted in Australia, using the National Institute of Child Health and Human Development (NICHD) data from the United States it was found that educators with diploma or degree level qualifications were rated more sensitive and stimulating in play and routine caregiving than those with certificate level or no formal qualifications. Also, the level of complexity of the educator's reasoning and understanding of infant behaviour increased with the level of qualification.

For younger children in Australia (children aged 2 to 3 years) the quality of the relationship between the child and the carer was found to have a stronger influence on later development outcomes at ages 4 to 5 and 6 to 7 years than the qualifications of the carer (Gialamas et al. 2013).

Moreover, higher qualifications alone may not improve the quality of the interactions and the relationship between the carer and the child (Early et al. 2007). Research has also indicated that there is uncertainty as to the kind of qualifications that can develop the quality interactions required between young children and their carers (Cloney et al. 2013). For example, in examining the competencies and credentials for early childhood educators in the United States, Burchinal et al. (2008) 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.

Others have commented that there is inadequate research as to the different levels of staff qualifications and their impact on the learning outcomes of children under 3 years. Sandra Cheeseman from the Institute of Early Childhood Learning at Macquarie University said:

> But in short, good quality staffing underpins good quality practice, no matter the age of the child. I think the evidence is inconclusive because there has simply not been adequate studies undertaken to address the question that we need to ask which is, "What difference do the level of qualifications of staff make to the learning outcomes and wellbeing of children under 36 months?" We simply don't have the evidence. (trans., p. 89, Sydney, 14 August 2014)

In their submission Degotardi and Cheeseman (sub. DR672, p. 6) commented that while it was, 'not possible to make recommendations for highly qualified educators to work with infants and toddlers based on inconclusive evidence then **it is equally not possible to make recommendations for educators to have a low level of qualifications**' [emphasis in the original].

As noted earlier, COAG in its regulatory impact statement on the Early Childhood Education and Care Quality Reforms concluded that while the research suggests the qualification levels of staff and staff ratios have an impact on the educational outcomes of children, the optimal standards and the quantifiable differences in education outcomes associated with different levels of qualifications and staff ratios was unclear (COAG 2009e).

In a review of the research evidence on quality of early childhood education and care for children under three years of age Mathers et al. (2014) said:

> In summary, then, we know that qualifications are important for quality. There is clear evidence for three and four year old children that graduate-led provision is of higher quality, but the evidence is less consistent for younger children.
>
> For children under three, factors such as the overall qualification level of the staff team are important; and there is also evidence (discussed below) that specialised training with appropriate content on child development is beneficial for quality. It is also important that practitioners have access to continuing professional development opportunities following their initial training. (pp. 24-25)

The Commission's view

The research around the qualifications for those caring for children indicates that:

- The qualifications of staff are one of the variables that contribute to the quality of the interactions between the educator and the child and overall quality of care. The research indicates that ratios, professional development, staff training and experience and the physical environment of the classroom, programs and routines also contribute to the quality of the interactions with children and overall quality of care.
- The evidence that specific levels of qualifications improve the learning and development outcomes for children under 3 years of age is absent and evidence of positive impacts of qualifications, by themselves, is inconclusive.

Based on this research, the Commission considers that the care provided to children under 36 months should include a flexible mix of certificate III and diploma qualified staff implementing programs based on the EYLF or another approved framework.

The Commission also recognises the concerns expressed by some participants around the standards and quality of some of the certificate III qualifications, but such concerns are better addressed by focusing on improving the certificate III courses rather than requiring a higher qualification. Staff training is discussed further in chapter 8.

In terms of the minimum qualifications, the Commission considers that all centre-based workers caring for children aged under 36 months should be required to hold or be actively working towards at least a certificate III or equivalent (the same qualification expected of family day care educators) and be supervised and guided by at least a diploma qualified educator.

The current arrangements, which require half of educators working with children under school age in centre-based care to hold or be working towards a diploma level qualification, should be amended so that they are similarly flexible to those currently applying to family day care (where educators are overseen by coordinators, who must hold at least a diploma level qualification). While family day care requirements ensure that educators are supervised by more qualified staff (who can ensure quality and assist in directing educational programming), the National Regulations for these services are significantly less prescriptive than for their centre-based counterparts and do not set how many coordinators are required. The Guide to the National Regulations only states that 'family day care services must provide sufficient numbers of family day care co-ordinators to monitor and support the family day care educators' and 'the approved provider should determine how many coordinators are needed' (ACECQA 2013c, p. 26).

Similar arrangements should be put in place for centre-based services — that is, all educators should be required to hold or be working towards at least a certificate III, but services should be required to ensure that these educators are appropriately supervised by diploma qualified educators to ensure the overall quality of care and direct educational programs.

Centre-based services should be able to provide care for children under 36 months under the supervision of a diploma qualified educator, but without the direct oversight of a teacher. Children aged under 36 months should not be included in the count towards the requirement to hire an early childhood teacher (ECT). This would allow degree qualified ECTs to focus on children aged 36 months and over, while still being free to develop programs in accordance with the Early Years Learning Framework or another approved framework that could be used by educators working with children aged under 36 months. Services only caring for children aged under 36 months would still, as is currently the case, be required to meet the educational requirements of the NQS and develop a curriculum in line with an approved learning framework.

Adopting these changes should result in somewhat lower costs for services and reduce workforce shortages (chapter 8) for ECTs, while maintaining quality outcomes for children and allowing services additional flexibility in how they meet staffing requirements. Those services that wish to retain degree qualified ECTs for children under 36 months would be able to do so and differentially price their services accordingly.

Inconsistencies in ratios and qualification requirements between jurisdictions

A number of jurisdictions have chosen to maintain higher standards for centre based services than those prescribed in the NQF. These include stricter staff ratios and additional requirements relating to the employment of an ECT (box 7.8).

A nationally consistent system should not leave scope for some jurisdictions to enforce requirements that exceed those taken to be acceptable in other jurisdictions, particularly given that the resulting costs to services are likely to be substantial. As summarised by Nesha O'Neil of Child Care New South Wales:

> I think if we decide what the national standard is, then the national standard is what we should be working towards. … if you're going to have a truly National Quality Framework, well, for goodness sake, let it be national. (trans., p. 63, Sydney, 15 August 2014)

The stricter requirements for ECTs in New South Wales are of particular concern, given that they appear to be linked to the severe shortages of teachers in that state (ECTs are not classified as being in shortage in any other jurisdiction) (DEEWR 2013a, 2013c). Staffing arrangements in NSW also mean that services are not allowed the same flexibility in hiring practices as is permitted in other jurisdictions in transitioning to the NQF. In particular, in New South Wales, regulation 242 of the National Regulations — which permits a service to count a person as an ECT if that person is actively working towards an approved early childhood teacher qualification, has completed 50 per cent of the course and already holds an approved diploma-level qualification — only applies at centre-based services with fewer than 30 children in attendance. Not allowing this concession in New South Wales centres with over 30 children may have unnecessarily exacerbated challenges for services in New South Wales in recruiting sufficient numbers of suitably qualified staff.

Box 7.8 Jurisdiction-based standards higher than those in the NQF

Staff ratios

- A staff ratio of 1:10 for children aged 36 months to preschool age in New South Wales, Tasmania and Western Australia; where the NQS specifies a ratio of 1:11.
- A staff ratio of 1:4 for children aged 25-35 months in Victoria; where the NQS specifies a ratio of 1:5.
- South Australia and Tasmania require higher staff ratios in some of their preschool programs than those prescribed in the NQS (detail in appendix F).

Early childhood teachers

- A second teacher for services in New South Wales caring for more than 40 children, with an additional teacher for every 20 children thereafter (up to four teachers).
  - Before 2020, the NQS specifies at most one teacher is required for services caring for 25 or more children. From 2020, up to two teachers are required for services caring for more than 60 children (detail in appendix F).
- Western Australia requires one teacher for every 30 children in a 'pre-kindergarten programme or kindergarten programme provided by a school'.
- In South Australian preschools, the requirement for half of educators to have at least diploma qualification and half to have at least a certificate III (regulation 126) has been replaced with the requirement that:
  - the first and second educators required to meet the staff ratio for preschool aged children in a government preschool (other than a 'prescribed preschool') must be early childhood teachers
  - the first and third educators required to meet the staff ratio for preschool aged children in a 'prescribed preschool' must be early childhood teachers
    - where a 'prescribed preschool' is a preschool provided by a school on the site of a school, or a rural preschool, or a preschool with fewer than 16 children.

Staffing requirements for school age children should be harmonised

There are no national staff ratios or qualification requirements for educators caring for school age children (i.e. in OSHC and vacation care). Instead, the national regulations contain jurisdiction-specific provisions for this age group that vary considerably (table 7.2).

Table 7.2 Staff ratios and qualifications for school age care

Jurisdiction	*Staff ratios*	*Qualification requirements*[a]
ACT	1:11	One qualified educator for every 33 children
NSW	None	None
NT	1:15	50 per cent must hold or be working towards: • a two year accredited post-secondary course in childcare • a post-secondary sports and recreation or teaching qualification • any other relevant qualification
QLD	1:15	At least one educator must hold or be working towards a two year relevant qualification One educator per 30 children must hold or be working towards a one year relevant qualification, if the service care for more than 30 children All educators under 18 must hold or be working towards a one year relevant qualification
SA	1:15	The first of every two educators must hold a relevant qualification
TAS	1:15	None
VIC	1:15	50 per cent must hold an approved diploma level qualification and 50 per cent must hold a certificate III level qualification
WA	Varies based on centre capacity and presence of preschool aged children	Varies based on centre capacity and presence of preschool aged children

[a] A 'relevant qualification' is one approved for the jurisdiction in question under regulation 137.

Source: Education and Care Services National Regulations 2011.

All jurisdictions except New South Wales and Tasmania have both minimum staff ratios and qualification requirements for school age children, whereas Tasmania has only staff ratios and New South Wales has no requirements (although the Commission understands that the majority of services in New South Wales have voluntarily accepted a ratio of 1:15). Qualification arrangements are particularly convoluted, requiring ACECQA to maintain a list of approved qualifications for educating children over preschool age for each jurisdiction. In contrast, most qualifications approved for educating children under preschool age are approved for all jurisdictions (with some exceptions for qualifications approved before the NQF). Given that national requirements exist for children of preschool age and under, the Commission sees no reason why national minimum requirements relating to school age children could not similarly be prescribed for OSHC and vacation care to provide consistency across jurisdictions.

The need to determine reasonable and consistent requirements has been identified in submissions to the inquiry from those in the sector providing care to school age children. For example, the Australian Primary Principals Association commented:

> The student to teacher ratios before, during and after school should be the same … The differences in regulations between the National Quality Framework that regulates Out of School hours Care and the State or Territory Government documentation that regulates

> schooling contexts creates significant inconsistencies that substantially limit the quality of programs in the Out of School Hours setting. (sub. 438, pp. 2-3)

And the Network of Community Activities stated:

> There is a need to determine which qualifications are required for those employed in school age programs and what requirements generally should be supported for OSHC services under the NQF. (sub. 372, p. 5)

Staff ratios and qualifications should be the same across all jurisdictions and should be set at age appropriate levels that account for: the care and recreation nature of the service provided; the potential benefits offered by use of experienced, but often less qualified, older workers and by university/TAFE students; the high costs of employing additional staff; and the uncertainty surrounding the additional benefits of higher qualification requirements. In addition, consideration should be given to adopting requirements that account for whether an OSHC or vacation care service also cares for preschool age school, as is the case in Western Australia. Policy makers should also consider that difficulties in the sector in attracting sufficient staff may be exacerbated for OSHC services, since recruitment is made harder by the part-time nature of the work and the split shifts involved (as noted by the Australian Childcare Alliance, sub. 310).

The Commission considers that the current ACT staff ratio of 1:11 for school age children is excessive, given that this is the same ratio required for children aged 36 months to preschool age under the NQF and most other jurisdictions require a ratio of 1:15. In contrast, the lack of any prescribed minimum ratio in New South Wales may be undesirable (although the Commission has not received any evidence suggesting this is detrimental to the quality of care provided). Minimum staff ratios for school age children should reflect a balance between these two extremes and consider that there are, as noted by the Australian Primary Principals Association in box 7.8, reasonably high acceptable staff ratios for these children during school hours. Any national staff ratio for school age care should be no stricter than 1:15.

Similarly, minimum qualification requirements in Victoria — which are the same as those under the NQF for educators caring for children of preschool age and under — are excessive for children in this age group. This view is supported by outside school hours care associations in all other jurisdictions and has also been expressed in past submissions to the Commission:

> … with the exception of Victoria, our member associations do not support mandatory qualifications for all staff and support appropriate qualifications that are relevant to the age group. (National Out of School Hours Association, sub. 371, p. 4)

> Ultimately, the imposition of a mandatory qualification [for all OSHC staff] could result in the driving down of quality [rather] than raising it. We caution against a system that has staff employed for their qualification rather than their ability to relate to children and create positive environments where they can spend their leisure hours. (Network of Community Activities, sub. DR359 to PC 2011b, p. 4)

The Commission's views on minimum qualification requirements in this context are reflective of the discussion above that relates to tailoring the NQS to OSHC and vacation care. That is, school age care should not require a significant educational component and therefore does not require many or highly qualified staff. This sentiment was expressed in submissions, for example:

> I have been working in Outside School Hours care as a coordinator and manager since 2001 … The system as it stands requires staff to be Diploma Qualified in Outside School Hours Care, or an Early Childhood field, or working towards such qualification due to the Teaching aspect required by the regulations that we were included in. Speaking from personal experience as a Coordinator and as a Manager and Owner of services I can state that this is just overkill. (Alan Savage, sub. 16, p. 1)

The Commission considers that only a small proportion of OSHC and vacation care staff (at most a third of staff, as is the case in the ACT) should be required to hold or be working towards an approved qualification. Such a requirement should, while ensuring national consistency, impose a minimal burden on services, since close to 60 per cent of OSHC staff already hold an ECEC related qualification (even in New South Wales, where there are no qualification requirements, this proportion is over 55 per cent) (The Social Research Centre 2014b). Minimum qualifications should be appropriate to the age group being cared for (no higher than a certificate III) and could include those from related disciplines, such as post-secondary courses in sports and recreation (as is the case in the Northern Territory). The manager of OSHC and vacation care services should be required to hold a suitable higher level qualification, such as a diploma.

The qualifications approval process could be improved

Under the NQF, ACECQA has responsibility for approving the qualifications able to be held by educators. Educators or organisations (including higher education providers) are able to apply to ACECQA to have a qualification approved and added to the list of approved qualifications for use nationally. The Commission has identified two main areas of concern regarding ACECQA's processes for approving qualifications.

The first relates to the ACECQA (2013d, p. 3) requirement that all ECT qualifications contain 'curriculum and professional experience covering birth to five years of age', including 'a minimum of 10 days of professional experiences with children aged birth to two'. This requirement is not appropriate in all contexts, as noted by the Western Australian Government:

> The requirement that early childhood teachers must have practicum experience working with children from birth to age 2 is unnecessary for early childhood staff working in schools with children aged from 3 to 8 and limits the pool of people available to be employed in the sector. (sub. 416, p. 26)

The Commission notes that ACECQA (sub. DR641) has explored allowing flexibility in this area by approving teaching qualifications without birth to two content and limiting the holder of this qualification to only working with older children, but that this option cannot be pursued within current legislative parameters. ACECQA has advised the Commission that it has raised this issue for consideration as part of the 2014 NQF Review and is seeking further flexibility in the way it can approve qualifications — in particular to approve qualifications on a conditional or restricted basis. As part of this review, governments should grant ACECQA this additional flexibility in order to make the qualification approval process more outcomes based, particularly when it comes to qualifications for preschool teachers.

The second area of concern, raised in a number of submissions, relates to the requirements for approving international qualifications. One provider, Only About Children, noted that this process makes it difficult to attract qualified staff from outside Australia:

> Consideration of recognising overseas qualifications through ACECQA needs to be reviewed as this is a lengthy and administrative process that slows down sourcing strategies to attract experienced and qualified individuals from overseas. (sub. 393, p. 5)

A similar sentiment was conveyed by the French Australian Preschool (sub. 444) in Canberra, which was unable to get qualifications approved for international staff despite these qualifications being at 'the level of an Australian Master's degree' and the teachers in question having prior teaching experience. This was because French universities are not set up to provide detailed academic transcripts (an ACECQA requirement in addition to evidence of the qualification itself) and the teachers did not have the required formal evidence of English language proficiency. More generally, in relation to English proficiency, FROBEL Australia Ltd. (sub. 275) argued that the language requirements specified by ACECQA are too high, noting they are much higher than those for an international student who obtains their qualification in Australia on a student visa.

The above concerns exist despite ACECQA's scope to exercise some flexibility in accepting alternative forms of evidence and ongoing work by ACECQA with the Australian Institute for Teaching and School Leadership and the Australasian Teacher Regulatory Authorities to streamline and improve approval processes for international qualifications (sub. DR641). While the processes for ensuring overseas qualifications are acceptable and must be rigorous, ACECQA should continue to streamline approval processes and make the requirements for their approval more outcomes based where appropriate. For example, criteria could be modified to make it a simpler process to account for differences in international training procedures or administrative arrangements.

Other issues with staffing arrangements

In addition to general concerns about the level of staff ratios and qualification requirements, some submissions noted other specific staffing related issues. These included concerns about a lack of flexibility in staffing arrangements and the use of unqualified trainees.

Flexibility in staffing arrangements — The National Regulations require a service's staff ratios to be strictly maintained at all times and there are no nationally consistent educator break provisions. The Guide to the National Law and National Regulations states that regulatory authorities will 'allow' educators at centre-based services to take up to 30 minutes per day 'off the floor' without their position needing to be backfilled. The Commission understands that this is being reviewed as part of the 2014 Review of the NQF.

This inflexibility exacerbates the general workforce issues in the sector (chapter 8), since services are likely to have to incur additional costs by maintaining staff levels in excess of the minimum ratios and/or (where they are able to do so) hiring casual relief staff to avoid breaching the regulations as a result of short-term staff absences. Some providers have experienced difficulties in recruiting such staff. The Community Child Care Co-operative (sub. 333), for example, stated that their members have been unable to recruit casual teachers to enable permanent teachers to be released from their role to undertake professional development, take personal leave and attend meetings. This concern was also reflected in some of the online comments received by the Commission, for example:

> I am concerned with the National Law and some of its unrealistic requirements. For example we are expected to find lunch relief cover for staff to ensure ratios are maintained at all times. It is simply not possible to find qualified relief for a 2-3 hr period each day to cover this. (comment no. 43, ECEC worker and user)

The Commission considers that further flexibility in staffing arrangements should be permitted under the NQF, in particular to allow educators to undertake activities such as professional development and to make it easier for services to cover unexpected absences. This could be achieved by allowing diploma qualified educators to be replaced by a certificate III qualified educator for short absences of up to half a day. This would be in addition to the current allowance for services to temporarily replace an early childhood teacher with a diploma qualified educator for up to 12 weeks (regulation 135). However, increased flexibility should not create an undue burden for services (such as by requiring excessive paperwork or approvals to temporarily operate below required staff qualification levels).

Unqualified trainees — From 1 June 2014, the NQF was amended to allow services to hire new educators without a qualification on a three month probationary period, and have this educator counted as a certificate III qualified educator during this time. A number of submissions (for example, The Crèche and Kindergarten Association, sub. 272; Minister's Education and Care Advisory Council, Tasmania, sub. 290; Australian Childcare Alliance, sub. 310) had voiced support for such a change before it was introduced. However, this change does not apply in New South Wales or South Australia. These states should adopt the new amendment in line with the actions of all other jurisdictions.

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 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 7.6

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.

RECOMMENDATION 7.7

To provide services with greater flexibility to meet staffing requirements:

- 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.

Quality assessment and rating processes

The NQF established a nationally consistent system of ratings and assessments to monitor service quality and provide information to families (detail in appendix F). Services are rated against the 58 elements of the NQS and receive a rating for each of the seven quality areas and an overall rating. Assessments are undertaken by jurisdiction-based regulatory authorities, with ACECQA monitoring the consistency of these assessments at a national level.

Although the new national system is more efficient than the separate jurisdictional systems it replaced, there remains scope for improvement. Submissions from the sector (for example, Centre Support Pty Ltd., sub. 268; Minister's Education and Care Advisory Council, Tasmania, sub. 290; Australian Childcare Alliance, sub. 310) indicate that there is widespread concern about: consistency in assessments within and between jurisdictions; the pace of assessments and cost to state and territory governments; and the design of the rating system itself. As discussed above, ways to simplify the NQS in order to address some of these concerns are being explored as part of the 2014 review of the NQF.

Addressing inconsistency in assessments by improving governance

The most common concern within the sector regarding assessments is the inconsistency of the ratings process, both within and between jurisdictions (box 7.9). There appear to be two root causes of this inconsistency: the move to outcomes based standards (meaning requirements are more subjective and there is no single method for services to comply with them); and the different staffing practices, assessment priorities and resources of regulatory authorities.

Box 7.9 **Concerns raised about assessment and rating inconsistency**

Goodstart Early Learning:

> 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. While some jurisdictions have adopted a practical, risk-based approach to regulation that seeks to build partnerships with providers, others have adopted a rigid, 'letter of the law' approach that adds to costs and to uncertainty as decisions are often pending. (sub. 395, p. 42)

Centre Support Pty Ltd.:

> Many authorised officers are conducting outcome-based assessment and rating processes from a compliance perspective leading to inconsistent ratings and increased compliance costs. (sub. 268, p. 18)

Minister's Education and Care Advisory Council, Tasmania:

> Providers have a sense of vulnerability and uncertainty especially in regards to the consistency of the assessment and rating process. It is reported that there is a focus by assessors on compliance rather than quality. … There are reports of inconsistency in regards to assessment both across the state and nationally. Interpretations seem to be based on the previous experience and the way of implementing previous laws. (sub. 290, p. 8)

Australian Childcare Alliance:

> Members report that the areas of programming and documentation of children's learning, community engagement and sustainability of the environment are the most subjective as the ultimate decisions on the effectiveness of effort are determined by a nationally inconsistent A&R process. (sub. 310, p. 13)

Andrew Heffernan of Culburra Beach Preschool noted how his service had been marked down for not meeting the sustainability elements in the NQS (box 7.5):

> I think [the assessor's] words were along the lines of 'we weren't embracing it'. We showed her, like we've got separate bins for recycling and we've got a vegetable patch. The kids were even on a roster of switching the lights off when we leave the room to go outside, things like that. She felt that if we had a worm farm we would have completed the cycle. (trans., p. 80, Canberra, 25 August)

While outcomes based requirements are beneficial overall, afford services more flexibility than a prescriptive system and enable services to adopt a lowest cost approach to compliance, they present two key challenges to ensuring consistency:

- services, particularly sole operators, may find it difficult to fully understand their obligations (as noted by ACECQA, sub. 260) — as a result, they may inadvertently not comply with aspects of a regulation or, conversely, spend more time and resources than necessary on compliance

- regulatory authorities and the authorised officers undertaking assessments may find it difficult to determine whether a service is compliant with such regulations (ACECQA 2013i) — particularly if they are poorly trained or if an authorised officer has been accustomed to enforcing prescriptive requirements.

Subjective requirements of the NQF that cause particular confusion for providers and educators include those relating to Quality Improvement Plans and the recording of interactions with children (discussed below in ‘administrative requirements’).

Perceived inconsistencies in assessments and the difficulties that services face in understanding new outcomes based requirements appear to have been exacerbated by the NQF’s governance arrangements. Some services have indicated that they receive limited support from their Regulatory Authority — many of which are primarily undertaking enforcement and compliance activities — and are confused about where to go for advice (box 7.10). This is despite the NQF being designed so that ‘99% of all service interactions are with the jurisdiction-based Regulatory Authority’ and that regulatory authorities are responsible for ‘educating the sector and the broader community about the National Quality Framework’ (ACECQA 2013e).

Box 7.10 **Regulatory authorities provide limited support to services**

Child Care NSW:

> … for centre-based services in NSW, there remains considerable confusion about the roles, responsibilities and functions of ACECQA, particularly relative to those of the Early Childhood Education and Care Directorate within the NSW Department of Education. … With the Directorate acting as the regulatory authority in terms of assessment and rating, our members regularly report that they feel they have lost their local ‘support person’, as local Directorate staff are now seen as enforcers rather than mentors, champions, networkers and facilitators. (sub. 333, pp. 9-10)

Australian Childcare Alliance:

> In the transition to the National law, services indicate support “resources” that previously assisted services with quality improvement have been redirected to the role of assessor, report and compliance officers are no longer available to support the sector. (sub. 310, p. 15)
>
> The structure of the system creates confusion as to who is able to give advice, state or ACECQA, and in many instances both authorities devolve the responsibility to the other resulting in services being no further informed. (sub. 310, appendix 11.2, p. 1)

Family Day Care Australia:

> … when approached, RA’s [State Regulatory Authorities] are often reluctant to provide clear and unambiguous advice to services with regard to matters which require a level of interpretation. (sub. DR655, p. 32)

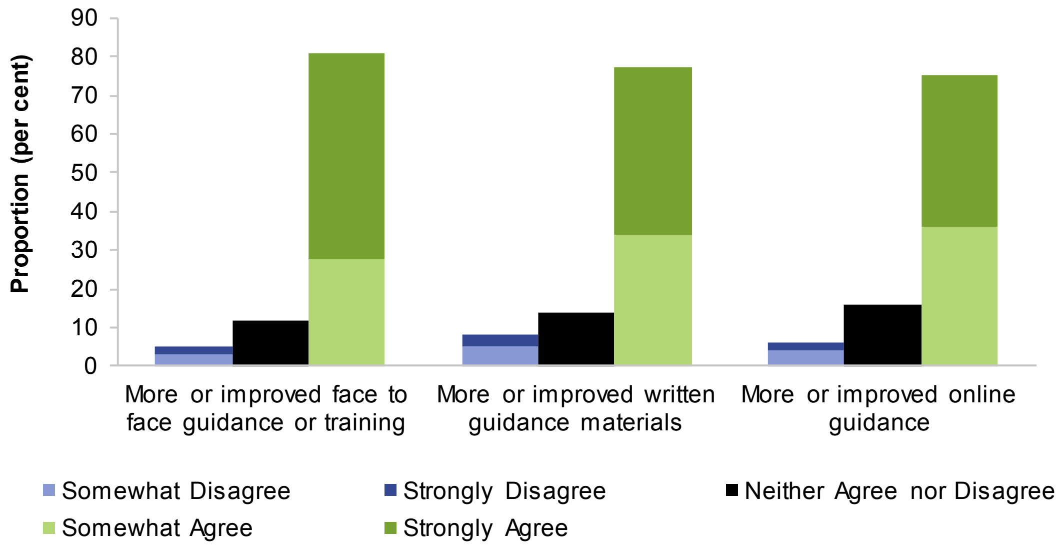
In practice, anecdotal evidence received in consultations with the sector suggests that services are much more likely to seek advice from ACECQA or Professional Support Coordinators (who deliver support to services under the Australian Government’s Inclusion and Professional Support Program). The Commission considers that regulators should always possess an educative and facilitative approach (PC 2013b) and the reportedly limited role being played by regulatory authorities in educating the sector is of particular concern. This is because, as the primary regulator of services (that is, authorised officers that conduct assessments are employees of regulatory authorities, not ACECQA), regulatory authorities are best placed to provide advice.

Many services do not appear to be fully aware of their obligations until they have been rated by the regulatory authority. Research conducted by ACECQA (2013h) found that providers who have been through the assessment and rating process perceived a much lower level of administrative burden. This suggests that they are not receiving adequate support before this process and that perceptions of excess burden and inconsistency could be reduced if regulatory authorities more actively engage with providers before they are assessed. In fact, ACECQA also found that, when asked whether certain changes would reduce the administrative burden, there was significant support among providers and educators for more improved face to face, written and online guidance (figure 7.2).

The Commission understands that ACECQA is aware of, and working to address, concerns raised by the sector regarding inconsistency (and, indirectly, institutional arrangements), including examining ways of simplifying the NQS to make assessment requirements clearer for both services and regulatory authorities. However, ACECQA is only in a position to provide advice and training, and is unable to impose changes in the behaviour of regulatory authorities to reduce inconsistencies between jurisdictions. There are substantial barriers to significantly altering these governance arrangements (for example, agreement from all jurisdictions would be required to legislate changes to the National Law).

Figure 7.2 **Support for more or improved education and guidance**

As a proportion (%) of providers and nominated supervisors, n=2257. Excluding 2-3 per cent 'can't say'.



Source: ACECQA (2013h, p. 111).

It is vital that regulatory authorities reassess their role and consider how, in coordination with ACECQA and Professional Support Coordinators, they can provide more useful and consistent information to the sector in order to reduce compliance burdens and confusion. In particular, regulatory authorities should consider research conducted by ACECQA (2013h, pp. 107–8) which determined that providers and educators find:

- ACECQA resources more useful, on average, than those provided by regulatory authorities; particularly in relation to customer service hotlines and, to a lesser extent, information provided on websites
- regulatory authority social media presence and stakeholder forums to be ‘very useful’ (more than 50 per cent selected this answer for stakeholder forums and around 80 per cent for social media) — much more useful than regulatory authority websites and newsletters
- authorised officers (frontline staff) to be of mixed usefulness.

In its study into *Regulator Engagement with Small Business*, the Commission (PC 2013b) found that to help reduce inconsistency, regulatory authorities should:

- where setting outcomes based requirements, also offer detailed guidance about acceptable solutions; including, where feasible, offering a compliance pathway which, if fully implemented, would deem services compliant with requirements
- ensure information and advice on regulatory requirements is brief, readily available, reliable and provided in user friendly language and formats.

The pace of assessments is a cause for concern

Another key concern, raised by both the sector and government, is the pace of assessments across all jurisdictions. While assessments began in mid-2012 in most jurisdictions, only two-fifths of approved services have been assessed (table 7.3). Although the pace of assessments seems to be increasing, it appears certain that regulatory authorities will not be able to assess all services at least once by mid-2015 as planned, or that services will be reassessed at the frequency expected (every one to three years, depending on the quality rating received).

Table 7.3 **The progress of quality assessments and ratings**

As at 30 June 2014

Jurisdiction	*Number of services with a quality rating*	*Number of services*	*Proportion of services with a quality rating*
			%
ACT	147	315	47
NSW	2 370	4 910	48
NT	114	209	55
QLD	989	2 699	37
SA[a]	237	1 140	21
TAS	88	223	39
VIC	1 693	3 914	53
WA[a]	183	1 025	18
Total	5 821	14 435	40

[a] The National Law came into effect in Western Australia eight months after other states and territories, while in South Australia a new regulatory authority was set up to undertake assessment and ratings.

Source: ACECQA (2014b, p. 7).

The slow pace of assessments is a significant issue that needs to be addressed by governments as a matter of urgency if the NQF is to remain credible. In its current state, the NQF assessment process cannot be considered to be effectively enforcing minimum standards; nor can it be considered to be providing useful information to families if most services have not been assessed and reassessment may not be conducted for many years beyond the expected timeframe. In addition, both the sector and ACECQA (2013i) have raised concerns that the costs incurred by states and territories to implement the quality rating system are resulting in resources being diverted from other regulatory activities (such as educating and supporting the sector and processing approvals). For example, Guardian Early Learning Group noted:

> … we have experienced delays of more than 3 weeks to have a service approval issued upon the acquisition of a centre — it used to take 24 hours. (sub. 274, p. 2)

The issue of inconsistency discussed above is also likely to be exacerbated, since the ratings of services assessed many years apart may not be comparable.

There appear to be three main causes for the slow pace of assessment:

- the inflexible design of the assessment process (recently amended to increase the pace of assessment)
- the resourcing provided to regulatory authorities
- the complexity of the NQS.

The last of these, including a discussion of ways to simplify the NQS, was explored earlier in the chapter.

Until it was revised in April 2014, the design of the assessment process (detail in appendix F) meant that it took at least 20 weeks to finalise the assessment of a service. This timeline was referred to in submissions as 'inflexible' and an 'unnecessary constraint' (see for example, Victorian Government, sub. 418, p. 24) and was raised by regulatory authorities as an area of potential reform:

> Regulatory authorities have … pointed to the benefits of making the assessment and rating process more flexible, within the existing legislative parameters. For example, the length of the 12 week notice period for quality assessment may be unnecessarily adding to provider and educator effort and stress associated with assessment and rating. (ACECQA 2013i, p. 11)

ACECQA administrative data (as at 20 January 2014) shows that, in over 40 per cent of cases, regulatory authorities were unable to provide services with written notice of the outcome of their rating assessment within 60 days of the assessment and rating visit, as required under the National Law (figure 7.3). The proportion of assessments taking more than 60 days across jurisdictions varied from around 5 per cent (ACT and Northern Territory) to more than 75 per cent (South Australia and Tasmania). In addition to South Australia and Tasmania, the majority of assessments in both New South Wales and Western Australia also took more than 60 days — suggesting there exists significant scope for improvement in some jurisdictions.[2]

In April 2014, the former COAG Standing Council on School Education and Early Childhood (now the Education Council) agreed to changes that introduced:

- more flexible timeframes that reduce the amount of time a service has to wait between the start of the assessment process and finding out their quality rating
- a new, nationally consistent assessment and rating report template that will help regulatory authorities produce reports more quickly.

As a result, the assessment process is now meant to be completed in 13 to 16 weeks (ACECQA 2014a), meaning the overall pace of assessments could slightly improve.

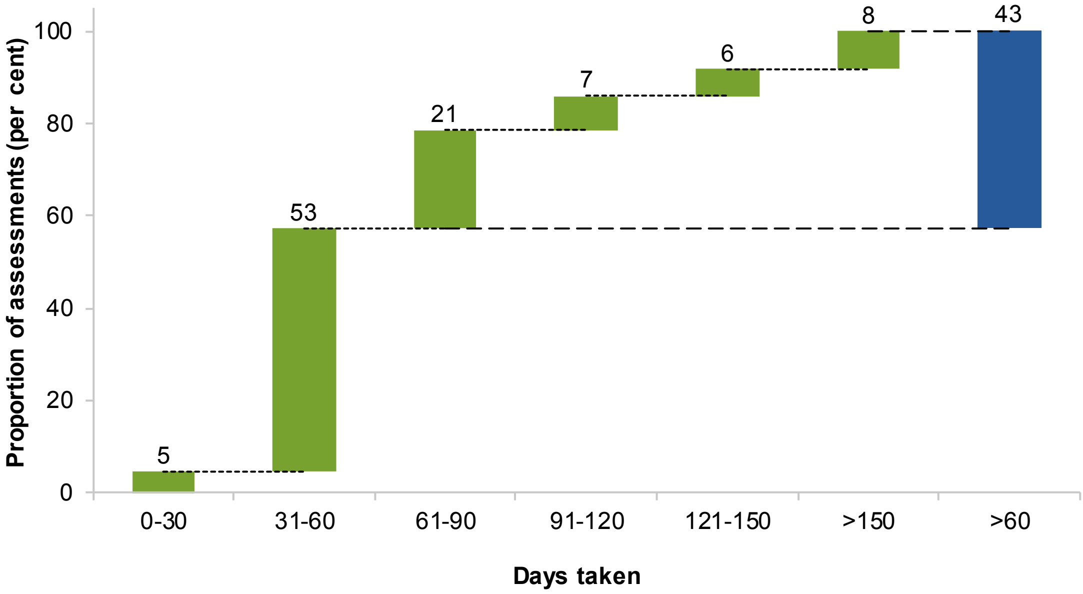
However, it appears unlikely that this streamlining of the assessment process alone will result in an adequate pace of assessments and longer term strategies may be required (a view shared by ACECQA, sub. DR641). To address the sector's concerns, governments and ACECQA should address the structural problems contributing to the slow pace of assessments. In particular, they should consider ways to simplify the NQS (recommendation 7.1) and continue efforts to streamline the assessment process. The Commission understands that ACECQA is working with all governments to identify ways to streamline the assessment and rating process, including by reviewing the NQS and rating levels, as part of the 2014 Review of the NQF. Increasing the resources provided to regulatory authorities should not be considered as a first step, because doing so would generate a potentially significant ongoing cost to governments and reduce incentives to streamline the assessment process.

2 South Australia and Western Australia commenced inspections later than other jurisdictions, which may have partly influenced the time taken to complete assessments.

Expanding the NQF to include additional service types (recommendation 7.10 below) would create additional challenges by increasing the time taken to complete an assessment cycle across all services — which reinforces the need to address inefficiencies in the assessment process. Some state and territory governments (for example, Queensland, sub. DR893) have expressed concern about the increase in workload for regulatory authorities that would result from including additional service types in the NQF.

Figure 7.3 **Time taken to complete assessments**

Days between assessment and rating visit and written notice being sent



Source: Productivity Commission calculations using ACECQA administrative data (20 January 2014).

The rating system should be made more reflective of quality

The third issue with assessments relates to the system of quality ratings. Submissions from the sector raised three main concerns:

- the way a service's overall rating is determined
- the designation of the 'Working Towards NQS' rating
- the appropriateness of the 'Excellent' rating.[3]

Many participants were especially concerned about the way in which a single unmet NQS element can bring a service's overall rating down to Working Towards NQS (all 58 elements must be met to receive a 'Meeting NQS' rating). This system means that if a service misunderstands a subjective element or an authorised officer takes an inconsistent

3 Appendix F contains further detail on the criteria for the Excellent rating.

approach during an assessment, it can have a substantial effect on a service's quality rating. As such, the rating cannot always be considered to be an accurate reflection of overall service quality (and therefore to be providing useful information to families). As noted by KCL Family Day Care:

> … this [reform] process is not going to help sustain Educators and coordination units in the future unless the accreditation process shows a true picture of a services intentions and strengths. … The entire average of a scheme shouldn't be brought down simply because of one working towards, as this then gives the overall perception that your service is only rated as working towards. (sub. 398, p. 2)

Some participants, such as the Australian Childcare Alliance, suggested that the overall rating should be removed:

> ACA considers the A&R [assessment and rating] process to be fundamentally flawed. … ACA questions whether an overall rating is appropriate when it does not accurately describe the service's practices and performance in all or the majority of the areas of assessment. (sub. 310, p. 15)

An analysis of ACECQA administrative data shows that over a third of services receiving a Working Towards rating only failed to meet 1-5 elements (figure 7.4).

ACECQA and governments should work to address such concerns about the appropriateness and fairness of ratings. Ways to achieve this might include:

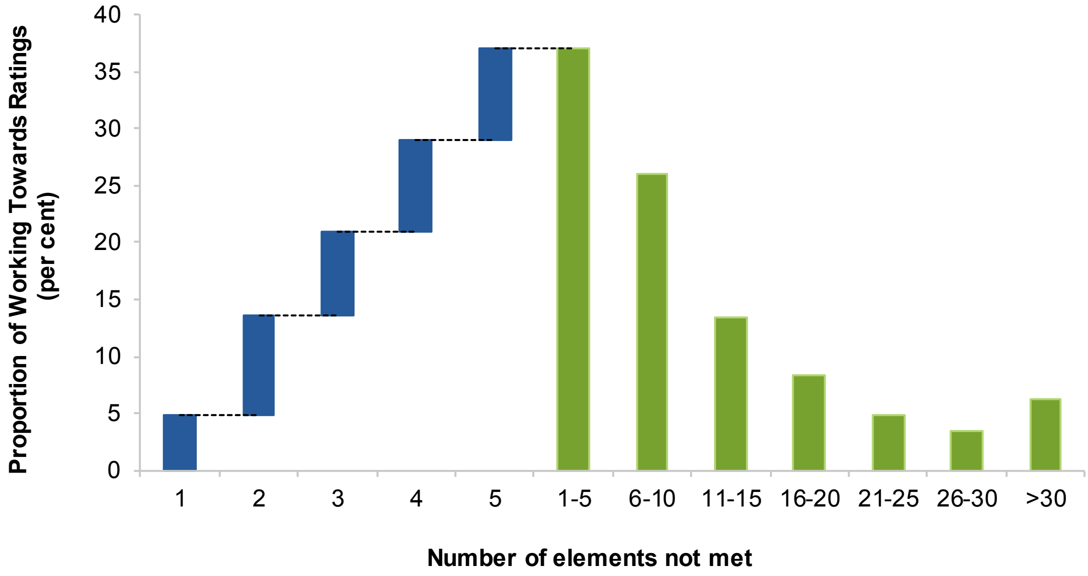
- removing the overall rating in favour of retaining only separate ratings for each quality area
- placing 'weighted' scores on each element or standard based on their 'importance' to quality, then determining ratings based on the total score achieved
- determining ratings based on the proportion of all elements achieved
- determine ratings beginning at the level of standards, using elements to guide the standard's rating (that is, elements would not be rated as 'met' or 'not met').

In addition, acting to simplify the NQS (as discussed above) would help reduce ratings issues by lowering the number of elements that services must meet.

While removing the overall rating may alleviate concerns in the sector, it could also create confusion for parents and may result in an unofficial rating system being developed. A system based on scoring, since it is easily adjusted, would be very flexible; however the potential weighting of particular elements or standards and the score required for certain ratings may be a point of contention.

Figure 7.4 **Number of elements not met by services with a Working Towards rating**

As a proportion of Working Towards ratings. n = 2011



Source: Productivity Commission calculations using ACECQA administrative data (20 January 2014).

There were also concerns raised about the ‘Working Towards’ designation itself (see, for example, Kempsey Family Day Care, sub. 27; Explore and Develop Wamberal, sub. 80; Toxteth Kindergarten, sub. 156). Some contended that the term ‘Working Towards’ sends the wrong message to parents and demoralises educators, implying that a service is low quality whereas it may have met the vast majority of NQS elements (including minimum requirements such as staff ratios):

> We believe that the words ‘Working Towards’ should be replaced with something more positive … ‘Working Towards’ is destroying the confidence of educators and the reputation of the service and Nominated Supervisor. Additionally, the words ‘Working Towards’ are misleading, cast doubt on quality and are picked up in a negative way by the media … (Centre Support Pty Ltd., sub. 268, p. 25)

Taking action to address the concerns identified above regarding the overall rating is likely to reduce concerns in the sector about the Working Towards rating.

A number of submissions have also called for the awarding of Excellent ratings to be abolished or suspended. In particular, it has been suggested that services receiving a Working Towards rating should be the focus of attention (and the Excellent rating abolished) or that the Excellent rating cannot be fairly awarded until all approved services have been assessed (and the awarding of Excellent ratings be suspended until this occurs):

> Whilst the Excellent rating and process appears to be the current focus of ACECQA, it is important to note that up to 70% of the sector is struggling with their Working towards rating.

> ACA believes that this disparity must be addressed as the priority. It is admirable if educators in a service wish to apply for an "Excellent" rating, however ACA does question whether this is of primary importance to families as their main concern is for their children to be safe, happy and well cared for by passionate educators. (Australian Childcare Alliance, sub. 310, p. 112)
>
> ACCS believes there are problems with the Excellent rating and that it is inequitable that services can apply for this rating before all services have been through the assessment and ratings process. (Australian Community Children's Services, sub. 183, p. 13)

The Commission does not believe it is appropriate for ACECQA to expend resources on assessing applications for the Excellent rating, given the low volume of services awarded the rating (as at 30 June 2014, 14 out of 5821 assessed services, ACECQA 2014b, p. 9) and the limited value of the rating in providing useful information to parents (given the existence of the 'Exceeding' rating). This rating should be abolished.

The Commission understands that the 2014 Review of the NQF is examining whether the current assessment and rating system is reflective of overall service quality and reviewing the effectiveness of all quality rating levels (ACECQA, sub. DR641).

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.

Administrative requirements

Research by ACECQA (2013h) suggests that, overall, the administrative requirements associated with the NQF have increased costs for the sector. The research identified over 350 information obligation requirements associated with the NQF. Although, individually, these requirements may take a very small amount of time to comply with and, in many cases, are necessary to obtaining desired quality outcomes, they can amount to a substantial burden in aggregate (box 7.11) and have a negative impact on job satisfaction for educators (chapter 8). In fact, almost 80 per cent of providers and nominated supervisors surveyed by ACECQA perceived administrative requirements to be 'quite' or 'very' burdensome. This finding is reflected in comments and submissions received (box 7.12).

Box 7.11 Administrative burden under the NQF — case studies

These hypothetical case studies were developed by ACECQA to illustrate the total cost to services of the NQF's administrative requirements, and the potential for substantial variation in these costs among services of different sizes and types. They were informed by quantitative data and issues identified through interviews with the sector.

75 place LDC service

A private service in metropolitan Melbourne with 73 enrolments and 15 educators, catering to children from six weeks old to school age across five rooms.

The annual, ongoing administrative costs associated with the NQF are estimated to be $140 607, or just under $2000 per child. Almost 80 per cent of this burden is associated with educational programming requirements — documenting the program and assessments of children's learning.

30-45 place OSHC service

An OSHC is a service provided by a council in rural Victoria. The service is approved for 45 places, however is only able to accommodate 30 children. This is because the service has been unable to attract sufficient staff to maintain 45 places under staff ratios imposed under the NQF in Victoria. The service employs five educators.

On an ongoing basis, compliance with NQF administrative requirements is estimated to cost approximately $28 000 per annum, or just under $1000 per child.

650 place, 55 educator FDC service

An independent FDC service operating on Queensland's Sunshine Coast. Each educator effectively runs their own service, supported by 6 administrative staff and a Director.

Complying with the NQF costs over $560 000 per annum; just under $900 per child or around $10 000 per location.

Source: ACECQA (2013h, pp. 24–37, appendix D).

While there is evidence that administrative burdens will reduce over time as the sector adapts to the NQF, it seems unlikely that the total burden will become less than it was prior to the NQF's implementation. This is because previous administrative requirements (such as completing workplace health and safety related forms) have generally remained unchanged, whereas increased documentation associated with educational programming and meeting other requirements (such as sustainability elements of the NQS) is a new requirement for many services.

Box 7.12 Administrative burden — comments and submissions

ECEC Workers:

> … I cannot survive with the phenomenal work load that the current regulations and standards create. I have to cut corners somewhere or I will have to resign … Most weeks I do a minimum of ten hours unpaid overtime, and many weeks I do twenty or more hours unpaid in addition to my paid hours. The children should come first, not the paperwork … (comment no. 65)
>
> One of the main reasons I believe the cost of child care has gone up so much in the last few years, is because of the enormous increase in red tape, paperwork and time spent trying to comply with all the new rules and regulations … I'd say I spend somewhere between 15 to 20 hours a week (at least) outside of caring for children trying to comply with paperwork and other regulations. And even though my fees have had to go up, I still am earning less per hour than what I used to before because I have to work so many more hours trying to comply. (comment no. 111)
>
> The paperwork and red tape required [for OSHC services] at the moment only prevents the children from having quality time with the adults in charge of them in place of their parents. (comment no. 104)

Child Care NSW:

> … [The NQF] has unfortunately escalated the regulatory burden on educators to the point that it may be perceived as counter-productive in some instances. … these important regulatory reforms must be implemented seamlessly and efficiently, such that they become the building blocks of the sector rather than road blocks. (sub. 326, p. 24)

Family Day Care Australia:

> … the NQF has had significant impact upon the sector’s administrative workload, with particular impact upon educators who find the increase in administrative activities burdensome, in that it takes up time which they feel could be better spent with the children in their care. (sub. 301, p. 18)

Network of Community Activities:

> … some levels of the current regulation detract from the quality of care able to be offered with staff overwhelmed with administration and red tape … (sub. 372, p. 5)

For highly rated services, governments and ACECQA should reduce administrative burden by applying the principle of ‘earned autonomy’ to relieve these services of some paperwork requirements and/or allow greater self-regulation. The rationale underlying this principle is already implicitly part of the NQF, which recognises the interplay between service quality and risk by recommending that highly rated services are assessed less frequently. This has been noted by ACECQA in its submissions and research it conducted into the regulatory burden of the NQF (sub. 260; 2013i). In addition to reducing the administrative burden, adapting the NQF in this way would also act as an incentive for services to attain higher ratings and therefore be a driver for higher service quality.

The Commission understands that ACECQA (sub. DR641) considers it feasible to reduce the number of administrative requirements that are burdensome with little or no benefit to children and families, duplicative or of diminishing value at higher levels of quality and is working with governments to review all administrative requirements as part of the 2014 Review of the NQF.

Other key issues that have been raised in submissions or explored in ACECQA research regarding the burdens imposed by administrative requirements are examined below.

New services incur high administrative set up costs

ACECQA (2013h) research indicates that providers may be unclear on what is required when initially establishing NQF compliant policies and procedures and as a result services can incur significant (and in some cases what seem to be excessive) costs in doing so. While the costs associated with initially complying with the NQF are one-off and have already been incurred by current providers, they can be significant.

Potential cost savings are likely to be particularly high for FDC providers, as ACECQA's research suggests all administrative requirements are higher for these providers than for those providing centre-based services. This is because many policies have to be tailored to the physical environment, which is unique to each FDC educator, and then have to be printed, delivered and explained to each educator individually (ACECQA 2013h, p. 14, appendix D).

Administrative set-up costs incurred by providers (both FDC and centre based), and the detail and scope of policies developed, varies dramatically. For example, the cost of establishing a set of NQF compliant policies and procedures was found to be as low as \$1600 per service for some providers and up to \$9000 for others; while some providers had 20 policies developed and some had as many as 60 (ACECQA 2013h, pp. 14–15, appendix D). Although these figures relate to a sample of providers and should not be extrapolated to the sector as a whole, they suggest that moves to address concerns in this area would save new providers (and existing providers outside the NQF that may be brought under its scope) time and reduce costs.

While administrative requirements relating to a service's policies and procedures should remain flexible and outcomes based, regulatory authorities and ACECQA must provide more detailed guidance (and, where feasible, a compliance pathway) on how to comply with initial requirements when setting up a new service.

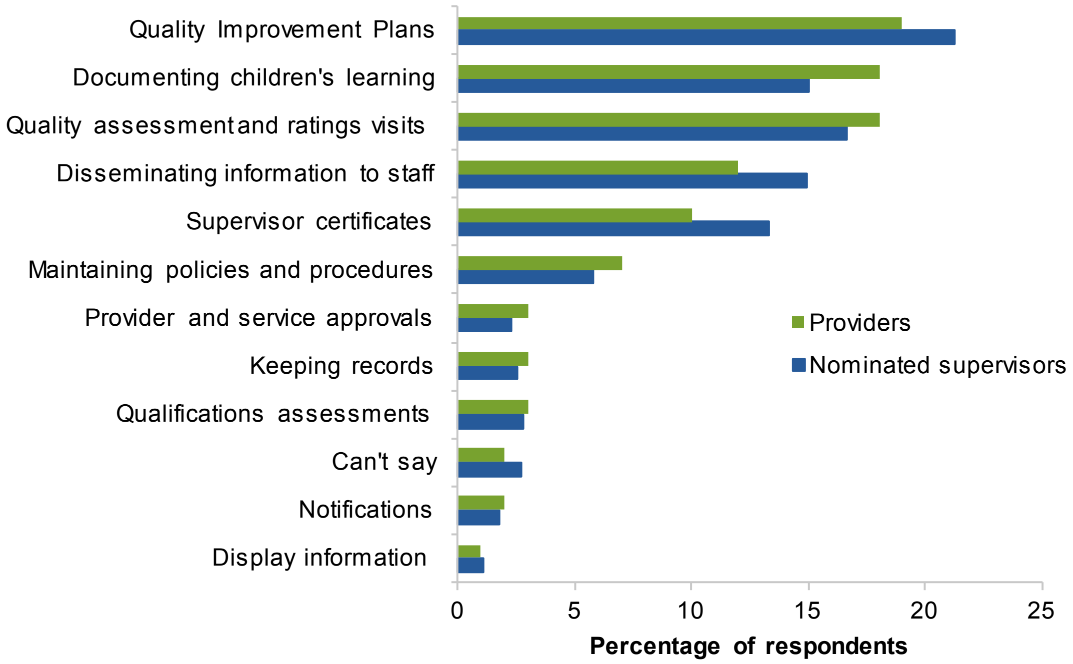
Quality Improvement Plans and documenting children's learning

Despite the high level of support within the sector for Quality Improvement Plans (QIPs) and documenting children's learning, and their role as a cornerstone of the quality improvement objectives of the NQF, these aspects have been identified by providers as among the most burdensome ongoing administrative requirements of the NQF (figure 7.5). The key contributing factors for this burden were found to be (in order) that: staff attention is diverted from other activities, they consume staff time and staff have difficulty understanding the requirements (ACECQA 2013h, p. 12, appendix E). A lack of precise guidance on the flexibility that services have in completing QIPs has been identified as a key cause of this burden (ACECQA 2013h). Services have discretion to decide:

- how often assessments of children's learning and the educational program should be documented, and how extensive this documentation should be; and
- how often QIPs should be revised, and how much documentation and evidence is required.

Figure 7.5 **Which ongoing administrative requirements are the most burdensome?**

Sample of 1641 providers and 1842 nominated supervisors



Source: ACECQA (2013h, p. 97).

It appears that some services are doing significantly more than is necessary to comply with these requirements in an attempt to attain higher ratings. As noted by Child Care NSW:

> … the requirement for QIPs to be "available at all times" has meant many services see it necessary to constantly review and revise the document, which can be an enormously time-consuming process. (sub. 333, p. 24)

This is of significant concern, since documenting educational programs and assessments of children's learning is by far the largest ongoing administrative cost associated with the NQF. ACECQA (2013h, pp. 16–18, appendix D) found that, across a sample of providers, on average:

- teachers and lead educators spent around 150 hours documenting and designing their initial educational program, at an average one-off cost of close to $4000 per service
- educators spent 22 hours per child per annum on documenting assessments of children's learning, at a cost of around $700 per child per annum
- services spent almost 130 hours designing and documenting their initial QIP, at a one-off cost of around $3500

- services spent just over 180 hours per annum reviewing, revising and continually developing their QIP, at a cost of over $4800 per annum.

The lack of guidance provided to services has resulted in a high degree of variability in the time spent on some of these requirements. For instance, while services spent, on average, 130 hours designing their QIP, time spent by individual services varied between 70 hours and 500 hours on this task — with those spending more time noting high levels of uncertainty around what was required and concern about meeting the standards.

Reducing the regulatory burden associated with these requirements should be attempted wherever this can be done without impeding the achievement of regulatory objectives. In particular, simplifying the NQS (as discussed earlier) and the process of linking the QIP and educational documentation to the NQS should assist; as would informing providers of the flexibility that services have under the NQF and the possible approaches that they can take to meet their obligations. The Commission commends ACECQA on its ongoing work in providing guidance to the sector, particularly in relation to QIPs.

Certified supervisor certificates should be abolished

Under the requirements of the NQF, all services must have a 'Nominated Supervisor' who is responsible for the day-to-day management of that service. Before 1 June 2014, for an educator to become a Nominated Supervisor, the service had to apply for a 'supervisor certificate' from their regulatory authority. However, recent reforms to the NQF (in response to concerns raised by the sector) mean that from 1 June 2014, all services will be issued with a supervisor certificate that can apply to any person working in a service who is responsible for the day-to-day management of the service, has supervisory or leadership responsibilities, or is a FDC coordinator.[4] Services will still have to apply for a separate certificate for other staff who wish to become Nominated Supervisors. Governments should give further consideration as to whether any objective is being achieved by even this reduced requirement — including questioning the purpose of issuing the 'service wide' certificates discussed above. As noted by UnitingCare Children's Services (before the June 2014 changes) and the Queensland Government (after the changes):

> UCCS sees limited added value in having staff go through this process as the role of Certified Supervisor does not carry any legal responsibility and under the NQS services are bound to meet the regulations regardless of who is on the premises. (sub. 326, p. 36)
>
> … Queensland has strongly advocated for the removal of certified supervisor certificates. The increase in workload for regulatory authorities to approve 'Nominated Supervisors' is a compliance process with no additional benefit to the quality of care and improved outcomes for children. (sub. DR893, p. 5)

Given the questionable value of supervisor certificates, the Commission suggests that recent reforms do not go far enough. While there remains value from services having

4 Except in Western Australia, which must first amend the separate NQF legislation in that state.

nominated supervisors available at any point in time, the requirement to obtain supervisor certificates should be removed completely.

Waivers

The provisions of the NQF allow services to apply for 'waivers' to exempt them from some requirements — in particular those relating to the physical environment and staffing — where the circumstances of that service mean it cannot comply with these requirements (additional detail in appendix F). Submissions raised a number of concerns with the process of applying for waivers under the NQF, including relating to inconsistency, inefficiency and delays, inflexibility and high administrative costs. For example, Goodstart Early Learning, Australia's largest ECEC provider, noted that staffing and service waivers were inconsistent and could involve lengthy timeframes:

> State-based regulatory authorities have different requirements and expectations in relation to applying for and providing supporting documentation for staffing waivers, which can be burdensome and add significantly to administrative costs.
>
> There is currently a 60-day-plus processing time on [service] waivers, which can impact on the scheduling and commencement of upgrades/[capital] works. Inconsistent requirements for information and delays in decisions by regulators often result in delays in commencing of work, which is an inconvenience for the contractors and centres. (sub. 395, p. 106)

Child Care NSW (sub. 333) noted feedback from their members expressing frustration that waivers for ECTs were specific to the interim teacher hired, rather than the service itself. That is, if a service receives a waiver for an ECT (to hire an interim teacher) and that educator leaves the service, the service is required to apply for a new waiver when hiring another interim teacher. The Commission understands this issue is unique to New South Wales.

Regulatory authorities need to ensure that application processes for waivers are streamlined and that services are more aware of application requirements. This could involve ACECQA and regulatory authorities publishing detailed guidance (such as a checklist) about what is required in waiver applications.

Areas of duplication with non-NQF requirements

Stakeholders have advised of two significant areas of duplication of requirements under the NQF with non-NQF requirements:

- the need for OSHC services to provide architectural plans as a condition of service approval is, in some cases, duplicating state government processes
- in Victoria, kindergarten services operating under Kindergarten Cluster Management (KCM) arrangements are required to comply with requirements that are very similar to the QIP requirements of the NQF.

There is also some overlap between certain NQF requirements and jurisdiction-based food safety requirements. This is explored in section 7.3.

OSHC service approvals — In order to receive approval to operate a service, service operators may be required to provide the Regulatory Authority with site plans for the proposed service location. While the approvals process as a whole was generally perceived by services to be straightforward, some found the requirement for architectural plans to be costly and time consuming. In particular, OSHC services operating on school grounds noted that older schools often did not have ready access to such plans, forcing services to go through the costly exercise of obtaining new documentation. Since these school sites are already used for educating children — and state governments have their own processes for ensuring these areas are safe for children — this requirement appears to duplicate state processes. While changes made to the National Regulations in September 2013 allowed regulatory authorities to use discretion in this area (for example, by not requiring certain information about the proposed premises when a service is located on school grounds), governments and ACECQA should question the added value and necessity of this requirement and consider its abolition.

Victorian Kindergarten Cluster Management (KCM) arrangements — Services operating under KCM arrangements are centrally managed and required to comply with the KCM policy framework, under which they must complete an annual KCM Service Improvement Plan (SIP). These plans 'document strategies to guide service improvement' (Victorian Department of Education and Early Childhood Development 2009) and clearly overlap with the NQF's requirements for QIPs. Given that the NQF creates a nationally consistent and agreed framework for improving quality, if kindergartens remain under the NQF then the onus should be on the Victorian Government to remove the overlaps of the KCM arrangements with the NQF — in essence, the NQF's QIP should be a sufficient requirement to replace the KCM's SIP.

ACECQA (2013i) suggests that other potential areas of duplication with the NQF may include displaying information, keeping attendance records, obtaining service approvals and notifications about changes to services. The Commonwealth Department of Education similarly notes that:

> … interaction between three levels of government has led to a tendency for some overlap or duplication between the levels and regulatory burdens for providers, who often have to respond to requirements from all three levels and across local/state/territory boundaries.
>
> Opportunities to reduce duplication through better coordination include:
>
> - … reduce burden on services reporting same or similar information to different levels of government (including the need/capacity to share information better)
> - address the complexities of a multiple tier system — some services are regulated under the NQF, some are Australian Government approved but not NQF, some are state approved but not NQF, and some are not approved
> - integrate/further enhance information systems (between all levels of government, service providers and, where possible and practical, families). (sub. 147, p. 23)

Governments and ACECQA (in particular, as part of the ongoing review of the NQF and ACECQA's streamlining processes) should systematically examine and eliminate areas of overlap between the NQF and state or local government requirements.

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.

Changing which services are included in the scope of the NQF

Many service types are excluded from the scope of the NQF by the National Law and the National Regulations (more detail in appendix F). Only a limited number of services are excluded by the National Law and these services are unlikely to be brought into the NQF in the near future due to (among other challenges) the difficulties in amending the Law. Services excluded by the National Regulations could more easily be brought under the scope of the NQF by amending the National Regulations (subject to a cost-benefit analysis and assessment of how these services could be brought into scope over time).

The scope of the NQF should be extended to some additional service types

Expanding the scope of the NQF to include some service types not currently in scope would ensure the vast majority of Australian ECEC services satisfy the same quality standards. As such, governments should work towards including all services that receive Australian Government subsidies into the NQF as soon as possible. Although this may increase some costs for such services and costs for regulatory authorities, several key bodies for service types currently receiving Australian Government assistance have expressed a desire for this to occur (box 7.13) and the Commission considers it is appropriate that taxpayer funds be directed only to services meeting minimum quality standards.

Box 7.13 Support for expanding the scope of the NQF

Occasional care

> We believe that out of scope services including occasional care (OC) services should be brought into the NQF as soon as possible. Most OC services implement the Early Years Learning Framework (EYLF) and use the National Quality Standard (NQS) to guide the curriculum and practices for children, families and the wider community.
>
> … The inclusion of out of scope services in the NQF would replace the 'red tape' of the various levels of government. Having one system would also support and reduce the administration costs to organisations who have various service types under the auspice. (Occasional Child Care Australia, sub. 200, pp. 1-2)

In-Home Care

> We … believe that IHC [In-Home Care] should fall immediately within the scope of the NQF as it is presently categorised as a 'out of scope' service until the review that is expected in 2016. (National In-Home Child Care Association, sub. 365, p. 12)

Budget Based Funded care

> … services within the Budget Based Funded program [should] be included within the scope of the national regulations, including the National Quality Standard, over a period of time, with amendments to ensure cultural appropriateness and funding supports to enable compliance. (Secretariat of National Aboriginal and Islander Child Care, sub. 411, p. 6)

Mobile care

> MCSA believes that the regulation of those Mobile Children's Services [Providing licensable 'care' for young children as Approved Services], nation-wide, should be in-scope under the National Quality Framework [NQF]. (Mobile Children's Services Association of NSW Inc., sub. 406, p. 9)

Preschools and the NQF

In Tasmania and Western Australia, where almost all preschools are dedicated and integrated into the school system, the majority of (all, in the case of Tasmania) preschools are not included in the NQF (box 7.14). However, regulations governing preschools in these two states ensure that they still deliver care of a similar quality standard to, and align with, the NQF.

In the inquiry draft report, the Commission recommended that all dedicated preschools be similarly removed from the NQF and regulated under state and territory education legislation. This was driven by concerns about duplication between the NQF and state and territory regulations in some jurisdictions and considerations about the divide (in terms of the type of service provided) between ECEC provision to children below preschool age and formal preschool programs. This divide is particularly pronounced where preschool is provided as part of a jurisdiction's school system or in other standalone preschools (that is, dedicated preschools not delivered within a LDC service). This is because dedicated preschool programs are tailored to children of preschool age and are therefore delivered in an environment and timeframe that is somewhat different to that in a LDC service (Dowling and O'Malley 2009).

Box 7.14 **Regulation of preschools in Tasmania and Western Australia**

Tasmania

Tasmania has had a universal state funded kindergarten service in place for over 40 years, which has been integrated into the school system (including all non-government schools) over time.

The kindergarten year (including in LDC services) in Tasmania is regulated under the Education Act 1994 and is treated as education provided by a school. The Tasmanian Government chose to regulate kindergarten in this way 'to avoid duplication of some regulatory and administrative processes'.

However, the Tasmanian Government aims to:

> … ensure processes, policies and other regulatory mechanisms will be put in place under the Education Act to ensure that all kindergartens substantially correspond with the requirements of the Commonwealth legislation, including the NQS and implementation of the EYLF [Early Years Learning Framework]. (Department of Premier and Cabinet, Tasmania, sub. 390, p. 35)

The Tasmanian Regulatory Authority (pers. comm., 1 May 2014) has informed the Commission that LDC services providing preschool would be able to arrange with the Authority to have part or all of the service regulated under either the NQF or state legislation.

Western Australia

Western Australia also has a system of school-based preschool delivery. Kindergarten is regulated under the *School Education Act 1999*. However, a program is only recognised as a preschool program if it is provided within a school setting — that is, programs provided within an LDC setting are not officially recognised as preschool.

Compliance with the NQS is being incorporated into existing whole-school quality assurance procedures which the Government believes are a 'better fit' for the schooling sector and prevent the duplication of regulatory effort for schools.

In a similar vein to Tasmania's system, the Western Australian Government aims to ensure that state legislation aligns with the principles of the NQS:

> … the decision has been made to apply the NQS across the early years of schooling to Year 2 so that new and unhelpful divisions between Kindergarten and the rest of the school are not created. Adherence to the NQS will leverage the same quality improvements as will apply to pre-school provision in all other parts of Australia without duplicating regulatory effort for school administrators and their early childhood staff who are already subject to school legislation and regulatory procedures. (sub. 416, pp. 20-21)

Source: Department of Premier and Cabinet, Tasmania (sub. 390); Western Australian Government (sub. 416).

However, the Commission was convinced by participants that such a move would be detrimental to the universality of quality preschool and that much of the burden of meeting the NQF had already been undertaken and accepted by preschools.

While the Commission does not recommend that other jurisdictions should have to adopt the Western Australian and Tasmanian model for preschool regulation, it notes that the approach of these states appears to be working well. Other jurisdictions, particularly where the majority of preschools are within the schooling system (such as the Northern Territory and South Australia) or where there exist duplicative state and territory regulations, may wish to consider replicating the approach taken in Western Australia and Tasmania — in particular for dedicated preschools. Such a model could reduce the regulatory burden for dedicated preschools, which, as noted by the Northern Territory Government (sub. 461), Queensland Catholic Education Commission (sub. 364) and Hawker Primary School in the ACT (sub. DR489), may face duplicated requirements when regulated by both jurisdiction-based education legislation and the NQF.

If jurisdictions with overlapping regulations choose to retain the NQF for preschools, they should consider the removal of duplicative requirements or implementing some level of mutual recognition with the NQF (whereby state and territory regulatory requirements could be met by complying with the NQF). For example, the Preschool Teachers Association of the Northern Territory (sub. DR645) recommended that, since preschools within primary schools are regulated under the Territory's school review process, applicable standards from the NQF could be addressed as part of this process. In particular, the Association suggested that QA2, QA7 and some aspects of QA3 could be the responsibility of schools and the Education Department. The ACT Government (sub. 905) has informed the Commission that it is exploring a 'co-regulation model' for preschools to clarify their requirements and reduce regulatory burden and red tape and the Queensland Government (sub. DR893) has said it may support the removal of duplicative legislative regimes where ECEC is being delivered in a schooling context.

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.

7.3 Other regulations affecting ECEC

In addition to the NQF, ECEC services are affected by a range of federal, state and local government regulations. Some of these regulations appear to be imposing unnecessary restrictions and costs on services. Some Australian Government regulations (in particular, operational requirements under Family Assistance Law) are examined in chapter 10. This section examines a selection of state and local government regulations that the Commission considers should be reformed or abolished, including:

- application of state and territory food safety regulations to ECEC services
- state and territory child protection regulations
- regulations requiring immunisation for enrolment in ECEC services
- application of local planning regulations to ECEC services.

State and territory regulations

Background checks for educators should be harmonised or made national

A large number of submissions raised concerns regarding background checks for educators, particularly relating to inconsistent approaches between jurisdictions and the inability to transfer these checks between jurisdictions (for example, Goodstart Early Learning, sub. 395). Similar concerns have been raised in submissions to the Royal Commission into Institutional Responses to Child Sexual Abuse.

All jurisdictions specify certain legal requirements mandating that people working with children undergo a background check. Each state and territory has a different body responsible for undertaking background checks. These include units within government departments, police departments and other institutions such as the New South Wales Commission for Children and Young People.

All jurisdictions, with the exception of South Australia, have specifically designed background checks for people working with children, sometimes referred to as 'working with children checks'. People working with children in South Australia are only required to undergo a police clearance. Working with children checks are more extensive and targeted than a police background check. These checks assess the risk an individual poses to children's safety by drawing together information from multiple sources and focusing on different types of offences (such as sexual offences or offences relating to the harm or mistreatment of children).

The scope of working with children checks varies, but they generally give consideration to: all convictions, apprehended violence orders, charges laid (even if no conviction was recorded), information from professional organisations and any relevant allegations, police investigations and employment proceedings. In contrast, police checks are limited by spent conviction and non-disclosure legislation (for example, a police check cannot disclose convictions more than 10 years old).

There are broadly two approaches to background checks for people working with children:

- New South Wales and South Australia have employer-driven systems that make it mandatory for employers in relevant fields (including ECEC) to carry out background checks on prospective employees or volunteers. These provide 'point in time' background checks and individuals must undergo screening each time they commence work with a new employer.
- All other jurisdictions offer fixed-period, employee-driven certifications to engage in work with children. These certifications include ongoing monitoring — that is if, during the validity of the check, the individual commits a relevant criminal offence or is subject to a relevant work-related disciplinary proceeding, the administering authority may inform employers and alter or withdraw the entitlement to work with children. The period of validity for these checks varies between jurisdictions from two to five years.

The Commission notes that the National Framework for Protecting Australia's Children 2009–2020, endorsed by COAG in 2009, aims to develop a nationally consistent approach to working with children checks and child safe organisations. While it was intended that this would be in place by December 2009 (COAG 2009c, p. 18), it appears that only limited progress has been made toward a nationally consistent approach on working with children checks and this work may not be completed in the near future. It should be a priority for governments to develop either a nationally consistent approach to jurisdiction-based working with children checks (with harmonised requirements and including mutual recognition) or a single national check within two years. Either approach should only impose the minimum necessary regulatory burden on services, be employee-driven, include ongoing monitoring and have the longest acceptable validity. Most importantly, policy makers must ensure that any reforms do not result in a system that simply adopts the most burdensome of the jurisdictional requirements currently in place.

Food safety requirements overlap and should be streamlined

Although the NQF removed significant duplication in regulatory requirements, it appears to have also created some overlap where food safety obligations are concerned. In particular, some jurisdiction-based food safety regulations appear to have been duplicated by Part 4.2 of the National Regulations, specifically:

- Regulation 77: Health, hygiene and safe food practices
- Regulation 79: Service providing food and beverages.

Such duplication creates an additional cost for ECEC services. All food safety requirements should be covered completely by either the NQF (and services under the

NQF exempted from jurisdiction-based requirements) or by jurisdiction-based requirements (and removed or exempted from the NQF). Given that jurisdiction-based requirements are long standing and more detailed than those under the NQF, the latter option appears more sensible.

Another less significant, but nevertheless important issue, is the inclusion of 'childcare' services (LDC, occasional care and employer sponsored care) under Standard 3.3.1 of the Australian food safety standards. This Standard — *Food Safety Programs for Food Service to Vulnerable Persons* — requires businesses providing potentially hazardous food to vulnerable persons, in this case children, to implement a documented and audited food safety program if they prepare their own meals. Concerns about this requirement were raised in comments received:

> The Environmental health officers from the local government will more than likely tell you, if you were interested enough to ask, that whilst the population of children in childcare are considered to be vulnerable, the actual incidence of food contamination and poisoning is insignificant, compared to that of children being served in school canteens, kiosks and fast food / take away outlets. There was insufficient evidence warranting additional regulation of child care centres, yet the impact on productivity and the drain on managerial resources is enormous … Surely the time spent administering, complying and enforcing these regulations must be tested against the measurable difference it has made to the actual incidence of health issues, as opposed to simply mitigating the risk of unsafe food handling occurring. (comment no. 93, ECEC Worker)

The New South Wales Government, alone among the states and territories, has chosen to exempt ECEC services from this standard, which is estimated to save a $400 initial and $1089 ongoing cost on services (based on an examination of implementation costs by the NSW Food Authority 2009, p. 8). Other jurisdictions, in conjunction with Food Standards Australia New Zealand, should explore the impact this exemption has had in NSW; in particular to assess whether food safety policy objectives are still being met. If they are, other jurisdictions should also consider exempting ECEC services from this requirement.

Immunisation requirements in New South Wales

On 1 January 2014, the *Public Health Amendment (Vaccination of Children Attending Child Care Facilities) Act 2013* came into force in New South Wales, imposing changes to regulations that aim to improve vaccination rates among children. These changes prevent the enrolment of children in ECEC facilities unless parents provide the facility with certificates of immunisation, or a certificate of conscientious objection to vaccination or medical contraindication for vaccination. ECEC services are required to keep copies of these certificates as part of each child's immunisation record. New South Wales is currently the only jurisdiction that prescribes immunisation requirements as a condition of enrolment in an ECEC service.

There is little available information on the magnitude of the compliance costs imposed on ECEC services as a result of the new requirements in New South Wales. While it seems unlikely that these costs would be significant, it would appear an unnecessary additional requirement for services to keep records for children receiving the Child Care Benefit or Child Care Rebate, since children must be immunised to be eligible for these.

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.

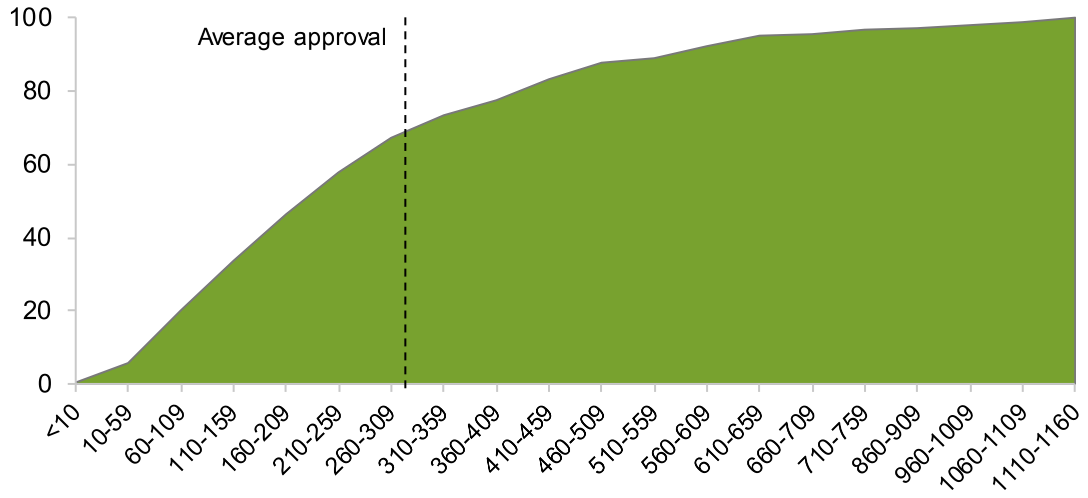
Local government planning regulations

The nature of local governments means that the planning and zoning regulations they impose on ECEC providers vary considerably. In many cases, councils impose restrictive or unnecessary requirements and have processes that inhibit ECEC provision and create uncertainty for providers. In some cases, this may be contributing to the long waiting times experienced by providers seeking development approvals for ECEC services (figure 7.6). This section draws together information from past analyses of Australian local government planning regulations, and supplements these by further examining planning regulations in a number of specific local councils.[5] The Commission received few submissions or detailed comments that focused on local planning regulations, possibly due to only limited numbers of stakeholders having experience with developing new ECEC services.

5 Local governments examined: Brisbane City Council (2014a, 2014b); City of Canada Bay (2013); City of Canterbury (2012); City of Casey (2014); City of Gold Coast (2011); City of Joondalup (2008); City of Sydney (2005, 2012); City of Whittlesea (2014); Holroyd City Council (2013); Ku-ring-gai Council (2013); Lake Macquarie City Council (2014); Mackay Regional Council (2014); Mount Barker Council (2013); Randwick City Council (2013); Redlands City Council (2013); Sutherland Shire Council (2013); The Hills Shire Council (2013).

Figure 7.6 **A development approval takes 282 days on average, but may take years**

Cumulative per cent of successful applications, by days for approval (2009-2012)



Source: Cordell Information (unpublished).

What should the role of local government be in planning for ECEC services?

When regulating ECEC services, the Commission considers that local governments should be primarily concerned with issues relating to locational criteria: limited aspects of the design of buildings and streetscapes; risks to those using the proposed sites; and effects on residents in the surrounding area (such as noise, traffic and privacy concerns). Addressing these concerns could reasonably involve regulations relating to zoning, parking, external features and general location (for example, by having policies encouraging ECEC developments close to public transport or schools).

Planning regulations for ECEC services should not:

- unnecessarily duplicate or extend on requirements of the National Regulations, which cover some aspects of the design and features of indoor and outdoor areas (for example, furniture and equipment and minimum space requirements) and operational requirements (such as staffing levels)
- exceed or duplicate other accepted standards, such as the Building Code of Australia
- affect the operation of the local market for ECEC services — for example, by trying to take into account the effect of a new development on existing ECEC services or requiring services to meet a demonstrated need.

Currently, a number of local governments appear to impose requirements that extend beyond (often far beyond) those the Commission considers should be within their responsibilities.

Common planning restrictions and requirements

The restrictions and requirements imposed on ECEC providers by the councils examined by the Commission varied widely. The most common requirements relate to: location; parking; interior design and design of outdoor areas within the property; size restrictions (minimum site size and conditions on child numbers); noise levels; and operating hours. In almost all councils examined, a selection of all these requirements were either unnecessary, excessive or overly prescriptive.

Location — as discussed above, location is a core concern for councils in terms of planning regulation. Locational requirements can relate to:

- which specific roads or types of roads can be developed on or near to
- co-location with, or proximity to, community facilities
- whether services can be located above ground level
- proximity to hazardous sites
- whether services fulfil a need for the community.

The most common requirements relate to roads for which it is appropriate to have development alongside, and are usually in relation to traffic management concerns — avoiding excessive traffic on residential roads and disruption to major arterial roads. Safety is also a consideration in certain restrictions on locating near major roads. In general, these requirements seemed well tailored to local settings, but their flexibility varies. For instance, many councils prohibit the development of services in cul-de-sacs, whereas others (for example, the Cities of Sydney and Whittlesea) are more flexible and take account of available parking or turning space.

Many councils require (or encourage) new services to be co-located with, adjacent, or in proximity to, certain community or other facilities. The facilities listed by councils vary, but include: schools; shopping centres; major employment establishments; libraries; places of worship; active parklands; open spaces; public transport; recreational facilities; and sporting grounds. This is often to minimise impacts on neighbours (which can be reduced where there are certain pre-existing uses) and reduce traffic concerns (as there may be existing parking and these areas may already be designed for higher traffic than residential areas). As noted by the South Sydney Regional Organisation of Councils (SSROC):

> Child care centres can be significant trip generators. For this reason, it can be argued that they should be located close to town or neighbourhood centres. (2005, p. 5)

Such regulations are sometimes incorporated in zoning. For example, Brisbane City Council generally requires ECEC services to be *adjacent* to community focal points in newly developing areas, but only *close to other community uses wherever possible* in built up areas.

Several of the councils examined have regulations that address whether services can be located above ground level. The approach of councils without specific regulations in this area is unclear. Some councils that regulate the floors on which services could be located explicitly limit development to the ground floor (to ensure safe evacuation procedures), while others permit flexibility to locate on higher floors (to allow supply in areas where development on ground level is not possible). For example, Ku-ring-gai Council and the City of Sydney both allow services to be located on the first floor where there are no viable alternatives on the ground floor in surrounding areas. Such policies are likely to encourage the supply of new ECEC services in areas such as the Sydney CBD.

Many councils have regulations that restrict the ability of services to be located in proximity to hazardous sites, such as petrol stations, LPG canisters and mobile towers. While these requirements have clear benefits and appear generally reasonable, there are inconsistencies between councils that often appear unrelated to mitigating the risks involved. For example, amongst councils examined, the allowed proximity to mobile towers varies from not within 50 metres in Sutherland Shire Council to not within 500 metres in the Ku-ring-gai Council. Some councils allow services to be located in proximity to such sites, but require potentially costly reports to assess the risks involved.

A small number of local governments appear to impose requirements that could be considered to interfere with the operation of local markets for ECEC services. For example, the City of Whittlesea requires services to meet a 'demonstrated need'; while The Hills Shire Council requires developers to conduct a 'Social Impact Assessment' that assesses the likely impact on services/facilities, including an analysis of the needs of residents and workers in relation to ECEC services, in order to establish demands for such services. The City of Canterbury requires:

- the lodgment of a location analysis with a map that includes all services within 750 metres
- the lodgment of a demand analysis of the need for the services in the proposed location
- that the developer demonstrate a need for the service, supported by demographic and statistical analysis
- that the service cannot be located within 400 metres of existing services.

It is unclear how widespread such policies are, but such practices are outside local governments' area of responsibility. The SSROC noted:

> A fundamental principle … is that it is not considered to be Council's role to influence the market for the establishment of child care centres any more so than for any other business wishing to establish in a permissible zone. (2005, p. 2)

Similarly, most of the councils interviewed during development of the *Best Practice Guideline for the Planning and Development of Child Care Facilities* by the University of Technology Sydney (UTS 2013, p. B.62) expressed concerns about the 'correctness' of councils taking on a role that involves them influencing supply.

Parking — Councils impose parking requirements on ECEC services in order to reduce the congestion effects of traffic and on-street parking on the surrounding area. Parking is a key concern for residents, as noted by the SSROC:

> Most objections about child care centres concern the spaces in front of homes being used for parking associated with the child care centre. (2005, p. 9)

Parking requirements vary widely and may include requirements based on the number of children, the number of staff or floor area. Requirements may relate to the number of car spaces, disabled spaces, bicycle spaces, spaces reserved for staff, a dedicated drop-off/pick-up area and on-street parking. In many cases, these requirements seem excessive and even wasteful, particularly considering that most parking at ECEC services is used for only a small proportion of the day.

Some councils allow for flexibility in parking requirements if it can be demonstrated that alternatives (for example, nearby parking or public transport) are available. For example, the city of Randwick allows for consideration of a reduction in parking requirements where the site is located in proximity to high frequency public transport and other trip generators such as schools and car parks, where there is sufficient on-street parking available at appropriate times, or the development is not likely to adversely impact the surrounding road network. However, such flexibility appears rare (in fact, the Brisbane City Council recently removed such flexibility in its new City Plan). Inflexibility in parking requirements has been noted as a concern when planning for ECEC services:

> Child care providers and developers suggested that councils need to exercise more flexibility with regard to traffic and parking issues. Providers in NSW and Western Australia gave examples of instances where the siting of facilities near public transport, in inner-city locations or co-located with schools will have different traffic and parking implications to other locations and should be assessed in a different way. Developers suggested that planners are too quick to consider worst case scenarios and discount the influence of good public transport and cycling infrastructure or 'drop-off' and 'pick-up' patterns when assessing parking requirements. (UTS 2013, p. B.54)

In meetings with stakeholders, the Commission has heard that such inflexibility can be a significant deterrent to developing new ECEC services, particularly in inner city areas, and that disagreements about parking can lead to protracted legal disputes. As such, policies that allow for flexibility in the application of parking requirements may remove a potential barrier to the supply or expansion of ECEC services.

Interior design — Most local government plans examined by the Commission have requirements related to the interior design and features of ECEC services (table 7.4). In many cases, this appears to be as a result of local government regulations containing design requirements that were included in pre-NQF, jurisdiction-based legislation. As noted above, many characteristics of the interior design of ECEC services are explicitly covered in the National Regulations and aspects such as the suitability of outdoor spaces are also covered by the outcomes based requirements of the NQS.

Table 7.4 **Requirements relating to design and other features within ECEC services**

Local Government	*Requirement*
City of Canada Bay (NSW)	Designated room/area that is used only for sleep for children under 2 years old Hot water pipes insulated with a minimum 10mm thick foil wrap
City of Gold Coast (Qld)	Planting is designed to provide opportunities for observation of natural processes, including growth, flowering and seasonal changes The playground design creates a visually interesting environment from a child's perspective
Holroyd City Council (NSW)	Plans are to show the number of children each room is proposed to accommodate to ensure staffing levels are sufficient for proper supervision.
Ku-ring-gai Council (NSW)	A craft preparation area is to be provided at the edge of the indoor play space The director's office/administrative area to include space for a photocopier and other administrative office furniture Plantings are to include an attractive variety of trees, shrubs and other soft landscaping measures that contribute to the educational value of the centre through a mixture of colours, textures and forms
Lake Macquarie City Council (NSW)	The kitchen must be able to accommodate one food trolley per room, an oven, stove, microwave, grill, kettle and toaster
Mackay Regional Council (Qld)	Landscaping provides educational interest through colour, perfume, textures; and interesting and quiet play areas Plant species are chosen for their safety, suitability and interest for children, hardiness, and ease of maintenance
Sutherland Shire Council (NSW)	Mattresses and other bedding are clean and comfortable No child who is of or above 7 years of age may sleep in the same room as another child of the opposite sex who is not a relative
City of Sydney and City of Canada Bay (NSW)	Planting should be grouped according to species with similar water needs

Local government regulations that exceed these requirements are of particular concern, since they directly conflict with nationally accepted standards and restrict the ability of services to innovate. The Commission found council requirements relating to: minimum indoor and outdoor space per child; the use of energy efficient appliances; the depth of sandpits; noise levels inside the service's buildings; the layout and type of plants used; the design of outdoor play areas (such as requiring separate areas for 'active', 'open' and 'quiet' play); the amount of sunlight indoors; designs that allow staff to supervise children;

and the use of transition areas (such as a patio between the indoor and outdoor play space). Such regulations appear less commonplace in Victoria, possibly due to the use of state-wide standards by local governments in that state (discussed further below). Regulations in unique areas outside the scope of the NQF, such as fire safety requirements where services are permitted to locate above the ground floor, are of less concern to the Commission, so long as they remain reasonable.

Size restrictions — It appears that many councils set limits requiring a minimum site size or imposing conditions on the number of children that can be cared for. Both requirements have the ability to (unnecessarily) limit the availability of ECEC.

Minimum site sizes were found to vary from 800m^2 (City of Canada Bay) up to 2000m^2 (Brisbane City Council). In some cases, these requirements varied by the number of children in care. Where councils gave rationales for these regulations, they related to ensuring that services were able to accommodate activity needs and meet minimum space and parking requirements. However, since services must already meet minimum indoor and outdoor space requirements prescribed in the National Regulations and parking requirements set by councils, there is no need to set minimum site sizes. Such requirements, rather than helping services meet design criteria, may in fact restrict services' ability to innovate by locating in smaller spaces within schools, workplaces or high density commercial areas (Brisbane City Council and the City of Gold Coast, for example, may waive minimum size requirements in such areas).

Several councils were found to limit the size of services by imposing conditions on the number of children for whom care can be provided. For example, the City of Canterbury limits services to caring for a maximum of 40 children in residential areas and the City of Sydney limits services to a maximum of 90 children (although the latter has indicated it now supports the removal this cap following recommendations made in the inquiry draft report, sub. DR876) . Such restrictions have the capacity to reduce ECEC availability by reducing the viability of services, as noted in a report by UTS:

> 'It is not possible to run a viable centre which is smaller than 50 places without affecting quality and the ability to attract a suitably qualified teacher.' (Child care providers, NSW) (2013, p. B.56)

The City of Sydney, in an attempt to increase the availability of places for younger children, requires at least one third of places to be for children aged under 2 years. However, rather than increasing availability, this kind of requirement can also limit availability by reducing the viability of ECEC services, since this is the most costly age group for which to provide care (chapter 9). Both types of blanket restrictions (on the number or age proportions of children) are counterproductive — the total size of services should be considered on a case-by-case basis by councils based solely on an assessment of how its size is appropriate for its location (in terms of noise, traffic effects etc.); councils should not interfere with market provision by stipulating the age distribution of places offered.

Noise levels — The regulation of noise levels should be the remit of local councils. However, the restrictions imposed by some councils examined were overly prescriptive. Where councils limit acceptable noise levels in surrounding areas, these appear to be almost always set at a prescribed level; generally 40dB(A). However, setting requirements in this way may not be appropriate, since many sites may have ambient background noise that could exceed such a specified level (SSROC 2005). Instead, it would be more appropriate for councils to specify acceptable noise levels as a range above background noise in the area, as is the case in Ku-ring-gai Council (which specifies a +5dB(A) range). In fact, the SSROC (2005) noted that noise from ECEC services was a common legal issue, and the court generally imposed a condition that noise not exceed background noise by +10dB(A).

Operating hours — A number of councils were found to impose restrictions on services' operating hours, generally in residential areas, to reduce adverse impacts on surrounding areas (table 7.5). These restrictions reduce the ability of services to provide flexible care, where such care might be in demand. Given that councils have the capacity to separately regulate aspects of ECEC services that may result in adverse impacts on surrounding areas (for example, noise levels), restrictions on operating hours seem unnecessary.

Table 7.5 **Restrictions on operating hours**

Local government	*Operating hours restricted to*
The Hills Shire Council (NSW)	7.30am to 6.30pm in rural and residential areas on weekdays only 6am to 8pm in business and industrial areas where the site does not adjoin a rural or residential area on Monday to Saturday only
Brisbane City Council (Qld)	7am to 7pm all week, in all zones
City of Canada Bay (NSW) City of Sydney (NSW)	7am to 7pm in residential areas Consideration given to variation in these hours if adjoining or adjacent to commercial or other non-residential land use
City of Canterbury (NSW)	7am to 7pm in residential areas on weekdays only
City of Joondalup (WA)	7am to 6pm in residential areas on weekdays 8am to 1pm in residential areas on Saturday

What would leading practice look like?

There is considerable scope for local governments to improve their approaches to planning and adopt best practices in a number of areas. Doing so could help increase ECEC availability by making it an easier and less costly process to develop new ECEC services or expand/update existing services. In many cases, this should also reduce costs for councils by eliminating the need to develop, update and enforce unnecessary regulations. Best practices that should be adopted by governments fall into three categories:

- not regulating areas outside of core council responsibilities (such as operational requirements of services, service size, interior design and features, the operation of the local ECEC market) and allowing flexibility, particularly in relation to the areas discussed above

- improving consistency
- providing information and support to providers.

The recently developed *Guidelines for the Planning and Development of Child Care Facilities* (UTS 2014) also note a series of practices that local councils could adopt to make it easier to develop ECEC services.

First, the examples discussed above demonstrate the range of unnecessary and rigid planning regulations imposed by local governments in relation to ECEC services. All councils should review their planning regulations and ensure that they do not relate to areas outside core local government planning responsibilities (as noted above) and are flexible wherever possible. One way to improve flexibility would be for councils to adopt a similar outcomes based approach to planning as is used by some local governments in Queensland. Under this approach, councils require developments to meet a given set of performance criteria — these criteria can be met by either following one of the 'acceptable solutions' provided by councils for each criterion, or by demonstrating how an alternative solution is appropriate, affording providers significant flexibility.

Second, there is substantial scope to adopt more consistent and holistic approaches across local governments. To achieve consistency across all areas of planning regulations affecting ECEC, it may be necessary for state governments to provide detailed guidance to, and exercise some central control over, local governments. Such an approach is used in Victoria, where the Victoria Planning Provisions document (a statewide template) is a comprehensive set of standard planning provisions that ensures consistency for various matters across all Victorian local governments and provides a standard format for planning schemes. Local governments must seek ministerial approval for regulations that differ from the standard planning provisions in the Victoria Planning Provisions. The Commission (PC 2012) has previously identified this kind of approach as leading practice — as a way to guard against potentially costly requirements being imposed by local governments when regulating building and construction. All Victorian councils also develop their own 'Municipal Early Years Plans' to develop and coordinate education, care, health services and activities for young children and their families. These plans are based on a framework developed by the Municipal Association of Victoria and Department of Education and Early Childhood Development, but are tailored to suit local circumstances and outline the council's role in providing services, infrastructure, planning, advocacy and community development for children and families.

Third, research conducted by UTS (2013), previous work by the Commission (PC 2012) and the examination of selected councils for this report indicate that councils could provide clearer information for ECEC developers on planning processes, including by providing checklist documents and guidelines on development assessment processes specific to the ECEC sector (sector-specific guidance has previously been identified as leading practice by the Commission). Guidelines (and other planning policies) should be updated regularly to ensure consistency with statewide and regional planning schemes and strategies and other relevant regulations (currently many local planning schemes refer to outdated jurisdiction-based quality regulations that have been superceded by the NQF).

Some councils also regularly undertake early childhood education and care supply and demand needs analyses and make this information available to providers and developers (Reilly and Bryant 2013). This can assist in attracting new services where they are most needed, in a way that does not directly interfere with the market for ECEC. Councils such as the City of Casey and many Victorian councils make this data readily available (UTS 2013).

In addition to providing written guidance, councils should actively engage with providers and prospective developers throughout the development application process, such as through pre-lodgement meetings (PC 2012) and by publishing the results of planning decisions (including the rationale for these decisions). Although providers regard pre-lodgement meetings as important, they are not offered by some councils:

> Many respondents stressed the importance of pre-lodgement meetings to encourage discussion about the concept, location and other issues prior to development application lodgement. Feedback from the interviews suggested that some councils no longer offer this service. … A number of child care providers said that councils had refused to express any opinion about a proposed site or design prior to lodgement, instead suggesting that they hire a planning consultant or other professional to give them advice. (UTS 2013, p. B.58)

Given the potential benefits of such meetings (particularly by expediting the development process), councils should ensure that the costs for pre-lodgement meetings are not excessive, and perhaps offer the first meeting free of charge. Businesses should, however, be prepared to pay for such services where they are utilised multiple times for the same development project.

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
- 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.

8 ECEC Workforce

Key points

- As of 2013, there were over 150 000 individuals working in formal early childhood education and care (ECEC) services. Well over 90 per cent are female. Around half of the workforce are employed in long day care, 18 per cent in preschool and 12 per cent in outside school hours care.
- Since the introduction of the National Quality Framework (NQF) in 2008, there has been substantial growth in the proportion of workers with a qualification. Over 80 per cent of contact staff now have an ECEC related qualification, 16 per cent possess a bachelor degree and nearly two-thirds have an advanced diploma, diploma or certificate III or IV qualification.
- There are shortages of childcare workers with appropriate qualifications, particularly in long day care. Shortages are most acute in New South Wales, in regional and remote areas, and for diploma qualified educators and for teachers.
- Wages are relatively low and job satisfaction is mixed across the sector with widespread concerns from within the sector that ECEC workers are undervalued and under paid.
  - There are no significant regulatory or other impediments precluding the sector from addressing these issues through offering higher wages, better conditions and improved career opportunities.
- Pay and conditions are predominantly determined through awards and wages rarely exceed the award to any significant degree. Reliance on award wages and other characteristics of the ECEC labour market are causing wages and conditions generally to be less responsive to increases in demand than might be expected.
  - However, a number of ECEC services advised the Commission that they pay some of their staff above award rates.
  - Many services are offering over award pay and conditions in areas where difficulties recruiting and retaining staff are most acute.
- Applications for Equal Remuneration Orders currently being heard by the Fair Work Commission, if successful, would increase the wages of all long day care workers and certain preschool workers, substantially increasing the costs of delivering services and putting pressure on fees.
- There are widespread concerns in the sector about the quality of some training received by graduates who have undertaken an ECEC qualification, particularly at the certificate III and diploma level.
- Employers should accept primary responsibility for the funding and support of ongoing professional development.

A professional and skilled workforce is critical to achieving quality ECEC services and consequent learning and development outcomes (chapter 5). The ECEC sector is highly labour-intensive — labour costs are by far the largest cost for services (appendix H) — and therefore increases in wages and other employment costs contribute very significantly to upward pressure on fees. For these reasons, workforce issues have a major bearing on the efficiency and effectiveness of the sector.

This chapter provides a brief overview of the ECEC workforce and examines various issues on pay and conditions; recruitment, retention and staff shortages; and training and development. It does not attempt to develop a strategy to meet future workforce needs of the ECEC sector.

The Commission's analysis of workforce issues in this chapter has, where relevant, drawn on the more detailed examination of many of the issues in its recent study of the Early Childhood Development Workforce (PC 2011b).

8.1 The ECEC workforce

The ECEC workforce is large. It comprises over 150 000 workers employed in over 16 000 approved services working with more than one million children. The overwhelming majority of these workers are female.

The shift in focus to early education rather than primarily care has underpinned the move to increase the formal qualifications of the workforce. Over 80 per cent of workers in the sector have an ECEC related qualification and around 16 per cent have a bachelor degree or higher qualification.

There are also those working outside the formal ECEC sector as nannies, au pairs and baby sitters. It is difficult to get an accurate estimate of these workers. The Australian Nanny Association (sub. 254) estimates that there are approximately 30 000 nannies currently working in Australia, but also noted that the number may be significantly higher due to parts of the sector being informal. There are estimated to be around 10 000 au pairs currently working in Australian homes (AuPair World, sub. 446). Given the informal nature of most babysitting, there are no reliable data on the number of people working as a babysitter.

How many and where do they work?

There were 153 155 staff employed in the formal ECEC sector at the time of the 2013 ECEC workforce census (table 8.1).

Table 8.1 **Early childhood education and care workforce**

2013

	NSW	*Vic*	*Qld*	*SA*	*WA*	*Tas*	*NT*	*ACT*	*Australia*
Long day care	24 792	17 490	18 260	5 388	5 533	1 477	734	1 972	75 646
Family day care	4 496	4 114	2 516	975	1 130	447	260	117	14 054
In home care	327	447	550	115	218	145	0	7	1 809
Occasional care	296	339	90	2	108	18	0	19	872
Vacation care	4 557	2 729	4 090	1 935	1 295	362	228	541	15 737
Outside school hours care	5 436	4 102	4 031	1 785	1 310	364	221	837	18 086
Preschool	8 284	6 840	3 527	2 051	4 399	882	456	513	26 952
Total[a]	48 188	36 061	33 065	12 250	13 993	3 695	1 898	4 005	153 155

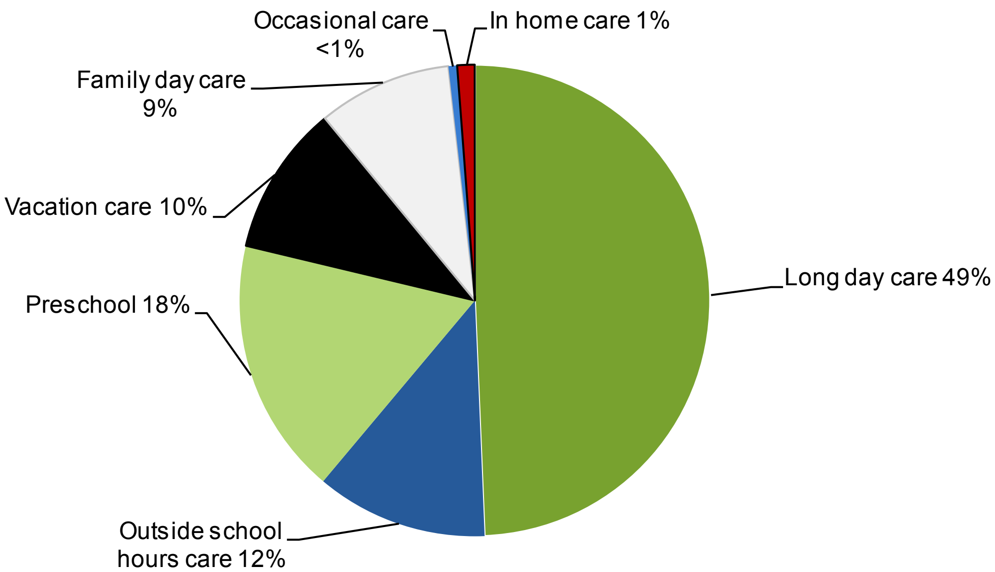
[a] Totals may not equal sum of components due to rounding of weighted data. Preschool numbers refer only to dedicated preschools.

Source: The Social Research Centre (2014a).

Nearly half of these workers were employed in long day care. The preschool sector accounted for around 18 per cent, outside school hours care nearly 12 per cent, vacation care around 10 per cent and family day care just over 9 per cent. Occasional care and in-home care together accounted for less than 2 per cent of the workforce (figure 8.1).

Figure 8.1 **Workforce employment share by type of service**

2013

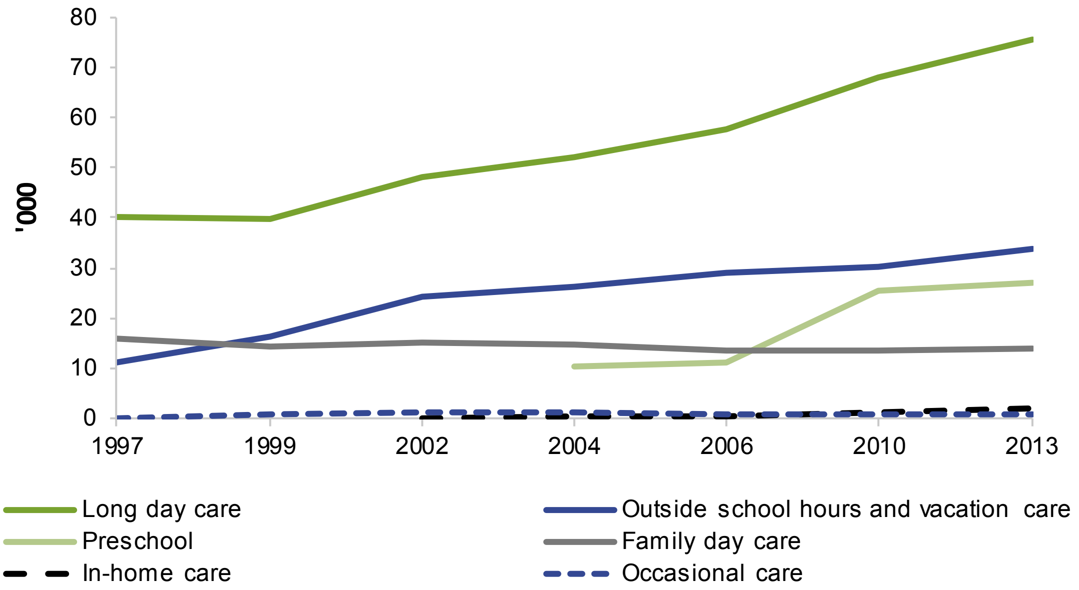


Source: The Social Research Centre (2014a).

The formal ECEC workforce has grown rapidly. It has more than doubled in size between 1997 and 2013. This growth has been particularly strong in outside school hours care, long day care and preschool. Employment in family day care and in-home care remained flat or declined over the same period (figure 8.2).

Figure 8.2 **The early childhood education and care workforce**[a]

Number of employees



[a] Data from 2008 are not available as the Australian Government Census of Childcare Services concluded in 2006. Data from 2010 and 2013 are from the National ECEC workforce census.

Source: PC (2011b); The Social Research Centre (2014a).

Who are they?

The ECEC workforce is predominantly female with males accounting for under 6 per cent of all ECEC workers. Males are more likely to be employed in outside school hours care and vacation care.

The median age of ECEC workers was 36 years for women and 26 years for men. Older workers tend to be in family day care and preschools with almost two-thirds of the workers in each of these areas aged 40 and over. This was in contrast to the long day care services where nearly two-thirds of the workers were aged under 40 (table 8.2).

The Productivity Commission study of the *Early Childhood Development Workforce* (PC 2011b) found that the ECEC workforce comprises two distinct groups. The first group are employed as directors, group leaders or teachers (around 30 per cent of the workforce) and a second group (around 70 per cent of the workforce) are employed as ECEC educators.

The group employed as directors, teachers or group leaders conducts program planning and leads the educators. The group employed as ECEC educators, provides education and care services directly to children.

Table 8.2 **Age and gender of the ECEC workforce**
2013

Age group	*Preschool*	*LDC*	*FDC*	*IHC*	*OCC*	*OSHC*	*VAC*	*Total*
	%	%	%	%	%	%	%	%
15-19	1.4	5.7	0.2	1.6	2.2	10.8	10.3	5.5
20-24	5.2	19.0	2.4	19.5	10.5	31.9	31.2	17.7
25-29	6.5	16.8	6.3	16.0	8.9	12.5	14.8	13.3
30-34	8.6	12.7	12.1	8.7	9.7	7.3	8.2	10.8
35-39	12.8	11.0	16.2	9.6	10.4	6.2	6.4	10.7
40-44	17.8	10.5	16.1	7.7	16.6	6.8	7.1	11.5
45-49	16.0	8.6	14.3	9.3	14.2	6.8	6.7	10.1
50-54	15.3	7.5	12.7	12.5	11.8	7.4	6.6	9.3
55 and over	16.4	8.2	19.7	15.3	15.7	10.2	8.7	11.1
Gender								
Male	2.7	2.7	2.8	2.3	1.5	16.0	17.0	5.7
Female	97.3	97.3	97.2	97.7	98.5	82.7	81.7	94.0
Intersex	0	0	0	0	0	1.3	1.3	0.3

Source: The Social Research Centre (2014a).

This first group of directors, teachers and group leaders receive higher wages than ECEC educators as their positions generally require them to possess higher qualifications. This reflects their need for a more detailed knowledge of child development and pedagogy, which allows them to effectively lead ECEC educators and ensure compliance with statutory regulations. Directors and teachers play an important leadership role in the ECEC workforce, by providing the management, leadership and governance skills necessary to implement the NQF. This includes a complex range of skills necessary for a range of activities including: the capacity to deal with boards of directors; committees of management; funding mechanisms; industrial relations arrangements and the mentoring of staff.

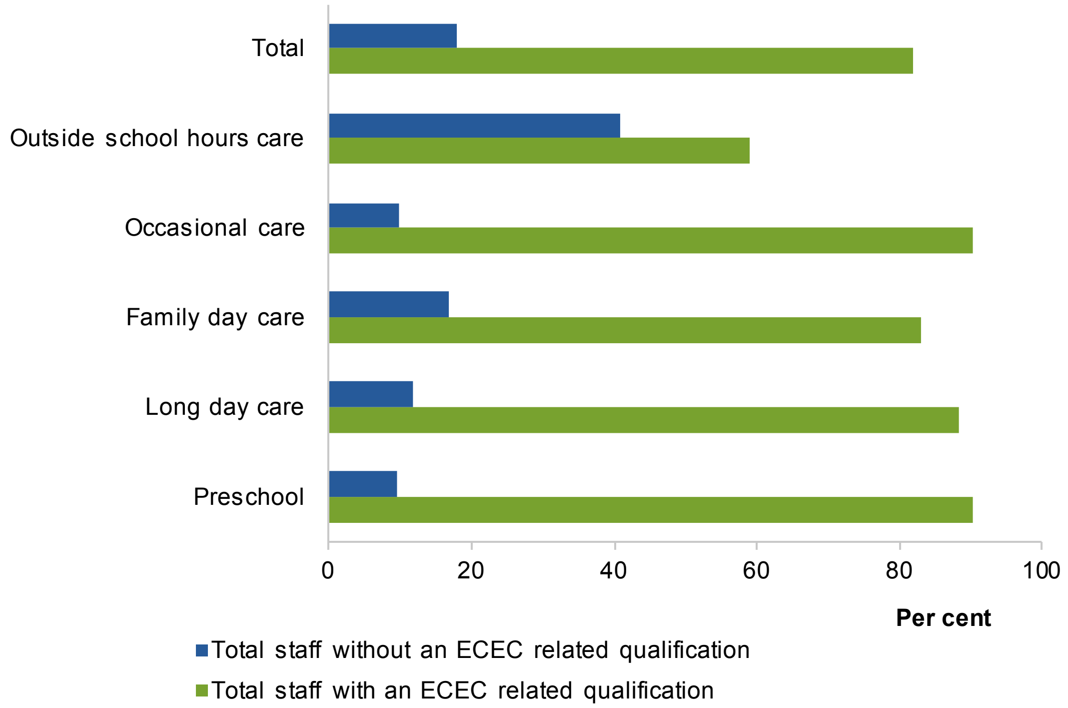
ECEC educators also require a detailed knowledge of child development and pedagogy, but generally they require fewer managerial skills. As such, ECEC educators commonly hold either diploma or certificate-level qualifications.

Education levels

Just over 80 per cent of the ECEC workforce had an ECEC related qualification in 2013 (figure 8.3). Around 16 per cent had a bachelor degree and nearly two-thirds (64.6 per cent) had an advanced diploma, diploma or a certificate III or IV (table 8.3). The share of the ECEC workforce without an ECEC related qualification fell from just over 30 per cent in 2010, at the time of previous ECEC workforce census, to 18 per cent in 2013.

Figure 8.3 **Share of ECEC workforce with and without an ECEC related qualification**[a]

2013



[a] Relevant ECEC qualifications include early childhood teaching, primary teaching, other teaching, child care, nursing, other human welfare studies, behavioural science and other early childhood education and care related qualifications. The population is the paid staff engaged in a contact role.

Source: The Social Research Centre (2014a).

The share of the ECEC workforce with certificate III or IV qualifications increased from just under 29 per cent in 2010 to over 36 per cent in 2013, while those with bachelor degrees or above increased from 14 per cent to 16 per cent. The share of the workforce with an advanced diploma or a diploma increased from 24 per cent to 28 per cent over the same period (The Social Research Centre 2014a).

By service type, preschool staff were more likely to have an ECEC related bachelor degree or higher, whereas those working in outside school hours care were more likely not to have an ECEC related qualification (table 8.3).

The significant share of the outside school hours care (OSHC) workforce without an ECEC related qualification reflects that, apart from the coordinators and directors, the qualification requirements for those working in OSHC is lower than that for other types of care and most of the workforce generally work on a casual or temporary basis to meet the 2 and 3 hour shifts required which enables them to undertake further education and study or pursue other interests. However, there has been a shift to employer provided professional development for outside school hours staff (PC 2011b).

Table 8.3 **Educational attainment of the workforce**[a]

2013

	Preschool	*Long day care*	*Family day care*	*Occasional care*	*Outside school hours care*	*Vacation Care*	*Total*
	%	%	%	%	%	%	%
Bachelor degree or higher	38.8	11.5	3.9	7.5	12.0	16.2	16.0
Advanced diploma or diploma	19.4	35.4	24.3	42.0	21.2	20.1	28.4
Certificate III or IV	30.5	40.1	53.3	38.6	23.7	23.0	36.2
Less than certificate III	1.6	1.2	1.5	2.0	2.3	1.9	1.5
No ECEC qualification	9.7	11.7	16.9	9.9	40.9	38.8	18.0

a Highest level of attained qualification in an ECEC related field for paid contact staff (these are staff who are paid and doing contact work). Does not include qualifications that individuals may be currently studying towards, but have not yet attained. Column totals may not equal 100 per cent due to rounding.

Source: The Social Research Centre (2014a).

The skills and qualifications of those working outside the formal ECEC sector, such as nannies and au pairs, varies. While it appears that most nannies have no formal ECEC-related qualification, some are qualified (often with previous experience in centre-based or family day care) and others are working towards a qualification. In the 2011 ABS Census of Population and Housing just under one fifth (19 per cent) of nannies had an ECEC-related qualification at the certificate III level or higher. Around 3 per cent had an ECEC-related bachelor degree or post graduate qualification, 8 per cent had an advanced diploma or diploma and 8 per cent had a certificate level III or IV qualification (ABS 2013b). Au pairs generally do not have any formal ECEC qualification and are considered to be carers rather than educators.

8.2 Pay and conditions

A common observation made in submissions to this inquiry and the Commission's previous study of the Early Childhood Development Workforce (PC 2011) is that the ECEC workforce is underpaid and undervalued. Many inquiry participants suggested that low levels of pay and poor working conditions are impacting on the ability of the sector to attract and retain staff and on the quality of services provided (box 8.1).

Box 8.1 **Participants' comments on the pay, conditions and status of the ECEC workforce**

The level of wages was a concern to a number of participants:

> As someone who has 20 years of experience working with children, as well as the Diploma in Children's Services, I can make more money working at K-Mart as a night filler than I do working in an industry that I am experienced and qualified to work in. (Jane Webb, sub. 121, p. 1)
>
> … [a colleague who] left Early Childhood Education and Care to work at Woolworths, as working 25 hours per week in the supermarket gave her the same income as working 40 hours in Long Day Care. (Alison Butcher, sub. 138, p. 2)

And because of the low wages only those passionate about their work stayed in the sector:

> Lower wages see this industry being utilised in many cases as a temporary work arrangement. Only the very committed stay for the long haul and these individuals go above and beyond what they are required to do, because they are passionate about their work. (Galbiri Childcare and Preschool Centre, sub. 129, p. 3)

There were numerous comments that work in the ECEC sector was undervalued by the wider community:

> For all levels of work in the ECEC, pay does not reflect the enormity of the importance and responsibility (for both children today and the future of Australian Society) involved in working with young children and their families. (Eastern Region Preschool Field Officer Group, sub. 96, p. 4)
>
> Despite wide acknowledgment of the importance of this issue, educators continue to be poorly paid for the work they do. (Carewest, sub. 93, p. 5)

Some felt that ECEC workers were not regarded as professionals:

> I believe that the outside world does see us as 'glorified babysitters' when using the term childcare worker. It does not adequately describe the nature of the job, nor the qualifications we need to receive — - asthma and anaphylactic training, first aid certifications, working with children's check, as well as the minimum qualification of Certificate III in Children's Services. All of this just to step foot in the workplace! And rightly so. (Shannon McLeod, sub. 19, p. 1)
>
> With the average Child Care Educator earning just $18 per hour, we are often considered mere babysitters, instead of being regarded as the professionals we are encouraged to be. (Margaret Cribb Childcare Centre, sub 244, p. 1).
>
> Unappreciated for our role as educator. Not seen as professional. Treated as a nanny or a cleaner. Not taken seriously. (South Coast Baptist College School of Early Learning Childcare, sub. 114, p. 2)

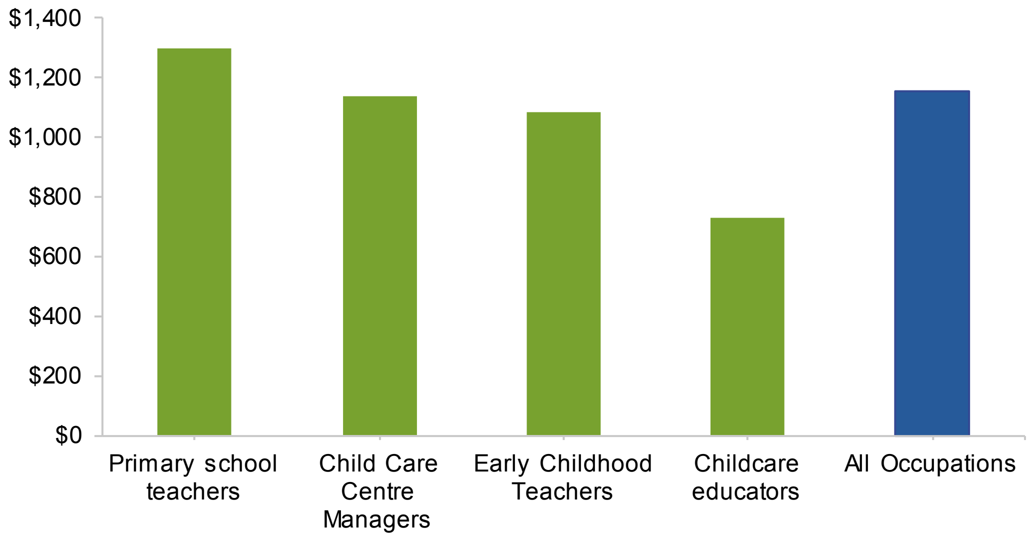
In addition to commenting on levels of pay, submissions have commented on various aspects of working conditions. These include:

- a career structure that does not adequately reward staff with higher qualifications or greater experience
- insufficient non-contact hours to complete curriculum, programming development and observation requirements (exacerbated by the introduction of reporting requirements under the NQF) and an expectation that staff will undertake some of this work unpaid in their own time
- insufficient sick leave and other non-wage entitlements, given the nature of the work environment
- limited opportunities for employees to undertake further training or study in paid time
- workers having to pay for various education and care materials themselves.

The ECEC workforce tends to earn less than the wider workforce

Median weekly earnings for full-time child care managers ($1140) and early childhood teachers ($1087) in 2012 were less than the median weekly full-time earnings for all occupations ($1153). However, median weekly full-time earnings for child carers or ECEC educators ($730) were significantly less (figure 8.4).

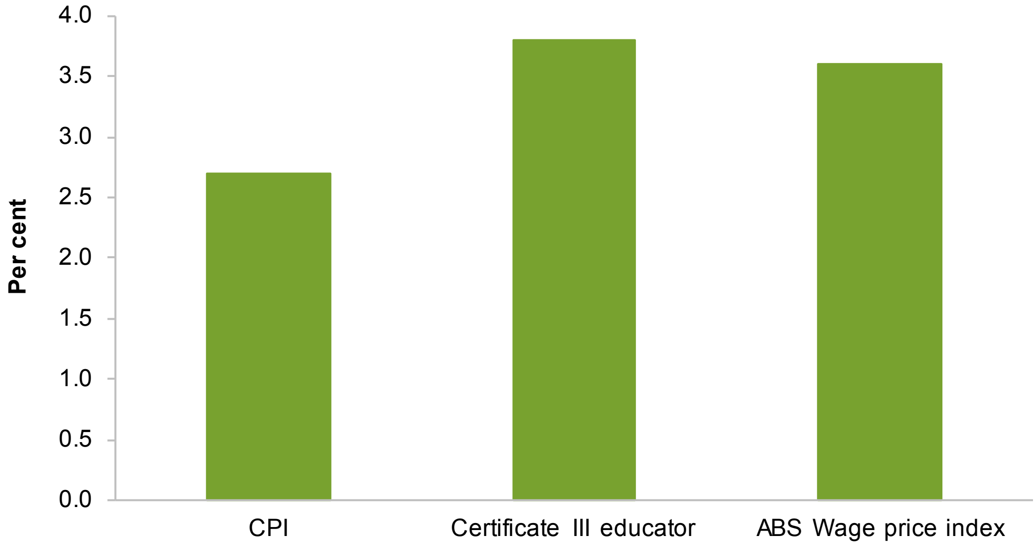
Figure 8.4 **Median weekly earnings for full-time employees by occupation**
August 2012



Source: Information provided by the Department of Employment.

The average annual wage growth for ECEC workers, based on the award wage for a certificate III educator has been ahead of general inflation and slightly above the Australian Bureau of Statistics (ABS) wage price index. (see figure 8.5)

Figure 8.5 **Award wages growth for certificate III educators[a]**
2005 to 2014



[a] The figure is based on average annual growth over the period 2005 to 2014. The ABS wage price index used is based on the ordinary time hourly rates of pay excluding bonuses for all industries.

Source: United Voice (pers. comm.); ABS Cat. no. 6401.0; ABS Cat. no. 6345.0.

Wages within the ECEC sector vary by qualification with certificate III educators earning less per hour than higher qualified workers (table 8.4).

Table 8.4 **Average hourly rates for ECEC staff**

	Hourly rates
	$
Certificate III	23.31
Diploma	26.88
Advanced diploma	29.59
ECT	31.43

Source: Goodstart Early Learning sub. 395.

ECEC workers in other countries also tend to have earnings that are low relative to the wider workforce. The Commission’s research has found that earnings in the United States, Canada and the United Kingdom exhibit a similar relationship to that in Australia in terms of the earnings of early childhood carers/educators compared with earnings of elementary/primary school teachers.

The actual hours worked across the ECEC sector vary by position and by service type. Directors averaged 33 hours per week, ECEC teachers 29 hours and ECEC educators around 25 hours per week (PC 2011b). Certain service types, such as OSHC, require workers to be available on a part-time, split shift, casual or seasonal basis. This reflects both the needs of employers and employees with many OSHC educators working on a part-time or casual basis while pursuing other interests and further study.

Disparity in pay and conditions with preschool and school sector

The pay and conditions for teachers in long day care services have in many cases been below that offered to teachers in preschools and primary schools. These differences in pay and conditions are considered to be a result of the historical separation of 'care' and 'education'. Consequently, early childhood teachers have tended to prefer to work in the school sector rather than in the early childhood sector. Professor Alison Elliot noted that:

> There has been a long standing trend for qualified early childhood teachers to prefer to work in the school sector where salaries, working conditions and career progression are more attractive than in the child care sector. (sub. 401, p. 6)

In most jurisdictions, preschool teachers are paid similarly to school teachers. In Western Australia, South Australia, Tasmania, the Northern Territory and the ACT most preschool services are provided by government and non-government schools and teachers in preschools receive similar wages to primary school teachers. Although outside the school system, preschool teachers in Victoria and Queensland are paid similarly to primary school teachers. However, in New South Wales, almost all long day care teachers and preschool teachers are employed on wages and conditions that do not compare favourably with those offered in the school system. Most preschool teachers employed by the New South Wales Government or by independent schools in New South Wales are paid at lower rates than teachers in the primary school sector (PC 2011b).

In its Early Childhood Development Workforce Report, the Commission (PC 2011b) concluded that to meet the agreed reforms required by the National Quality Standard and the National Partnership Agreement on Early Childhood Education, wages and conditions for qualified ECEC workers would need to be more competitive with those offered to primary teachers in the school sector and for many workers, wages would need to increase.

Importance of awards

The earnings of the ECEC workforce are predominantly determined through awards. The Productivity Commission (2011b) found that over 70 per cent of ECEC educators and around 35 per cent of ECEC directors had their wages set via the award in comparison to around 20 per cent of the rest of the workforce. The Commission (PC 2011b) also found that it was rare for wages in the sector to exceed the award by more than 10 per cent.

Submissions to this inquiry confirm the importance of awards in the sector and that wages rarely exceed the award to any significant degree (for example, ACTU sub. 167 and United Voice, sub. 319). While there are some collective agreements these tend to broadly reflect the minimum federal award rates. The ACTU submitted:

> Only a few community centres pay above award wages through workplace agreements, and there is little capacity for these wage rates to flow on to other parts of the early childhood education and care sector. (sub. 167, p. 10)

Importantly, employers are not prevented from paying above award wages. The awards only set minimum wages and conditions and a number of ECEC services advised the Commission that they are paying at least some of their staff above award rates (discussed further below).

Fair Work Equal Remuneration Case

In 2013, unions representing ECEC workers lodged applications to the Fair Work Commission for Equal Remuneration Orders to be made under the *Fair Work Act 2009 (Cth)* (box 8.2) on the basis of gender based undervaluation.

If the applications are successful, the Fair Work Commission could issue orders to increase the wages of all long day care workers and those preschool workers covered by the applications. Increases sought in the applications range from 27.5 per cent to just under 80 per cent depending on the classification. This would dramatically increase the costs of delivering long day care and preschool services and put pressure on fees. United Voice submitted:

> Our modelling suggests that a win in this [Fair Work Commission] case will cost an additional $1.6 billion across the sector in 2015-16. This will significantly impact on the overall affordability of childcare for parents, unless the additional costs of professional wages are taken into account in reforming the current funding system. (sub. 319, p. 71)

A previous Equal Remuneration Order made in February 2012 awarded wage increases (between 23 and 45 per cent depending on the level of position) in 9 payments phased in over 10 years to employees in the social and community services sector (covered by the Social, Community, Home Care and Disability Services Industry Award).

The Women and Work Research Group (sub. DR800) were of the view that the equal remuneration claim currently before the Fair Work Commission was the best means to deliver improved wage outcomes for the sector as productivity gains in the conventional sense could not deliver improved wages if quality services were to be maintained.

Box 8.2 **Equal Remuneration Cases**

Under Part 2-7 of the *Fair Work Act 2009 (Cth)* the Fair Work Commission has the power to make an order that fixes rates of remuneration to ensure equal remuneration for men and women workers for work of equal or comparable value. An equal remuneration order may be made on application by an employee to whom the order will apply, a registered trade union entitled to represent the interests of such an employee, or the Sex Discrimination Commissioner (s 302(3)).

In July 2013, United Voice and the Australian Education Union — Victorian Branch lodged an application for an Equal Remuneration Order for employees, covered by a number of specified awards, who perform work in a long day care centre. An amended application expanding coverage to preschools, was filed in November 2013. The Independent Education Union of Australia lodged an additional application for an Equal Remuneration Order in October 2013 for early childhood teachers (including those appointed as directors) covered by the Educational Services (Teachers) Award 2010. An amended application expanding coverage to preschools was filed in November 2013. The Full Bench of the Fair Work Commission has commenced hearing the applications.

In deciding whether to make an Equal Remuneration Order, the Commission must take into account any orders and determinations made by its Expert Panel) in the annual wage reviews mandated by Part 2-6 of the Act, as well as the reasons given by the Panel for such decisions (s 302(4)). It is also obliged by section 578 (which applies to all functions or powers exercised by the Commission under the Act) to take into account: the objects of the statute; 'equity, good conscience and the merits of the matter'; and 'the need to respect and value the diversity of the work force by helping to prevent and eliminate discrimination on the basis of [various grounds including sex]'.

In the social and community services sector case, the Full Bench of the Fair Work Commission accepted that it is not necessary to show that rates have been established on a discriminatory basis, but also made it clear that it is not sufficient to establish that the relevant work is undervalued — the undervaluation must be based in some way on the gender of the relevant employees.

Any increases may be phased in, where the Commission considers that it is 'not feasible' to provide for equal remuneration with immediate effect (s 304). However, an equal remuneration order cannot decrease rates of remuneration (s 303) so, for example, the Commission could not reduce the higher rates of remuneration of a male (or predominately male) comparator group to bring the rates into line with the lower rates of remuneration of female employees subject to an application.

The Act provides for penalties (s 305) for employers breaching an equal remuneration order (or anyone else knowingly involved in an employer's breach, such as a director, manager or external adviser (s 550)) and also for orders to be made that the effects of the breach be rectified.

Source: Layton et al. (2013).

Job satisfaction

Although overall levels of job satisfaction in the ECEC workforce appear to be high, there are concerns across the workforce around pay, the level of recognition for the work done and the levels of stress faced.

The 2013 National ECEC workforce census staff survey of over 70 000 ECEC workers found that 87 per cent of the workforce were satisfied with their job, but only 49 per cent were satisfied with their pay and conditions (The Social Research Centre 2014a). Slightly over half of the ECEC workforce believed that their job had a high social status and indicated that their job was stressful.

Reflecting the high levels of job satisfaction overall, only a small proportion of the respondents to the survey (11.2 per cent) indicated that they would leave the sector today if they could. Those employed in family day care (14.8 per cent), long day care (12.8 per cent) and occasional care (11.4 per cent) were the most likely to want to leave the sector. Staff generally entered the sector because they wanted to work with children (83.4 per cent) and only 15 per cent entered the sector because it was their only employment opportunity. Around two-thirds of ECEC workers (66.2 per cent) would recommend a career in the sector to others and over 60 per cent expressed an interest in furthering their career in the sector (The Social Research Centre 2014a).

A United Voice survey of ex-members (sub. 319, attachment 3) found that respondents were generally positive about the sector and most had joined the sector to work with children. The most commonly cited problems with working in the ECEC sector were poor pay, stressful working conditions and unpaid working hours.

The impact of the NQF on job satisfaction

As noted above, participants have raised concerns about insufficient paid non-contact hours to complete curriculum, programming development and observation requirements. Submissions have noted that the implementation of the NQF has introduced additional reporting and other requirements which have increased the administrative load for educators and teachers (chapter 7) and have reduced their autonomy. This is having a negative impact on job satisfaction:

> ECEC educators and teachers currently report that they have insufficient paid, noncontact hours in which to complete curriculum and observation requirements. As a result, these are often completed in their own time … This situation has been exacerbated by the introduction of reporting requirements through the NQF. (United Voice sub. 319, p. 37)

> Since the implementation of the NQF, practitioners have found that their previous knowledge has been discounted; thrust into an environment of change that has caused many to feel that their worth as an educator has diminished. …

> It appears that their autonomy in decision making for the process, to gain the best outcomes for children, has been overtaken by the National Law and the National Regulations giving

practitioners no power to negotiate – just adherence to the rules. (Australian Childcare Alliance sub. 310, p. 43)

Career pathways

Career pathways in the ECEC sector have typically involved entry as an ECEC educator with or without formal vocational education and training qualifications. Some educators progress to become ECEC directors based on further study and experience. Early childhood teachers often commence in the sector after completing a bachelor degree, but many have also completed further study whilst working in the sector.

However, the ECEC sector is marked by a relatively flat career structure where the length of service or level of qualifications do not have a major impact on earnings. This acts as a disincentive to ECEC workers to obtain further qualifications or to remain in the sector and is an issue of concern to many stakeholders:

> … many workers do not find the benefits of additional qualifications to be worthwhile, since compensatory wage increases are too minimal (United Voice sub. 319, p. 33)

> … the current entry level points to each of the classifications in the Award are satisfactory, but the 3 or 4 increments that follow are insufficient in quantity and value, and fail to produce a longer term career path to reward those educators that remain in the sector and develop their skills through on the job experience and off the job training and development. (Guardian Early Learning Group sub. 274, p. 9)

What factors constrain improvements in pay and conditions?

The Commission has previously observed that ECEC services have largely continued to pay award wages despite persistent shortages of staff and significant waiting lists. It observed that the predominance of award wages suggested a highly regulated and managed sector in which market forces are moderated. The Commission identified a number of factors that may restrain growth in the wages of the ECEC workforce, causing them to be less responsive to demand and quite rigid around the levels set by awards (box 8.3).

The Commission further found that as a result of such factors:

> … there is limited potential to innovate in the delivery of ECEC services and to reward more productive workers with higher wages. Limits to innovation limit average ECEC labour productivity and therefore wages. (PC 2011, p. 67)

Submissions to this inquiry (for example, United Voice, sub. 319) have highlighted other related constraints on wage increases:

- the level of fragmentation of the ECEC sector and large number of small services, which makes large scale enterprise bargaining impractical
- the large number of workers that are female and/or from an ethnic/non-English speaking background which tends to increase vulnerability in bargaining

- the tight profit margins on which many businesses operate mean that, in these cases, cost increases arising from increased staffing costs are more likely to be passed onto parents in the form of higher fees.

Others have noted that ECEC staff are attracted to the industry based on their passion for children and while they would prefer higher wages, generally they demonstrate a willingness to work in the sector at current wages and conditions. Indeed, Guardian Early Learning Group have observed that they are 'not seeing massive pressure from staff on wages' (sub. 274, p. 8).

However, there is also evidence that some services are offering above award wages and conditions of employment in order to attract or retain staff (see below).

Box 8.3 **Why are ECEC wages not more responsive to demand?**

The Commission found a number of possible explanations for wages being unresponsive to demand and sticky at award levels, including:

- Staff-to-child ratios restrict the scope for services to achieve productivity gains and real wage growth.
  - As ECEC workers' incomes are directly linked to the number of children in their care, staff-to-child ratios that limit the number of children in an ECEC worker's care also limit that worker's income.
- That small community run organisations may lack the expertise to negotiate enterprise-level bargaining arrangements or performance-based agreements and find paying award wages less complex.
  - As a result, award wages become the default wage-setting mechanism for a large number of ECEC workers.
- That ECEC workers feel constrained in asking for pay rises when they have to face parents who will bear the impact through fee increases.
  - This may mean that ECEC wages only increase as relevant awards increase.

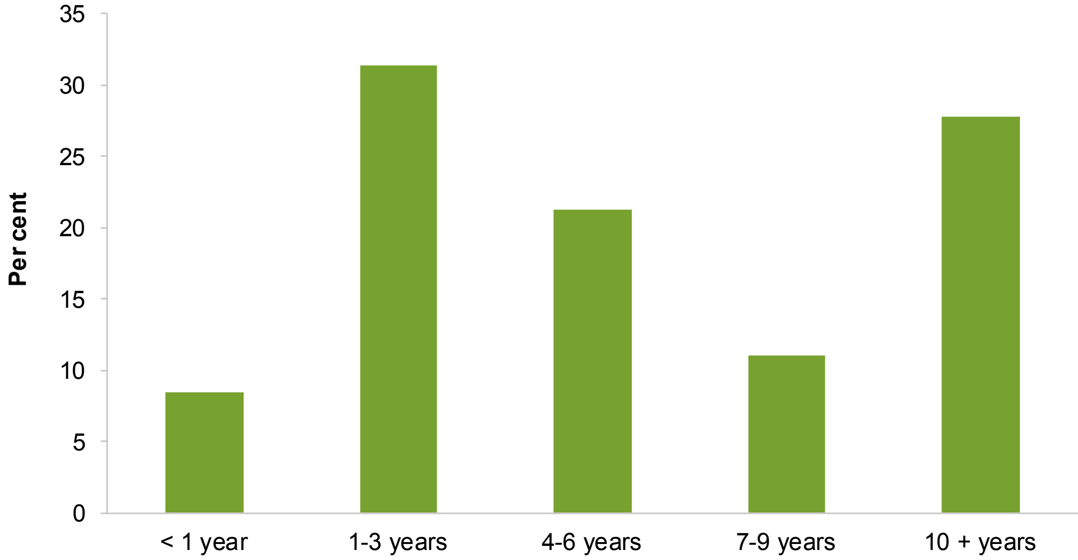
This may also explain why waiting lists emerge as a means of rationing excess demand. ECEC services are not required to, and in general do not seem to, increase the fees paid by parents to clear waiting lists (chapter 9).

Source: PC (2011b, pp. 66–67).

8.3 Recruitment, retention and workforce shortages

Around 60 per cent of the ECEC workforce (not including those working in the preschool sector) employed as paid contact staff have 4 or more years' experience in the sector. Around one quarter have 10 or more years' experience and around 8 per cent have less than one year's experience in the sector (figure 8.6).

Figure 8.6 **Years of experience of paid contact ECEC staff**



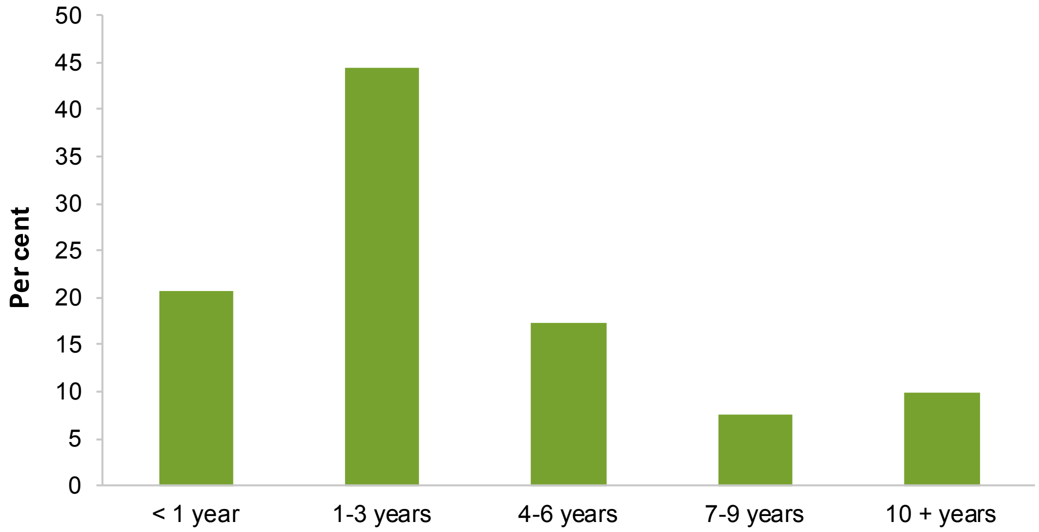
Source: Social Research Centre (2014a).

In its study of the early childhood development workforce, the Commission reported that teachers and directors tended to have spent more time in the sector than educators. The average tenure of educators was 7 years and for teachers and directors it was 11 years. The overall average tenure for the sector was roughly the same as the rest of the workforce.

Drawing on the ECEC workforce census (The Social Research Centre 2014a), around 20 per cent of paid contact staff had less than one year's tenure with their current employer, 44.4 per cent had 1 to 3 years and 10 per cent had more than 10 year's tenure (figure 8.7).

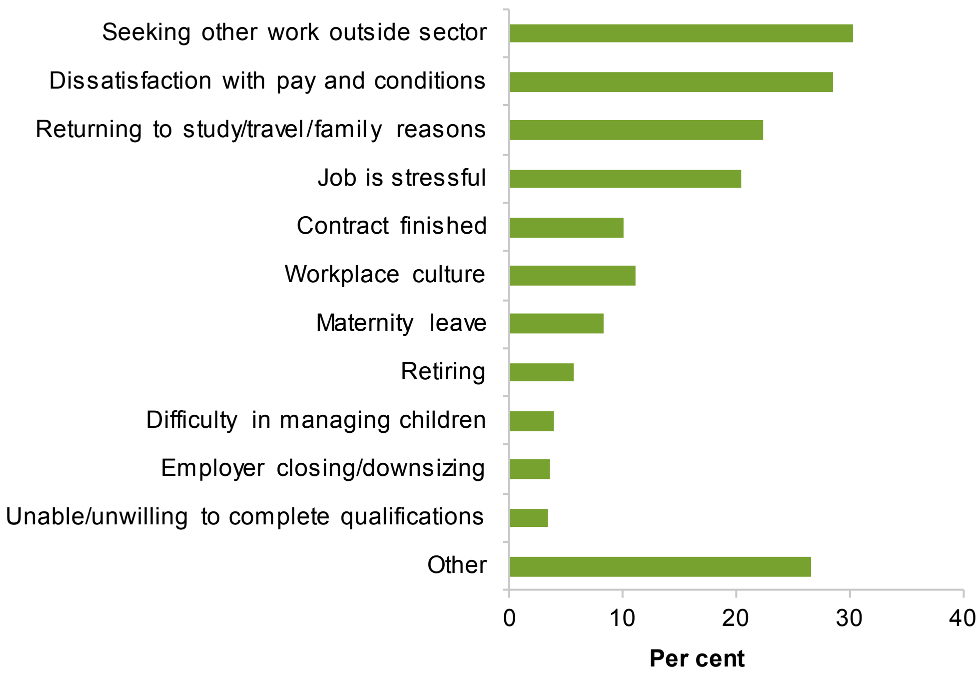
The 2013 National ECEC workforce census staff survey found that most workers (80.4 per cent) expected to be with the same employer or business in 12 months' time (The Social Research Centre 2014a). The main reasons why staff thought they may finish their current job in the next 12 months were to seek work outside the sector (30.2 per cent), dissatisfaction with pay and conditions (28.5 per cent), return to study, travel or family reasons (22.4 per cent) and the job was stressful (20.5 per cent) (figure 8.8).

Figure 8.7 **Tenure of paid contact staff with current employer**



Source: Social Research Centre (2014a).

Figure 8.8 **Main reasons why ECEC staff may finish their current job in the next 12 months[a]**



[a] Survey respondents could indicate more than one reason for expecting to finish their current job in the next 12 months.

Source: The Social Research Centre (2014a).

Some submissions expressed concerns about the rate of turnover of ECEC staff (for example, ACTU, sub. 167 and United Voice, sub. 319). The Commission (2011b) has previously found that although staff turnover is a problem for Indigenous-focused services and services in rural and remote areas, turnover for the ECEC sector as a whole, at 15.7 per cent per year, is only slightly above that for the rest of the workforce. However, staff retention does appear to be a particular issue across the broader ECEC sector for certain classifications of staff, such as teachers (see below).

Staff shortages

The Commission has been presented with substantial evidence in submissions of widespread staff shortages in the ECEC sector, particularly in long day care. A selection of comments from submissions about the difficulties attracting and retaining suitably qualified staff are included in box 8.4.

Box 8.4 **Participants' comments on difficulties attracting and retaining qualified staff**

The City of Sydney said:

> Over the last few years, the City has at times needed to run three or four recruitment rounds — sometimes resulting in positions being vacant for up to a year — before finding suitable staff. (sub. 196, p. 11)

The Guardian Early Learning Group's experience was:

> Full time, diploma qualified room leaders are the most difficult staff to source at the moment. There are not enough of them and many have chosen to work casually to avoid the requirements of the NQS or because they prefer the lower stress and higher pay of being casual. (sub. 274, p. 8)

A small service told Child Care NSW:

> 'At this point in time we are going to have to operate at less than licensed places [because of the new ECT requirements] and we have to turn families away.' (small service, details withheld, cited in Child Care NSW, sub. 333, p. 13).

Family Day Care Australia commented:

> The early childhood education and care sector is critically short of appropriately qualified staff … (sub. 301, p. 15)

Australian Childcare Alliance found that:

> In rural, remote and some regional areas it is almost impossible to recruit qualified educators …
>
> OSHC services find it extremely difficult to recruit any person but in particular qualified educators due to the part-time nature of the work and the split shifts involved. Approved Providers very often find themselves in a position where they have no choice but to recruit, regardless of the suitability of the applicant. (sub. 310, pp. 41–42)

SNAICC noted:

> … challenges in recruiting and retaining Aboriginal and Torres Strait Islander staff, few staff fluent in the local language … (sub. 411, p. 8)

The new staff ratios and qualification requirements in the NQF have made it more difficult for services to attract and retain sufficient staff by substantially increasing the demand for ECEC workers. The Commission has previously examined the effect of the NQF on the ECEC workforce (before its introduction) and estimated that 15 000 additional workers would be required as a result of the reforms (PC 2011b).

Shortages are most acute in New South Wales, in regional and remote areas, and for diploma qualified educators and teachers. There are also particular challenges in recruiting and retaining qualified Indigenous workers.

Workforce shortages are most evident for centre based services, particularly long day care services' with those that do not offer a preschool program especially affected because they did not previously require a teacher. These shortages are noted in the Australian Government's *Skill Shortage List* for 2013 (Department of Employment 2014), which classifies:

- 'Child Care Workers' (non-teachers) as being in a 'National Shortage' — meaning employers are unable to fill or have considerable difficulty in filling vacancies — with pronounced shortages for diploma qualified workers in particular, in part due to NQF qualification requirements (chapter 7)
- 'Early Childhood (Pre-primary School) Teachers' as experiencing 'Recruitment Difficulty' — meaning some employers are unable to attract and recruit sufficient, suitable workers. Shortages are particularly acute in New South Wales, partly due to the maintenance of requirements for teachers that are higher than those adopted by other jurisdictions under the NQF (chapter 7).

In addition, state and territory skill shortage lists classify 'Child Care Managers' as being in shortage or experiencing recruitment difficulties in the South Australia, Tasmania, Western Australia and the ACT.

Although early childhood teachers (ECTs) are currently classified as experiencing recruitment difficulty, they were previously classified as being in national shortage from 2009–2012 and their recruitment was identified by 73 per cent of respondents to a survey of Australian Childcare Alliance (sub. 310, p. 40) members as the primary workforce challenge they faced. Before 2009, ECTs had not been classified as in shortage or experiencing recruitment difficulties since skill shortage lists began in 1986 (Department of Employment 2013). In contrast, other workers have been in shortage for nine of the ten years to 2013. Managers meanwhile, have been in shortage for eight of the ten years to 2013 — in fact, all states not experiencing a shortage of managers in 2013 were experiencing shortages or recruitment difficulties in 2012.

The provisions of the NQF allow services to apply for 'waivers' to exempt them from staffing requirements and to use staff without formal qualifications to fill vacancies for qualified staff. As at 31 March 2014, 4.4 per cent of services had a waiver for staffing requirements (appendix F). Submissions raised a number of concerns with the process of applying for waivers under the NQF — these are discussed in chapter 7.

The Australian Government Department of Education commissioned a workforce review to inform governments of the progress of the children's education and care sector towards meeting the new qualifications requirements and to identify any gaps or areas requiring attention and additional support.

Recruitment of ECTs a particular challenge

Recruitment of ECTs presents a unique set of challenges. This is because many teachers who are qualified to work in ECEC are also qualified to work in primary schools, which in most jurisdictions offer similar if not higher pay, better professional development and support and more career opportunities (PC 2011b). In fact, research conducted by the former Department of Education, Employment and Workplace Relations (DEEWR 2013c, pp. 2–3) showed that employers recruiting other types of teachers (primary, secondary, special needs and teachers of English to speakers of other languages) experienced little difficulty, generally attracting multiple suitable applicants and filling most vacancies:

- across all teacher types, employers attracted 10.1 applicants per vacancy filling 86 per cent of positions
- in contrast, employers of ECTs attracted 2.2 suitable applicants per vacancy and filled only 69 per cent of positions
  - services in New South Wales experienced the greatest difficulty recruiting ECTs — in 2013 services received, on average, less than one suitable applicant per vacancy and filled only 47 per cent of positions in a sample survey period (DEEWR 2013a).

While both long day care services and preschools must compete with schools for teachers, long day care services face particular challenges because they also struggle to compete with preschools, which typically offer higher salaries, shorter hours and more holidays. In fact DEEWR (2013c) research noted that in 2013, as in previous years, employers recruiting for kindergarten and preschools generally filled ECT vacancies easily, whereas most employers recruiting for long day care services reported greater difficulties and some vacancies remained unfilled.

Recruiting ECTs is also complicated for long day care services because the National Partnership on Universal Access to Early Childhood Education has substantially increased the demand for ECTs in preschools. For instance, the Western Australian Government (sub. 416, p. 22) notes that increasing the duration of preschool programs under the National Partnership in that state (from 11 to 15 hours per week) necessitated the employment of an additional 272 early childhood teachers and 175 education assistants.

The extent of these challenges varies between jurisdictions and may vary between providers. For example, a sole operator may find it significantly harder to recruit suitable staff than a large, well known provider — indeed, during consultations with the sector, a number of large providers indicated to the Commission they have no issues finding suitable staff due to their position as an 'employer of choice' for workers in the sector. In addition, although occasional care services are not included in the NQF, they maintain a similar workforce to long day care services and are likely to face increased competition for staff as a result.

Workforce shortages are particularly prevalent in regional and remote areas

Workforce shortages are particularly prevalent in regional and remote areas. Services in these areas find recruitment especially challenging, both due to a lack of qualified staff in these areas and difficulty attracting staff from metropolitan areas (box 8.5).

Box 8.5 **Rural and remote services struggle to find appropriate staff**

The Community Child Care Cooperative (NSW) said:

> [Community Child Care Cooperative] members tell us that staff recruitment is an issue, especially in rural and remote NSW communities. Anecdotal evidence tells us the problem is worse when services are trying to recruit directors or coordinators or qualified teaching staff, and is more difficult for long day care services than it is for preschools. (sub. 173, p. 20)

Goodstart Early Learning noted:

> Some vacancies for ECTs and Diploma-qualified educators in the Northern Territory have been open for over 150 days, due to lack of candidates in the area with the required qualification levels … In regional New South Wales there are vacancies that have been open for over 200 days for ECTs. (sub. 395, p. 82)

The Queensland Catholic Education Commission commented:

> In remote areas, qualified teachers are extremely difficult to access — relief teachers are rare. (sub. 364, p. 9)

Child Care NSW was told:

> 'We are in a small rural town and finding an ECT is like finding a needle in a hay stack. It is also annoying that we would have to put off very experienced staff with diploma qualifications for more than likely someone straight from uni with no experiences with young children. It is a very worrying time for us.' (details withheld, cited in, sub. 333, p. 13)

The Western Australian Government's experience was that:

> Western Australia's regional workforce development plans indicate that there is a shortage of ECEC educators (childcare workers) within most regional areas of the State. (sub. 416, p. 23)

The Australian Local Government Association reported:

> The Local Government Association of Queensland is of the view that consideration of the impacts of the National Quality Framework … did not adequately address the impacts it would have on rural and remote councils and communities when the policy was being formulated … The LGAQ provided two examples of council run centres struggling to replace or recruit staff with the required qualifications … Unable to recruit appropriately qualified staff to meet the requirements of the NQF, Croydon's [Shire Council] 21 place child care centre and outside school hours program have both recently closed, leaving the community without childcare. (sub. 318, pp. 6–7)

How is the sector responding?

Some providers are not experiencing any significant difficulties recruiting or retaining staff. Sometimes this relates to labour market conditions in specific geographical areas in which they operate. But often it is because they are perceived by current and prospective employees as offering something more to their employees, this can include higher rates of pay, but also better conditions or entitlements, such as, lower staff to child ratios than required by regulations, a superior working environment, broader professional development and career opportunities and time off.

For example, the University of New South Wales (UNSW) Australia Early Years was noted in submissions as having little difficulty in attracting staff for its services:

> 'Retention of skilled experienced educators and carers in UNSW centres is directly related to the professional pay rates and the well-above award conditions that all the staff receive'. (as quoted in United Voice sub. 319, p. 29)

In its response to the draft report the UNSW Australia Early Years commented that, 'the high retention rates and low turnover of our staff are not singularly due to these financial incentives, but also to a range of other factors'. (sub. DR900, p. 1)

It pointed out that UNSW Australia Early Years' hourly rates of pay were 36 per cent above the award for certificate III educators, 38 per cent for diploma qualified educators and 45 per cent for early childhood teachers. In addition to the above award wages, the other factors identified as contributing to high retention and low staff turnover rates were professional development and career progression opportunities for staff, family friendly and flexible work arrangements, a strong mentoring and leadership culture and an annual rewards and recognition program for staff (sub. DR900).

Similarly, Guardian Early Learning Group told the Commission that above award wages were offered to attract and retain educators:

> … while the majority of staff are paid award rates, there are many who are paid over-award rates to attract and retain more experienced educators, or to attract and retain any educator in prime inner-urban and remote locations. We estimate that at least 30% of ourstaff are paid above-award rates. (sub. DR837, p. 2)

More generally, where providers do experience difficulties in employing the qualified staff they require, they have an incentive to offer better pay, conditions or career incentives. Some providers in regional and remote areas have, for example, offered increased rates of pay and/or special incentives to attract staff. For example the Western Australian Government submitted:

> Services report using a range of strategies to attract and retain staff, including paying above award wages, providing rent assistance, allowing staff to salary sacrifice rent and child care fees and providing rent subsidies. (WA Government, sub. 416, p 25)

And the Queensland Catholic Education Commission (QCEC) informed the Commission that in the Diocese of Townsville:

> … Incentives are offered to staff, e.g. providing child care places (often at no charge) to care for the staff children … accommodation subsidies, air-conditioning subsidies and annual travel allowance to maintain a consistent workforce and to be able to offer families a service from 6am to 6pm. (sub. 364, p. 6)

The Commission (PC 2011b) has previously identified increased employment of Indigenous workers as a critical factor in the delivery of culturally appropriate services for Indigenous children. It found that innovative solutions, such as more flexible work arrangements (for example, access to additional leave) that accommodate cultural and family responsibilities, that have been introduced in some areas need to be offered more widely.

What can governments do?

Implementation of many of the regulatory reforms recommended by the Commission in chapter 7 would help alleviate staff shortages, by either increasing the potential pool of workers that satisfy regulatory requirements or reducing the number of staff that must be employed (or both). These include suggested changes to: the NQF staff ratio and qualification requirements; allowing services greater flexibility in staffing arrangements (for example in relation to covering lunch breaks and other short-term absences); ACECQA approval processes for qualifications; and removing unnecessary barriers to the recognition of overseas qualifications.

As noted in chapter 7, in recognition of the additional challenges that rural and remote services have faced in recruiting and retaining qualified staff, governments have recently agreed to allow extended transition periods before these services must comply with NQF staff ratio and qualification requirements.

Calls for government subsidies to support higher wages

A number of participants have suggested that the Government should provide subsidies to support increased wages in the sector with a view in particular to improving the retention of qualified staff. These calls predominately came from individuals working in the sector and groups representing the interest of workers. For example, United Voice, recommended the provision of 'targeted funding for professional wages to ensure quality ECEC' (sub. 319, p. 15). In responding to the Commission's draft report United Voice said:

> Paying educators professional wages is an intrinsic cost and must be treated as such in the funding model. (sub. DR824, p. 22)

The Women and Work Research Group (sub. DR800) called for budgetary provision to be made for pay rises to workers in the sector to ensure existing staffing ratios and qualification requirements were retained.

Parents also posted comments arguing for government support of wages:

> I feel that the government could be providing the childcare centres more funds to support the extra staffing that they have recommended. Child care staff are gems and need to be paid accordingly but at the same time the costs are too great for the average family. (comment no. 14, ECEC user)

Wage subsidies are available to employers of workers with a disability or eligible Indigenous workers and the previous Government had a commitment to subsidise the wages of some ECEC workers via access to an Early Years Quality Fund (EYQF) (box 8.6). The EYQF was discontinued by the current Government, after a Ministerial Review. Funding commitments made by the previous Government were partially honoured, but all conditional offers were revoked.

Targeted wage subsidies have also been used in other sectors or areas experiencing recruitment and retention problems, for example, the General Practice Rural Incentives Program (part of the Rural Health Workforce Strategy).

However, such wage subsidies may be ineffective and/or inefficient where:

- services currently are not able to fill vacancies despite offering over the award wages and conditions, wage subsidies (unless very large) may make little difference
- the wage subsidies are paid to services that are competing successfully in the labour market or to those unwilling to pass higher wage costs onto families using their services.

The Commission considered the case for wage subsidies in its 2011 *Early Childhood Development Workforce* study. It found wage subsidies used overseas had varying degrees of success and that targeted subsidies, closely linked to qualifications and quality enhancements, appeared to be more successful in increasing retention and quality than universal programs. The Commission concluded that:

- universal subsidies available to all staff and services in the sector (and therefore necessarily lower, with any overall funding constraint) may fail to offer adequate support to ECEC services that face the most substantial recruitment and retention challenges, such as those operating in rural and remote locations, while at the same time inefficiently directing funds to services that are competing successfully in the labour market
- a more targeted approach to wage subsidies *may* be beneficial in supporting recruitment and retention in priority hard-to-staff locations.

Before governments intervene with measures to support wages, even on a targeted basis, it must be clearly demonstrated that: (i) there are structural impediments preventing the sector from appropriately responding to shortages (by paying higher wages or offering other incentives or better conditions); and (ii) government action can reasonably be expected to improve on market outcomes.

Box 8.6 **Early Years Quality Fund**

On 19 March 2013, the then Australian Government announced the Early Years Quality Fund (EYQF), which would provide $300 million over two years to ECEC providers to support the effective implementation of the NQF. More specifically it was to assist providers to offer higher wages consistent with changes in staff-to-child ratios and the increased qualification requirements of the NQF.

The Government decided to target access to the EYQF to only CCB approved LDC services and provide grants to subsidise wage increases of $3.00 per hour for certificate III qualified educators (equating approximately to a 15 per cent wage increase) and proportional increases across the classification scale. To be eligible for grants, services were required to have, or commit to have, an enterprise agreement.

The new Australian Government announced an independent review of the EYQF on 28 September 2013 and the final report of the review was released on 10 December 2013. The Review's findings included:

- the funding allocation and policy parameters significantly constrained the ability of the EYQF to be implemented in an effective and equitable manner
- the funding allocation was insufficient — the Department estimated that only around 20 per cent of LDC services would benefit and therefore overall nearly 85 per cent of educators in the ECEC sector would not receive any funding under the EYQF, including all non-LDC providers, such as FDC and OSHC
- in other ways the funding was not sufficiently targeted, potentially providing wage increases for unqualified staff, non-contact staff, staff whose wages were already above the award and services already meeting NQF requirements
- the enterprise agreement requirement may have reduced the administration burden on the Department in ensuring funds were used for wage increases, but also would result in costs being incurred in negotiating an agreement
- the 'first in first served' approach (until the funding cap was reached) to processing applications (rather than a merit-based selection process) disadvantaged smaller providers who were not as well placed to submit their applications quickly
- some misleading information put out by United Voice suggested staff needed to join the union in order to be eligible for funding.

At the time of releasing the report of the independent review, the Government also announced that it would redirect all available EYQF funds to a new program to support the professional development of all educators in LDC services, but with sufficient flexibility to target known workforce shortages (section 11.4).

In September 2014, the Government announced that the Long Day Care Professional Development Program (LDCPDP) would replace the EYQF and $200 million would be provided to support LDC services with the cost of training and upskilling their educators.

Source: PwC Australia (2013); Department of Education (2013d); Ley (2014a).

While there are various characteristics of the ECEC sector and the labour market for ECEC workers specifically, that make wages somewhat less responsive to demand pressures than in some other markets (box 8.3), there do not appear to be any major regulatory or other barriers preventing services from offering over award wages and conditions where they consider it is necessary in order to attract or retain workers. The market has demonstrated a capacity to respond where workforce shortages have been most acute and importantly, services are not constrained by regulations in the fees they charge families and therefore in their ability to pass on higher labour costs (chapter 9).

Increasing the supply of ECEC workers

Governments should also consider other measures to increase the supply of workers in areas or for particular classifications, where shortages are acute. This includes measures to encourage more young people to consider a career in ECEC, incentives for retired teachers to re-enter the workforce, various training incentives and perhaps measures to make it easier to recruit workers from overseas (section 8.4).

In relation to overseas recruitment, the Commission recommended in chapter 7 that ACECQA 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. Some participants have also called for diploma qualified ECTs to be added to the list of professions that qualify for 457 visas. Guardian Early Learning Group, for example, submitted:

> … if hairdressers, stockbrokers, glass blowers, dance therapists, disc jockey, tennis coaches can all qualify … why not diploma trained childcare staff? (Guardian Early Learning Group sub. 274, p. 8)

Currently, teachers and centre managers are being recruited from the United Kingdom on 457 visas, but it is not possible to recruit diploma trained childcare staff on this visa. The Commission understands that many suitable workers are available and interested in working in Australia. Some are currently working in the Australian ECEC sector on working holiday visas:

> At present, many Diplomas come from the UK on 6 month working tourist visas, but after 6 months, they have to move on and this only upsets parents and children and creates further instability in industry staffing. (Guardian Early Learning Group sub. 274, p. 8)

Some participants have specifically called for reforms that would facilitate the recruitment of nannies and au pairs, not necessarily qualified, from overseas. For example, The Indonesia Institute (sub. 219) and Marita Keenan (sub, 443) called for changes to existing visa arrangements to enable a greater use of overseas nannies, particularly from the Philippines and Indonesia to improve access to more affordable and flexible childcare. Greater use of overseas nannies could also provide potential benefits to the source countries.

> The Australian Government should look into migrant work programs with other countries such as the Philippines — this would increase the supply of workers for in-home care and allow women to return to work sooner. Such a program could also serve as part of Australia's foreign aid program, given the lack of jobs and opportunity in the Philippines. (A program such as the one the Singapore government has with the Philippines). (comment no 253, ECEC user)

Other participants raised concerns about utilising nannies from overseas. These included concerns about: the suitability of some nannies and the potential for children to be exposed to risk of abuse (due, for instance to cultural differences and attitudes towards children and factors related to the impoverished circumstances from which many might be drawn); difficulties associated with ensuring the veracity of any criminal and other checks conducted in some developing countries (Neil Ashton, sub. 442); and the potential for lower paid foreign nannies to undermine the pay and conditions of ECEC workers in Australia.

The Commission's view

Although low pay has been raised as a key factor impacting on recruitment, retention and workforce shortages in the ECEC sector, there do not appear to be any significant regulatory or other impediments preventing the ECEC sector from addressing these issues through higher wages, better conditions and improved career opportunities and some services have taken this approach.

The use of wage subsidies to attract and retain qualified staff in areas of acute shortage are likely to be ineffective, inefficient and unsustainable. However, governments can assist by undertaking the required regulatory reforms around the NQF (discussed in chapter 7) to increase the potential pool of eligible workers and reduce requirements as to the number of staff that must be employed, or both.

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.

8.4 Training and development

The implementation of the NQF has greatly increased the demand for qualified ECEC workers and this has had a flow on effect on demand for vocational education and training (VET) and higher education degree courses. VET courses are accredited by the Australian Skills Quality Authority (ASQA) to ensure that they meet nationally recognised standards for training.

Evidence presented to this inquiry, consistent with the findings of the Commission's earlier examination of the ECEC workforce (PC 2011b), indicates substantial variability in the quality of training and graduates from the VET sector.

Concerns about training quality

Numerous submissions raised concerns about the quality of training received by graduates who have undertaken an ECEC qualification, particularly at the certificate III and diploma level (box 8.7).

Many of these poorly trained graduates are unable to demonstrate required competencies and struggle to secure or maintain employment. However, submissions (for example, Australian Childcare Alliance, sub. 310) expressed the concern that some of these graduates that are not well equipped to work in the sector are being employed because there are inadequate suitable candidates and services must meet minimum staff ratio and qualification requirements.

A revised training package for the certificate III in ECEC and for the diploma in ECEC was announced in 2013 with a 12 month transition period to enable training providers to prepare and deliver the new courses. The certificate III in ECEC more closely aligns with the NQF and requires a minimum work placement of 120 hours and revised units such as 'Providing care for babies and toddlers'. The diploma in ECEC now includes a work placement for a minimum of 240 hours and revised units (ACECQA 2013f).

A study for the Victorian Government, using unpublished data from Skills Victoria, calculated that just under a quarter of students in both certificate III and diploma courses in children's services at TAFE would complete their studies in contrast to RTOs where around 60 per cent of students completed their certificate III or diploma courses (Wynes, Gemici and Stanwick 2013).

The Community Services and Health Industry Skills Council (sub. DR681) commented that poor practice in assessment has been an issue which indicated that some providers do not fully understand how certain standards should be applied. This would suggest that ASQA should provide additional support to RTOs to understand the requirements around assessment (sub. DR681)

Box 8.7 **Concerns raised about training quality training quality**

The Minister's Education and Care Advisory Council – Tasmania said:

> Educators entering the sector are often poorly trained and do not possess the necessary work skills. … The increase in distance and online access for University Degrees further exacerbates the issue. (sub. 290, p. 9)

The Australian Childcare Alliance commented:

> Of concern to the quality and safety of educators are the Diploma qualified staff that are unable to effectively and efficiently care for children after graduating. ACA members report that this is becoming a more regular occurrence as the level of achievement is less onerous and the amount of 'hands on' experience of full time and some part time students is limited. (sub. 310, p. 42)

KU Children's Services noted:

> [A key element contributing to concerns about the current quality of graduates is] [t]he emergence of a large number of low quality private providers of early childhood qualifications (particularly Certificate III and Diploma), offering 'fast and cheap' training courses with limited practical content and/or work placement. In addition, the current training packages used by these RTO's do not fully reflect the current pedagogy and practice and how we view the child as confident and capable. This, coupled with a 'tick box' assessment process is having a detrimental effect on the profession. It is KU's experience that often graduates from certain RTO's require further training and professional learning to fully satisfy the requirements of a role as a childcare educator. (sub. 384, p. 15)

Eskay Kids said:

> Some of the courses are complete rubbish. One of our Directors gained a scholarship for the Bachelor of Child and Family Services and it was a complete waste of time. She was doing Year 9 maths subjects and 90% of the course was useless for Early Childhood. (sub. DR676, p. 2)

Kim Cook, Swallow Street Child Care Association said:

> The standards of what is expected for that Certificate III have dropped lower and lower and lower. And we're not saying that all providers are doing that, but I believe that there's a significant number of providers that are not meeting the standards that they should be for that qualification. And they're attracting people by fast tracking, by saying "Look, you can do this course in only three weeks and it will cost less money because it only takes three weeks.' (Melbourne transcript, 18 August, pp. 66–67)

The Australian Childcare Alliance Vice-President commented that RTOs were regularly contacted by intermediaries from 'migrant groups' offering to pay $2000 for a certificate III in childcare without students having to attend a course. The intermediary offered to provide its own trainer to undertake the assessment (*Australian*, 6-7 September 2014, *Inquirer*, p. 21).

ASQA is currently conducting a review into early childhood learning workforce training, including audits of Registered Training Organisations (RTOs) delivering relevant certificate III and diploma qualifications, prompted by concerns raised by the Commission (box 8.8).

Box 8.8 **ASQA Strategic Industry Review**

Preliminary data (unpublished) from ASQA's ongoing Strategic Industry Review of Training for the Childcare and Early Learning Sector shows that over 74 per cent of the 77 RTOs that have completed the audit process were found to be not compliant against the continuing standards for registration at the initial audit assessment.

Although this number fell once RTOs were given the opportunity to rectify identified non-compliances, just over 30 per cent of RTOs remained non-compliant at the conclusion of the audit process, requiring regulatory action from ASQA (including the cancellation of RTO registrations).

The greatest rate of non-compliance amongst these RTOs was recorded against Standard 15 of the 'Standards for NVR Registered Training Organisations 2012' — specifically Standard 15.5, which sets the requirements for assessments and recognition of prior learning.

The Commission (2011b) has previously noted that unless concerns about poor training quality are addressed, much of any increased investment in vocational education and training could be wasted. To address these concerns, Governments should ensure regulatory oversight and regular audits of RTOs by ASQA. Where RTOS are unable to rectify identified non-compliant processes, ASQA should employ appropriate regulatory responses including the cancelling of registration.

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.

Government support for training

The Australian Government has funded a number of programs with the aim of lowering the cost of obtaining qualifications and assisting with the workforce development needs of the ECEC sector. This includes providing funding for Professional Support Coordinators (below), subsidising certificate IIIs, waiving diploma fees, scholarships and supporting early childhood teachers with their HECS debts.

Under the National Partnership Agreement on TAFE Fee Waivers for Childcare Qualifications, state and territory TAFE institutes and other government providers of vocational education and training agreed not to levy regulated course fees on students undertaking eligible childcare courses (childcare diplomas and advanced diplomas). The

Australian Government has provided funding to the states and territories for all regulated fee revenue foregone, but funding has not been extended beyond the agreement's scheduled expiry on 31 December 2014.

State and territory governments too have provided additional assistance to improve access to training, and to help with reducing the cost and time taken to complete qualifications. This includes offering scholarships, particularly for students in regional and remote areas.

Since employers benefit directly from access to appropriately trained workers they have a strong incentive to implement their own initiatives to encourage and support their employees to obtain or upgrade their qualifications and take part in professional development. Therefore employers (along with the employees that are the principal beneficiaries of any skills acquired) should accept primary responsibility for the funding and support of training and professional development. The Commission notes that many, particularly larger employers, provide staff with in-house training and professional development, study leave and/or subsidise the cost of ongoing compulsory training (for example Goodstart Early Learning (sub. 395) has implemented a professional development program and operates the Goodstart Training College as a RTO).

However, governments can also help address workforce shortages and improve the quality of services provided by continuing, in a selective and targeted way, to provide assistance to facilitate access to training. Priority should be given to programs that will increase the supply of qualified workers where shortages are most acute, for example in regional and remote areas and for diploma qualified workers. As previously recommended by the Commission, governments should also:

- ensure that programs that combine English language and ECEC training are available to facilitate access to VET for educators from culturally and linguistically diverse backgrounds (PC 2011b) (recommendation 10.5)
- prioritise funding to cover the cost of relevant training to ensure inclusion support staff have the skills necessary to provide appropriate services to children with additional needs (PC 2011b) (recommendation 8.2).

Professional development and support

Ongoing learning through professional development is important for ECEC workers in order to maintain and improve their skills and ensure they remain up-to-date with the latest information and research about children's learning and development. The contribution of professional development to the overall quality of ECEC is discussed further in chapter 7.

The Professional Support Coordinator Alliance commented:

> Ongoing professional learning maintains the benefits from initial education and ensures educators stay updated on professional developments and best practices. This contributes to improved pedagogical and professional quality, and stimulates early child development. (sub. DR887, p. 2)

Professional development for most ECEC workers has been delivered through the Australian Government's Inclusion and Professional Support Program (chapter 4). As part of the program, $15 million is directed towards funding Professional Support Coordinators, to organise advice and training for ECEC workers on a variety of topics. This includes:

- providing and facilitating professional development and support to staff in eligible services to assist them in improving their effectiveness, meet the NQF requirements and implement the Early Years Learning Framework
- provide bicultural support and other resource to assist the enrolment and inclusion of children from culturally and linguistically diverse and/or Indigenous backgrounds
- managing access to loans of specialist equipment to assist the inclusion of children with ongoing high support needs.

Many of the roles of the Professional Support Coordinators funded through the development and support program are focused on inclusion support rather than mainstream professional development. Assisting the professional development of staff in services to meet the additional needs of children, the management of loans of specialist equipment to meet the needs of these children and the provision of bicultural support are outside of mainstream professional development and should be funded through the inclusion support program (chapter 15).

Although diploma and degree-qualified ECEC workers receive training in providing services to children with additional needs during their initial studies, workers in mainstream ECEC services must be able to access appropriate professional development programs to assist them to deliver quality services to these children.

Details of a new time-limited professional development program, exclusively for long day care services, were announced in May 2014 (box 8.9). As a major objective of this program is to assist services in having their educators meet the qualification requirements of the NQF and the NQF has been in place since 2012, the funding for the Long Day Care Professional Development Program should not be continued following the expiry of the current funding arrangements in June 2017.

Government support for professional development should be limited to assisting educators meet the cost of meeting new regulatory qualifications as a transitional arrangement and to assist staff in mainstream ECEC services to provide inclusion services. As discussed above, the benefits of ongoing mainstream professional development accrue to the employer in having access to appropriately trained and up-to-date staff (and the employee from acquiring these skills), employers should accept primary responsibility for the funding and support of ongoing professional development.

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.

Box 8.9 **Long Day Care Professional Development Program**

On 10 December 2013, the Australian Government announced that it intended to redirect unallocated funding from the Early Years Quality Fund to a new professional development program. Guidelines for the new Long Day Care Professional Development Program (LDCPDP) were released on 5 May 2014.

All Child Care Benefit approved long day care providers were eligible to apply for the $200 million available under the program, with the exception of providers that entered into a written funding agreement with the Commonwealth under the Early Years Quality Fund. However the window for receipt of applications was limited to less than one month (applications opened on 19 May and closed on 13 June). Funding offers commenced on 25 September 2014 with more than 50 000 educators expected to receive professional development.

The aim of the LDCPDP is to fund long day care services to assist their educators to meet the qualification requirements under the NQF and to improve practice to ensure quality outcomes for children. The program was designed to have sufficient flexibility to meet educator needs as well as targeting known workforce shortages such as early childhood teachers and long day care educators in regional, rural and remote areas. It allows services to identify their specific professional development needs in order to support the NQF, adhere to the National Quality Standard and deliver the Early Years Learning Framework or another approved learning framework. Services will be able to use the funding to meet their training and skills development needs and will have the flexibility to do so in-line with the circumstances of their service.

Source: Department of Education (2013g); Ley (2014a).

Trainees and on the job training

From 1 June 2014, the NQF was amended to allow services to hire new educators without a qualification on a three month probationary period, and have this educator considered as an equivalent to an educator with or working towards a certificate III during this period. This allows the employee to gain experience in a service and to see if ECEC is the field for them, before they commit to the expense of enrolling in a qualification. New South Wales and South Australia have chosen at this stage not to adopt the amendment. This is discussed further in chapter 7.

More generally it has been suggested that trial periods (or perhaps a longer and more formal 'apprenticeship') and 'on the job training' can better prepare the employee for a career in ECEC and lead to better outcomes. The Australian Childcare Alliance, for example, submitted:

> When ECT's have worked within a long day care service during or prior to completing their university studies, they appear a better fit for long term employment than an ECT straight out of University with no practical, hands on experience in the LDC sector …
>
> The apprenticeship model where the student is trained whilst working in a long day care centre proves a better outcome for the student, the children and employers. The student's future workforce participation and value as an Educator is enriched. (sub. 310, pp. 40, 42)

In regard to trial or probationary periods, the Community Services and Health Industry Skills Council noted that trial or probationary periods may assist in improving retention rates:

> It is acknowledged that this measure may help employers and employees to make informed decisions about an individual's suitability for the sector. In doing so this may improve retention rates during training and post qualification. (sub. DR681, p. 4)

The Community Services and Health Industry Skills Council (sub. DR681) also highlighted that trial or probationary periods were different from formal workplace training involving structured, supervised learning and assessment.

In New Zealand, PORSE Education and Training, which is an in-home child care service and accredited private training body with a focus on ECEC, operates a successful Nanny Intern Program for young adults interested in working in ECEC (box 8.10).

Box 8.10 **New Zealand Nanny Intern Program**

The Nanny Intern Program run by PORSE Education and Training is available to youth aged between 17 and 25. It aims to provide practical hands-on experience in caring for and teaching children under the age of five and includes targeted and specific training in childcare skills and home management. All interns work through the National Certificate in Early Childhood Education & Care (Level 3).

Nanny interns work for a minimum of 21 hours (live out) and maximum of 31 hours per week (live in) over a 20 week period with at least one child in a home setting.

'Training Families' register to be part of the Program. The families benefit from the childcare support provided by the nanny intern and in return pay the costs of the nanny's training and, if it is a live in position, room and board for 20 weeks. They must also provide ongoing support and at least eight hours per week of direct supervision (and in the first week of the internship, the primary caregiver is required to be in a supervisory role at all times).

Source: PORSE Education and Training.

In relation to family day care, Family Day Care Australia (sub. 301) has highlighted some particular barriers that workers in family day care face in accessing training, because of their unique work environment. These include a lack of flexibility in delivering training that meets the work environment of family day care educators, a lack of support and access to trainers, the expense of training and poor assessment processes. Although, most RTOs already offer some form of flexible delivery as part of their service, similar issues were raised in the Commission's previous workforce study and it recommended that training organisations should offer in-home practical training and assessment for family day care educators as an alternative to centre-based training and assessment (PC 2011b) (recommendation 10.6). Although assessment rules for ECEC qualifications require students to demonstrate their skills in a regulated ECEC service, it is unclear how many RTOs allow this to be done within a family day care service.

Recognition of prior learning

Recognition of prior learning (RPL) involves using a student's previous training, skills, knowledge and experience to obtain status or credit towards a qualification. RPL is an important mechanism for facilitating the retention of workers with experience in the ECEC sector by acknowledging their accumulation of relevant human capital.

However, the gains of retaining experienced employees and removing unnecessary training costs need to be balanced against the aim of ensuring minimum quality standards are maintained for the ECEC workforce. Recognition of prior learning requires that the right balance is struck and that objective and consistent assessments are able to be made of the competencies and capacities of workers where prior learning is recognised

The Commission's previous workforce study (PC 2011b) found that the lack of skilled trainers and assessors and a consistent assessment framework had led to the inconsistent application of RPL. The report found, for example, evidence of a 'tick and flick' approach to RPL by some RTOs (an issue that will be explored in the ASQA review discussed above). To improve the quality and consistency of RPL assessments the Government subsequently developed national RPL Assessment Toolkits for ECEC qualifications and provided funding for assessors to be trained in the use of the tool. The Community Services and Health Industry Skills Council (sub. DR 681) noted the usefulness of the RPL Assessment Toolkits and called for a more consistent approach to the recognition of RPL.

In principle, the Commission sees considerable value in recognising, wherever possible, existing skills and experience as an alternative to requiring the acquisition of formal qualifications, including those older more experienced workers who may have left the sector. It is important that the focus is on capacities to deliver outcomes, rather than purely on the qualifications obtained. Anecdotal evidence suggests many experienced workers are leaving the sector because they do not want to make the investment of time and money to upgrade their qualifications to meet NQF requirements. It is important that skills and experience are not lost across the sector as a greater range of services are brought within the scope of the NQF (such as BBF services and in-home care). To retain these skills and experience, staff employed in a service at the time of transitioning to the NQF with a minimum of five years of relevant practical experience should be considered as meeting the minimum NQF qualification and included in the staff ratio requirements.

RECOMMENDATION 8.3

To retain skills and experience in those services being brought within 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.

Summing up the workforce issues

In summary, the introduction of the NQF has had a significant impact on the training and development of the ECEC workforce and increased the demand for qualified ECEC workers. There have been concerns raised around the quality of the training and education provided to meet this demand. It is important that consistently high standards in ECEC training are maintained to ensure the increased investment in education and training is not wasted and that there is an appropriate mix of formal qualifications, workplace training and recognition of prior experience, including that of older workers, to ensure the required workforce standards are met.

There are also concerns around the relatively low rates of pay for many of those working in the sector. This has been raised as a key factor impacting on recruitment, retention and workforce shortages in the ECEC sector. There have also been suggestions that Government should provide wage subsidies to address these issues.

However, there are no significant regulatory or other impediments precluding the sector from addressing such issues through offering higher wages, better conditions and improved career opportunities and some services in the sector have taken this approach. Moreover, the use of wage subsidies to attract and retain staff is likely to be ineffective, inefficient and unsustainable.

9 The market for ECEC services

Key points

- In Australia, ECEC services are supplied under a market model, with services delivered by mostly non-government providers on a fee-for-service basis. Governments continue to have a major role in funding, regulating quality and, in some cases, providing services.
- Choice is a key benefit of a market-based model. In most markets, parents have some capacity to choose between similar providers and there is competition. Seventy five per cent of long day care centres have 10 or more other centres within 5-kilometres.
- Because long day care providers commonly cross-subsidise fees, parents may not realise the full cost of the services they use and the allocation of childcare places is unlikely to be efficient. Services for children 2 years and under tend to be under-priced, meaning that parents demand more services than they would if fees reflected the full cost of delivering services.
- The market-based supply of ECEC services appears to have responded well to the growth in the demand for services, although short-run mismatches between supply and demand are likely to be unavoidable and obtaining planning approval can delay or restrict entry by centre-based services. Home-based care arrangements appear to respond well to financial incentives and meet any short-term shortages in supply.
- Childcare fees have increased rapidly in recent years. This has coincided with new regulations coming into effect to improve quality, along with strong growth in demand driven by the increased generosity of subsidies. Absent these changes, increases in childcare prices may have been comparable to similar services, such as health and education services. As wages account for more than 60 per cent of costs, the sector will have to continue to attract and retain labour with relatively little upward pressure on wages for the rate of growth in fees to subside once regulatory changes are complete.
- Stronger competition should help to avoid any sustained shortages of supply or inefficient growth in fees and ensure fees reflect underlying service costs. However, this calls for policy changes including:
  – addressing unnecessary barriers to entry and exit
  – improving the design and targeting of subsidies, including by:
    … ensuring government assistance policies do not weaken competitive pressures
    … creating a stable set of policies with clear objectives to support investment certainty.
  – more targeted and transparent funding of social and access goals related to early childhood education and care, and removing tax concessions for not-for-profit providers, since:
    … current concessions create an uneven playing field and, as a form of government assistance, lack transparency and accountability
    … there is little evidence that not-for-profit providers, as a group, address socioeconomic disadvantage or set fees that are lower than for-profit providers.

9.1 The market-based delivery of services

In Australia, early childhood education and care (ECEC) services are delivered through a 'managed' market-based model. Although the Australian Government heavily subsidises parents' use of ECEC services and the quality of services is subject to government regulation, services are delivered to the community primarily on a fee-for-service basis through a network of mostly non-government providers. This is different from the provision of many education and health services, which have traditionally been provided (or directly purchased) by governments and available free of charge (Donahue and Zechhauser 2011; Frontier Economics 2010; PC 2011).

There are many benefits of market-based delivery of ECEC services, including that parents are able to choose the type, quality, location, price and other service features that best meet their needs. Another benefit is that competition among providers to supply services that parents want improves the flexibility and responsiveness of the sector, while also driving productivity improvements that reduce the cost of service delivery.

To reap these benefits, ECEC markets must function efficiently and, in particular:

- there should not be unnecessary barriers to entry and exit or other impediments to efficient innovation in service delivery
- families should face price signals that accurately reflect the cost difference between different service types, quality levels and ages of children
- families should be informed about the availability, price and quality of services, be able to compare services and easily switch between services.

However, several features of ECEC markets in Australia suggest the presence of market imperfections, such as fees being heavily cross-subsidised across different service users and the difficulty for parents to judge the quality of services (box 9.1). In part, some features stem from the historically public and philanthropic funding of childcare services, which sought to meet the needs of low-income families, single parents and other disadvantaged groups.

Governments can still achieve community expectations of equity and fairness with the market-based delivery of childcare services, through the funding of services and the regulation of service quality.

However, government involvement in ECEC markets can have unintended effects such as contributing to weak control of costs or raising barriers to entry and exit that constrain supply responsiveness and allow providers to inefficiently increase prices. Since childcare prices have outpaced growth in ECEC wages and price increases in other similar service sectors, including health and education, a particular concern is whether government funding and regulation have contributed to increases in childcare prices over the past 10 years.

Box 9.1 Potential issues with the functioning of ECEC markets

A number of features of ECEC markets limit their scope to function effectively:

- the quality of services is difficult for parents to judge
- choice for some parents may be limited due to a limited number of service providers within their local area, high switching costs (for example, the process of resettling a child into a new arrangement) or extensive waiting lists in some areas
- some providers have keen social interests, which can lead to fees not being reflective of the underlying cost of services, albeit potentially improving access to, and the affordability of, services for selected groups of users
- some aspects of the extensive regulatory requirements in the sector could create unnecessary costs, heighten barriers to entry, and constrain the ability of providers to increase productivity, innovate, reduce costs and respond to demand (chapter 7)
- subsidies may reduce pressure on providers to improve productivity and control prices or delay the exit of inefficient services
- parents may not fully take account of externalities — benefit or costs accruing to the wider community — associated with a child's development and workforce participation, which may mean childcare use could be more or less than what is socially desirable.

This chapter begins by examining how supply has responded to the growth in demand for childcare services and what factors might influence the pace of supply growth (section 9.2). It then considers the extent to which recent price increases can be explained by changes in production costs, including from regulatory changes to improve the quality of services (section 9.3). The functioning of the Australian ECEC market is then discussed, focussing on the competitiveness of service delivery as a key determinant of efficient price outcomes (section 9.4). The chapter concludes with an examination of the impact of government support through childcare subsidies and taxation concessions on ECEC markets (section 9.5).

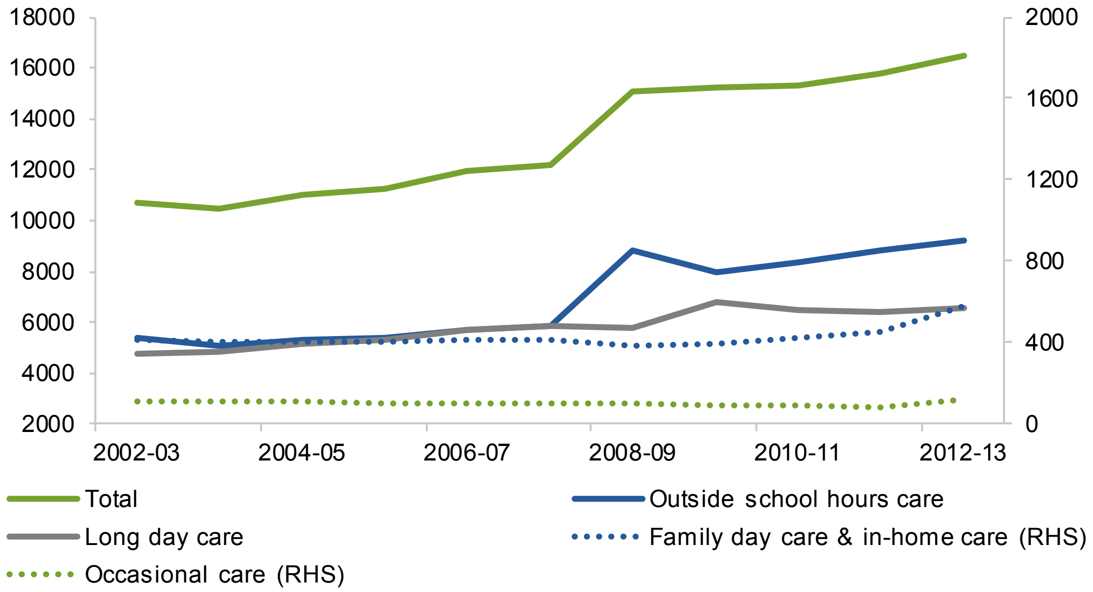
9.2 How responsive is the supply of services?

Over the last decade, the demand for formal childcare services has grown significantly from women seeking to maintain their employment earnings and careers, and also from increases to subsidies to improve the affordability of services (chapter 3). The supply of services must respond to such increases in demand, otherwise fees will be higher than necessary or waiting lists will persist as a feature of the market.

Recent growth in ECEC services

The number of approved childcare service providers has grown steadily. In the decade to 2012-13, the number of services increased by 58 per cent to around 16 500 (figure 9.1).

Figure 9.1 **Growth in the number of approved ECEC services[a,b]**



[a] Occasional care places and in-home care places are capped by the Australian Government. [b] There were 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).

Growth in the supply of centre-based services

The number of long day care services increased by 50 per cent over the decade to 2012-13, with an associated increase in the total number of long day care places. Recent growth in long day care places has predominantly been supplied by private for-profit providers, with the market share of not-for-profit and government providers declining (box 9.2). Participants have indicated that for-profit providers are better able to source the required capital to establish new services or expand existing services in response to changes in demand.

Supply of long day care services can increase either through the development of a new facility or the expansion of an existing facility. Over the period from 2009 to 2012, there were 471 development applications for new childcare centres or significant expansions of existing centres. Local and state governments granted approval for 86 per cent of these at an average value of around $900 000 (Cordell Information, unpublished).

The number of outside school hours care services also increased over the decade to 2012-13 (figure 9.1).[1] Most services (over 70 per cent) provide both before and after school care, just over a quarter (27 per cent) only offer after school care and less than one per cent only offer before school care.

1 The jump in service numbers between 2007-08 and 2008-09 reflects changes to the recording of outside school hours services (prior to this, before school care and after school care were counted as a single service).

The supply of occasional care services is not an outcome of market forces, since places are capped by the Australian Government (once services or locations with allocated places close, places are reallocated by the Department of Education at a later date) (chapter 10).

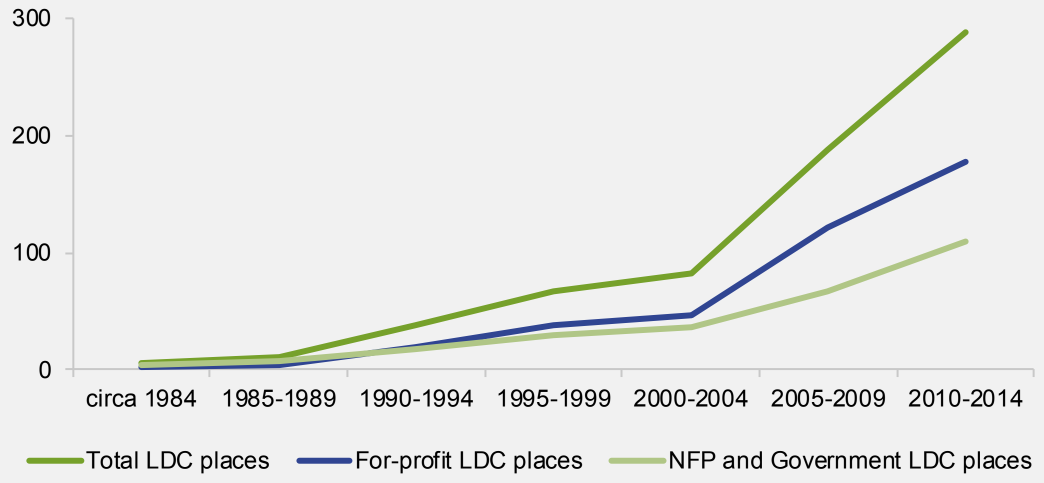
Box 9.2 **Supply has mainly grown through for-profit provision**

Growth in ECEC capacity in Australia has mainly occurred through private for-profit provision (figure). As the City of Sydney indicated, 'the majority of new early education and care centers since 2005 [have] been built as part of new developments and 100% have been developed by the private sector' (sub 196, p. 11).

Between 1991 and 2012, the market share of for-profit long day care providers increased from 48 per cent to 70 per cent, with a 6-fold increase in the number of for-profit places, while the number of not-for-profit long day care places doubled (Department of Education administrative data, 2011-12; Gray and Hayes 2008). In the family day care and outside school hours care markets, the Commission found the share of for-profit providers is lower, at around 40 per cent.

Breunig and Gong (2011, p. 4) examined the rapid growth of private provision of childcare services over the last decade in Australia, concluding that that supply has responded to demand (and more so than in many European countries).

Cumulative number of LDC places provided ('000), by year[a]



[a] Only shows the cumulative number of places provided by **services currently operating**; does not show new places that were provided by services that have ceased operating prior to 2014.

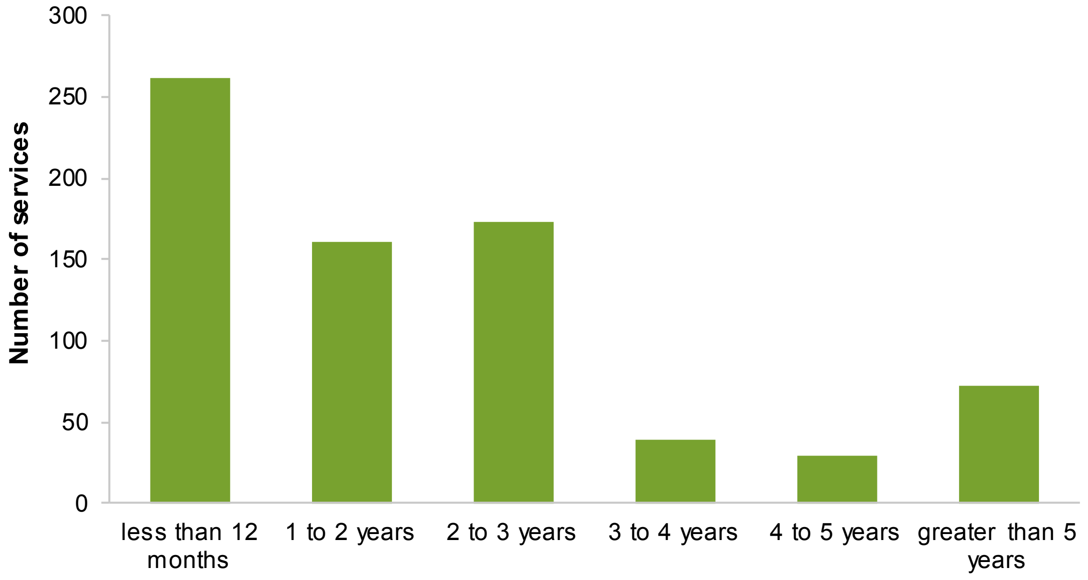
Source: Productivity Commission calculations based on Department of Education data and ACECQA data.

There has been very recent rapid growth in family day care services

While the number of family day care services remained relatively flat to 2012-13, in the 12 month period to 2013-14, there was an increase in the number of approved family day care services of just over 40 per cent (from 512 to 735 services). Moreover, given a much higher rate of entry than exit, over 80 per cent of family day care services have been operating for less than 3 years (figure 9.2). The potential contribution of government subsidies to this growth in family day care is discussed in section 9.5.

Figure 9.2 **Family day care services have increased dramatically**

Number of currently operating services, by number of years the service has been in operation (as of June 2014)



Source: ACECQA register of family day care approved services.

Factors influencing supply responsiveness

A range of factors influence the responsiveness of supply. Some factors are intrinsic to the supply of childcare services — for example, when capital costs for centre-based services are ‘lumpy’, requiring increments in supply to be of a sufficient scale to be economic. Other factors may be policy-induced and raise barriers to entry. For example, regulations that are complex or create artificial scale economies may make new-entry difficult, especially for small-scale providers, and the process of obtaining planning approval can delay or restrict entry.

Government subsidies can also affect the responsiveness of supply (which, as discussed in section 9.5, can affect prices). For example, subsidies may delay the exit of poorly performing businesses. In addition, because government subsidies are the primary source of income for most providers, uncertainty about the generosity and targeting of such assistance to different families can increase risks for providers.

The responsiveness of supply increases with time

In the short-run, providers have limited options to increase the supply of services because some inputs are fixed or non-scalable. This can lead to temporary mismatches between supply and demand. Short-run constraints on supply include:

- accessing capital and altering the configuration and capacity of a facility
- attracting and hiring suitable new staff
- gaining approval for additional licensed places from state governments and approval to receive ECEC assistance from the Australian Government
- complying with local government planning requirements.

As an example of constrained supply responsiveness, around the time of the global financial crisis, the then Australian Government increased the childcare subsidy rate to reduce out-of-pocket costs for families. This resulted in an increase in demand, but capital financing constraints during that period, exacerbated by the collapse of the highly-leveraged ABC Learning, resulted in a lagged supply response (IBISWorld 2010).

In the long run though, supply side constraints are less evident, and in mature markets demand and supply will generally balance. In Australia, it is possible that recent rapid growth in demand is yet to be met fully by an expansion in supply (appendix D).

Nevertheless, in some markets, supply has responded quickly and there are even predictions that the market may be saturated within 2 years. As one participant reported:

> … the numbers of places available to children in the Gungahlin town centre alone increased by 570 places, and that's in a really short period of time. In a radius of 1 kilometre, there is: the Yerrabi Ponds Early Learning, 90 places opened in 2013; Bright Beginnings in 2014 with 180 places; YMCA, due to open in November 2014 with 90 places; extension to Gungahlin Children's Services, an additional 40 places; a new service located in the ACT Government Building; and another 80-place childcare centre, due to open in 2015 …
>
> Having seen this momentum previously in the sector, I'm sure that we will see another saturation of childcare centres within the next two years. It's our estimation that supply will absolutely catch up to demand very quickly. (Total Childcare Solutions Australia Ltd, trans., pp. 34-35, Canberra, 25 August 2014)

Providers already report vacancies of 30 per cent or higher in some locations, which imply that there is spare capacity to satisfy any growth in demand for services from an increase in subsidies or from market driven changes. However, because the demand for services is often dwindling in such locations, it may actually be efficient for the supply of centre-based services to contract over the long run.

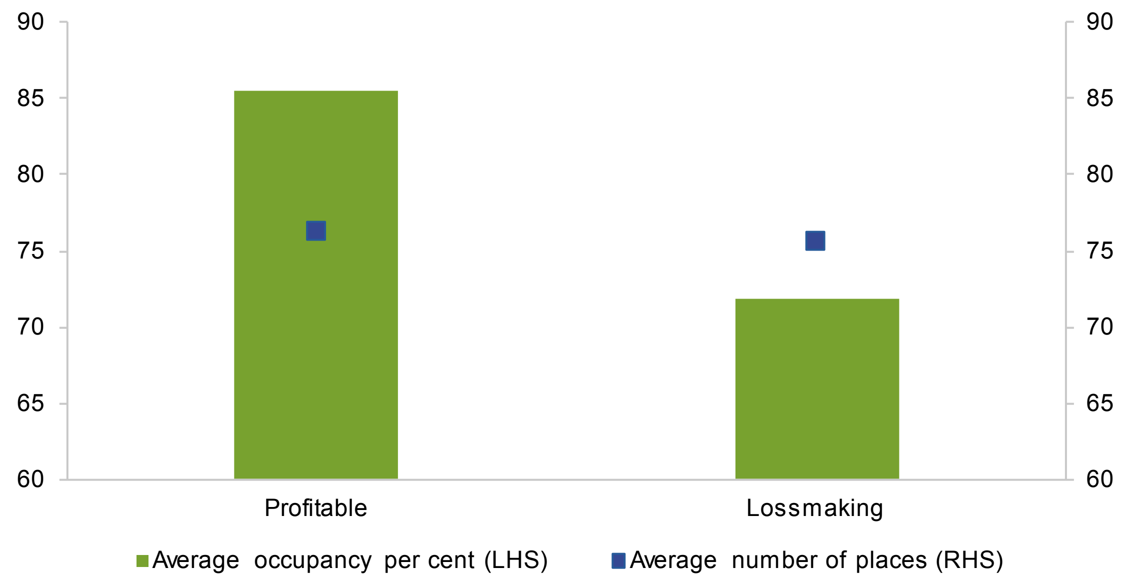
Capital inputs are 'lumpy' and represent long-term investments

A key distinction between centre-based and home-based care is the different requirements for capital investment. Services offered in a carer's (or the child's own) home can involve considerably lower investment in infrastructure than do long day care centres — in some cases the only additional investment required would be that necessary to satisfy regulatory requirements under the NQF.

In contrast to home-based services, participants have indicated that long day care premises are dedicated facilities with few alternative uses. Building a new childcare facility is a very large sunk cost that can run into millions of dollars, with some recent developments costing $2 to $7 million (Cordell Information (unpublished)). Further, scale economies mean that investments are 'lumpy', with local capacity jumping significantly with each new facility. (Providers report that around 60 licensed places is the minimum efficient scale, although 30 places may be viable in some locations (appendix H).) To avoid low occupancy and low profitability (figure 9.3), investment may be delayed until supply shortfalls are acute and demand more certain.

Figure 9.3 **High occupancy increases profitability**

Average occupancy (per cent) and number of operational places, for profitable and lossmaking long day care centres



Source: Productivity Commission calculations based on sector provided data.

The Commission has been advised that many providers of long day care do not own the childcare facilities, and instead lease these from infrastructure investment funds, such as Folkestone, or from local governments. However, some providers such as Only About

Children own their premises, and have the capacity to raise capital and manage the development process.

Lease terms reflect the large upfront cost and associated risks of capital investments, with the typical tenure of a standard lease being 20 years. The Commission has been told, however, that some leases extend for a 30 to 40 year period, many include hefty penalties for breaking the contract and impose stringent conditions about the maintenance of the facilities and other periodic capital investments. This can affect both the entry and exit behaviour of providers. Total Childcare Solutions indicated that for a centre operating in Sydney's CBD:

> … rent is $450,000 per annum, and rental bond is $450,000 … The operator would like to close but would still be liable for the rental for the term of the lease. The operator remains to recover as much as possible and hopes that higher occupancy levels can be achieved to break even or better. (sub. DR718, p. 5)

The supply of centre-based outside school hours care places may also be lumpy and growth in demand for such services may require additional investment in facilities. However, as discussed in chapter 10, in this case, it tends to be obtaining approval for the use of school facilities, rather than the need for a major investment, that constrains the supply of services.

Patterns of entry and exit

Supply is more responsive to changes in demand if both entry and exit are low cost and unaffected by regulation. However, factors inherent to the production of childcare services as well as regulatory barriers can affect entry and exit. Chapter 7 addresses regulatory barriers, such as the process of obtaining local government planning approval, which participants have suggested is a 'huge barrier to the development of more centres' (Guardian Early Learning Group, sub. DR837, p. 11).

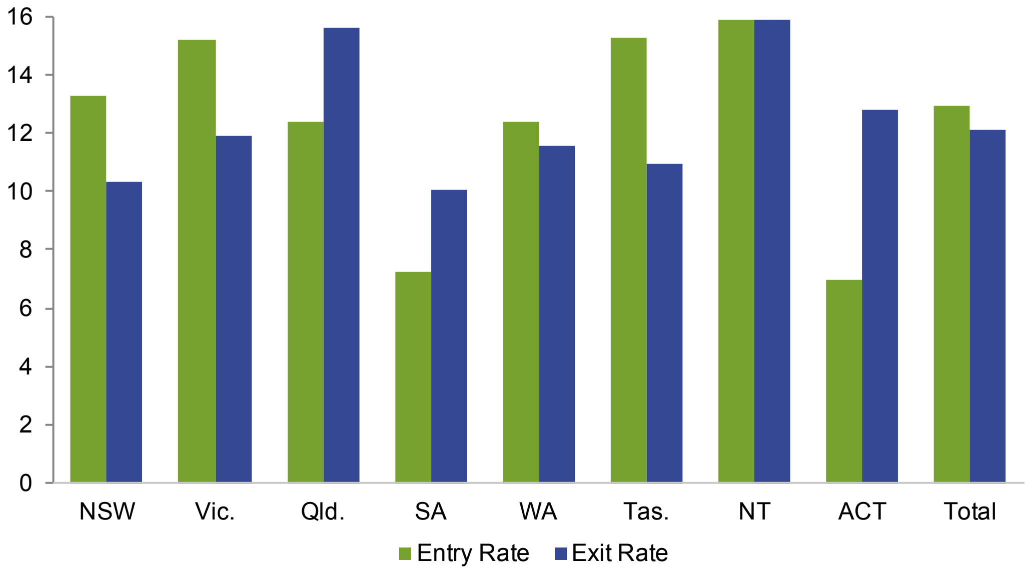
Sunk capital costs are a natural barrier to entry and exit. However, apart from traditional natural monopoly infrastructure, such as electricity network infrastructure, sunk costs are generally found to have a significant, but relatively small impact on the feasibility of exit and entry in most industries (Blanchard, Huiban and Mathieu 2010).

In contrast to centre-based services, home-based care arrangements face lower barriers to entry and, therefore, may be more responsive to local changes in demand. Anecdotal evidence suggests that families often turn to nannies or family day care where they are unable to access a long day care place. Such home-based care providers should be able to expand to meet temporary shortfalls in long day care supply. Unlike centre-based providers, who may incur hefty costs to break a lease agreement, home-based care providers face considerably lower costs to exit in response to falling demand.

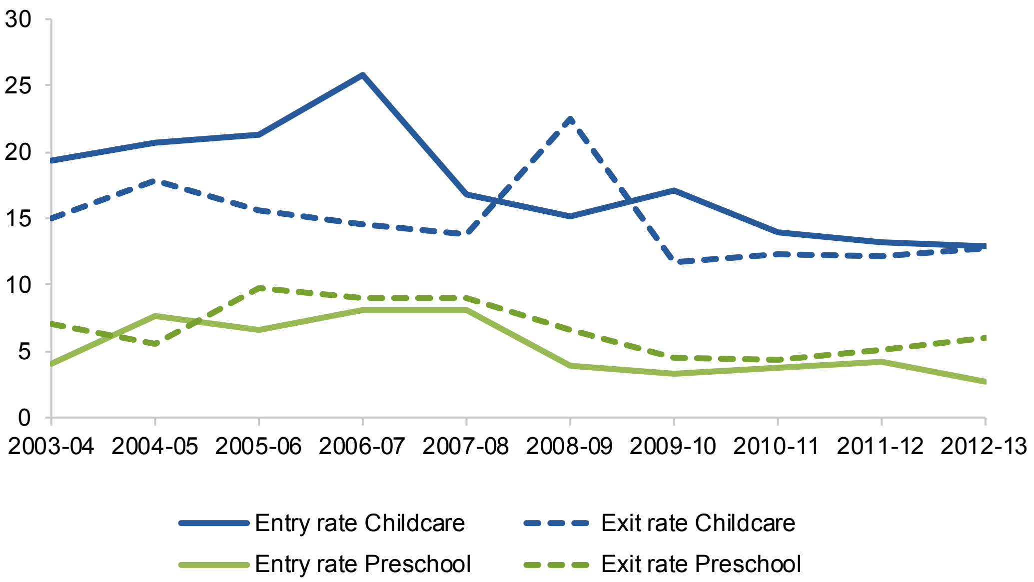
In most jurisdictions, the rate of entry by childcare services has exceeded exits (figure 9.4(a)), which is in line with the overall growth in the number of services (figure 9.1). A feature of market based supply is that significant churn in providers can underlie any net growth in services (Penn 2012). However, both the rate of entry and exit of childcare services have been declining somewhat over time (figure 9.4 (b)), and the rate of exit in the ECEC sector is around 12 per cent annually, which is within the ballpark of other sectors (ABS 2013d).

Figure 9.4 **The rate of entry and exit of ECEC services**

(a) Per cent, based on counts of ECEC services from 2008 to 2012, by jurisdiction



(b) Per cent, based on 4-year moving average of counts of ECEC services



Source: ABS (2007a, 2010b, 2012c, 2013d, 2014c).

Government policies can affect exits, but also weaken supply responsiveness

Supply responsiveness is as much dependent on the exit of poorly performing childcare providers as it is on the creation of new supply. As concluded by the UK National Audit Office, the threat of exit is a key driver of a sector's productivity growth:

> … at least half of the increase in productivity over time arises from the exit of less productive firms and the entry of new more productive firms … the risk of going out of business can act as a powerful incentive on providers to perform well. (UK NAO 2012, p. 22, 24).

Given this, when contemplating measures to (directly or indirectly) prop-up childcare services (box 9.3), governments should tolerate some risks associated with the exit of providers and the possibility of temporary mismatches between supply and demand. This is particularly so because any implicit or explicit guarantee by governments to support failing services can weaken the incentives of providers to prudently manage risks to viability and respond to the preferences of childcare users. The uneven delivery of support across providers can also distort competition and investment decisions, and reduce the use of services which are not in receipt of assistance.

Uncertainty about the continued generosity of subsidies and the distribution of subsidies across families can also weaken investment incentives in the ECEC sector, causing service providers and developers of facilities to discount the expected return on any investment. Nearly all childcare providers have a heavy reliance on government subsidies, but for some providers the dollars potentially at stake are very large — for example, the three largest providers of long day care services received more than $500 million in taxpayer funded assistance in 2011-12.

Many participants were concerned about potential transition costs from any significant redirection of taxpayer-funded subsidies that could come about with the Commission's proposal to adopt a benchmark rate (chapter 14 and appendix I). Uncertainty about the long-term profitability of services from the adoption of a benchmark rate would tend to be greatest for providers operating in high-cost markets or for providers who paid relatively high prices to acquire long-term assets (or entered into expensive long-term rental agreements).[2]

2 An outcome of subsidies is that the least elastic factor of production capitalises any economic rents. Because future owners of such factors pay higher prices to acquire assets on the expectation of a future revenue stream, the removal or lessening of the subsidy generates transitional losses (Steenblik 2006; Tullock 1975). While representing income transfers rather than efficiency losses, the risk of 'stranded assets' may dampen supply side investment.

Box 9.3 **Should governments intervene to stop providers from failing?**

Governments may occasionally step-in to ensure there is some basic level of access to childcare services during a time of crisis, including if a key provider fails, as occurred in the case of ABC Learning in 2008. Another option for governments to manage the availability of services for users is to monitor the risk of providers failing, such as through the collection of financial information from providers. Exposure to exit risks is usually highest:

- at key points in time, such as when government policies or economic conditions change
- for key players — that is, service providers with a significant market presence, operating in a range of locations, or with high-risk business strategies
- in locations that are inherently less viable, including in some rural areas.

Following the collapse of ABC learning in 2008, the Australian Government enacted requirements to monitor the financial viability of large long day care operators under the *A New Tax System (Family Assistance) (Administration) Act* 1999. Such monitoring is not intended to provide a mechanism for any ailing provider to extract additional assistance from government, but rather to smooth any transitional period once a supplier prepares to exit the market.

While monitoring imposes costs of businesses, the type of information gathered under s.219GA, s.158 of the Act is already available from standard profit and loss statements, and participants did not raise such reporting obligations as a concern in consultations. Further, these obligations are targeted to a relatively small number of operators, rather than the entire sector, further reducing compliance burden.

On other occasions, the effective demand generated by subsidies may be insufficient to support a sustainable business, but government may form a judgment that a service should exist and so offer financial inducements to encourage entry or prevent the exit of an established service.[3] Assistance tends to take the form of one-off grants to cover fixed costs or to assist with the costs of implementing quality improvements. Though not straight forward and potentially problematic, this might be a reasonable course of action if it can be established that:

- the business is efficiently operated and has a capacity to be sustainable over the long term
- the lack of viability is simply a reflection that the effective demand generated by subsidies to parents is inadequate to meet desired social and economic goals, and the type of service is the most cost-effective for governments to fund.

Such an approach is consistent with the Commission’s proposed ‘viability assistance’ program.

Conclusions on supply responsiveness

Overall, the market based supply of childcare services has responded reasonably well to the recent growth in the demand for formal services. While centre-based supply may expand in lumpy increments and require time-consuming planning approval, home-based

3 Governments may also be concerned about excessive churn in providers, since this can raise the system-wide costs of service delivery. This concern was raised by an audit of UK systems for delivering public services, which acknowledged the benefits of market-based approaches, but also the risk of churn in providers ‘increasing the overall costs of the system’ (compared with a planned approach) (UK NAO 2012, p. 5).

care arrangements appear to respond well to financial incentives and are readily able to meet shortages in supply.

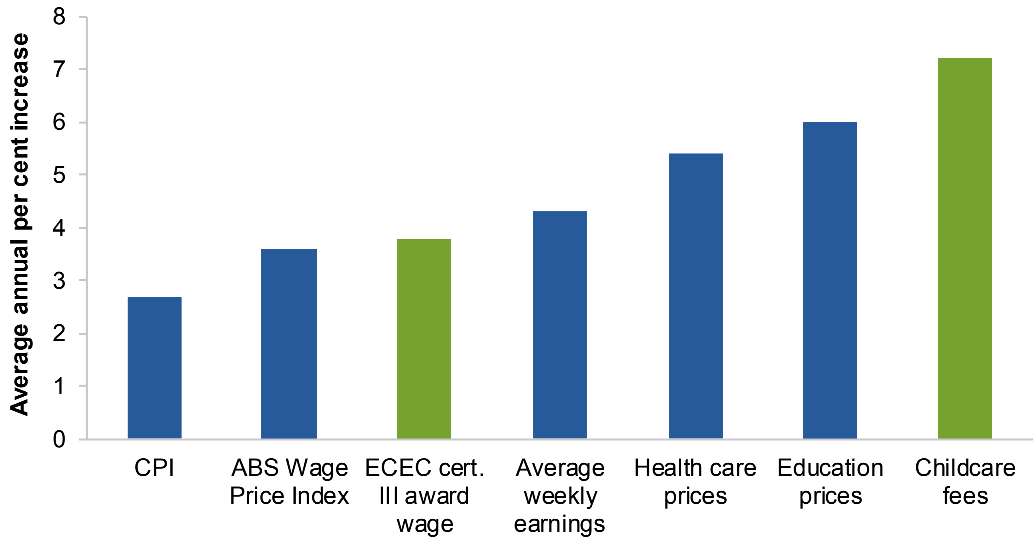
Inevitably, an increase in demand ahead of supply responding will drive up prices of services, which in the short term serves the function of efficiently matching the limited number of available childcare places to any excess demand. Most importantly, these price rises spur additional investment in service capacity, reducing upward price pressures in the long term. But this takes time to eventuate, particularly for centre-based services, given the lead times for centre-developments and the large and lumpy nature of investments.

9.3 Do price rises reflect growth in costs?

Over the past 10 years, childcare prices have increased faster than the consumer price index and the growth in ECEC wages, and have outpaced other similar service sectors, including for health and education services (figure 9.5). (Chapter 11 discusses the extent to which these price rises have translated to rises in out-of-pocket costs for families.)

Figure 9.5 **Price increases**

2005 to 2014

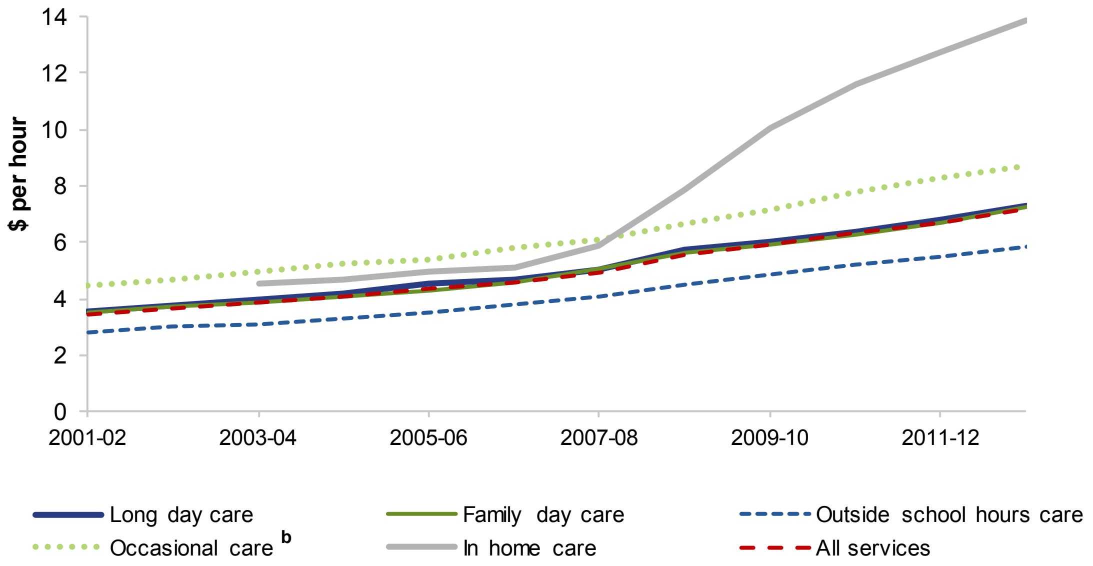


Source: United Voice (pers. comm.); ABS Cat. 6401.0; ABS Cat. 6345.0; ABS Cat. 6302.0; ABS Cat. 6201.0; Department of Education administrative data (2001–2013).

Prices have increased steadily across all service types (figure 9.6), with the exception of in-home care services, which have increased more sharply in recent years.

Figure 9.6 Fees have increased across all types of care

Average (gross) hourly fees ($)[a], by year and care type



[a] Gross prices — fees received by providers — expressed as nominal values. [b] The average price of in-home care services reflects that a growing number, now some 30 per cent, of children using in-home care services are ‘at risk’ or under ‘financial hardship’ and receive Special CCB. The average fully subsidised fee for such children is $29 per hour, which is 4 times higher than the average fee for children who are not ‘at -risk’ and use in-home care services. Regardless, fees for children using in-home care and not receiving Special CCB are higher than fees for other care types, including long day care and family day care.

Source: Department of Education administrative data (2001–2013).

Numerous factors may have contributed to the growth in childcare prices over time, such as:

- the incremental cost of regulated improvements to childcare quality
- market-driven increases in input costs, particularly in:
  - wage and salary costs above minimum rates, such as to attract ECEC workers to remote areas, or to retain and recruit staff (chapter 8)
  - site development and rental costs
- ‘market imperfections’ that reduce competitive pressures, including incentives to minimise costs and to set prices that reflect costs (section 9.4)
- price pressures resulting from government subsidies to childcare (section 9.5).

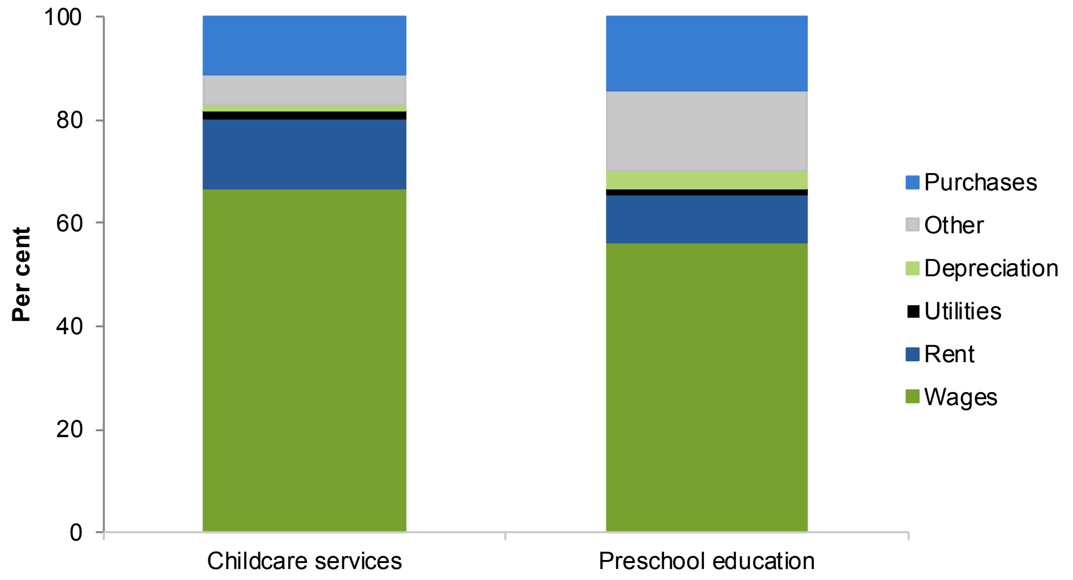
The following sub-sections explore the extent to which price increases can be explained by regulated improvements to the quality of services and underlying increases in input costs.

Regulatory-induced changes in wage costs and fees

Labour-related costs are sensitive to changes to staff-to-child ratios and staff qualification requirements. And, given wage expenses comprise upwards of 60 per cent of total costs (figure 9.7), any regulatory-induced change in wage expenses will figure strongly in explaining increases in childcare fees

Figure 9.7 **Wages are the key cost for ECEC service providers**

Per cent of total revenue, by cost component



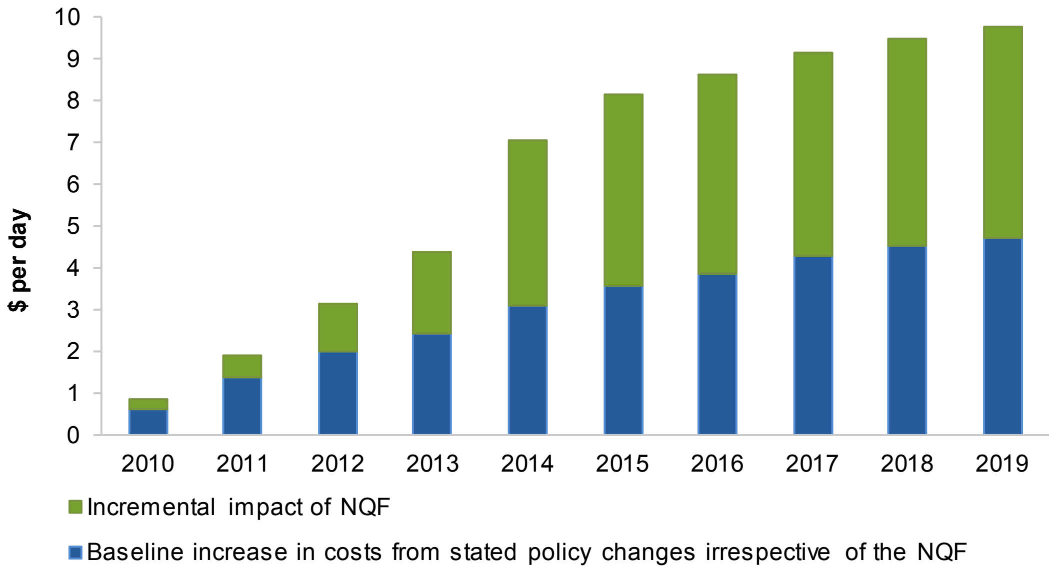
Source: IBISWorld 2014, Industry Report Q8710, Child Care Services in Australia; IBISWorld 2014, Industry Report P8010 Pre-school Education in Australia.

By increasing the ratio of staff-to-children and the qualifications of these staff, the introduction of the NQF (which commenced in January 2012) along with various state policy changes have changed the way childcare services are delivered — namely, affecting the cost structure and productivity of providers. And, as the implementation of these changes continues to unfold, there is some expectation that for some providers to continue to attract additional, or better qualified, staff, wage expenses may increase, which could cause profit margins in the sector to shrink (IBISWorld 2013).

The amount by which prices have increased from the most recent quality-related improvements (including the cost of pre-announced changes to state policies and the incremental cost of the NQF) is uncertain. However, based on the scale of cost impacts anticipated at the time the NQF was conceived, regulated quality improvements were projected to cause long day care prices to increase by a total of $10 per day once the implementation of changes were complete (figure 9.8).

Figure 9.8 **The anticipated cost and timing of regulated quality changes**[a]

Cumulative increase in the daily cost per child in long day care (2014 values)



a The RIS indicated that the baseline increase in costs could also reflect any market driven quality improvement. However, these were not separately quantified and are believed to be small.

Source: COAG (2009); ABS (cat. no. 6401).

In particular:

- price impacts from regulated quality improvements were expected to be most prominent during the period 2013 to 2015, with long day care fees expected to include 45 per cent ($4.25 per day) of the total cost impact in 2013, rising to 84 per cent by 2015
- based on the expected costs of quality improvements in 2013, fees were around 5 per cent higher than they otherwise would have been that year (which accounts for roughly three-quarters of the growth in long day care fees in 2013)
- the average annual increase in long day care prices would have been 5.7 per cent between 2011-12 to 2012-13 were it not for regulated quality improvements (rather than the 7.4 per cent increase that was observed).

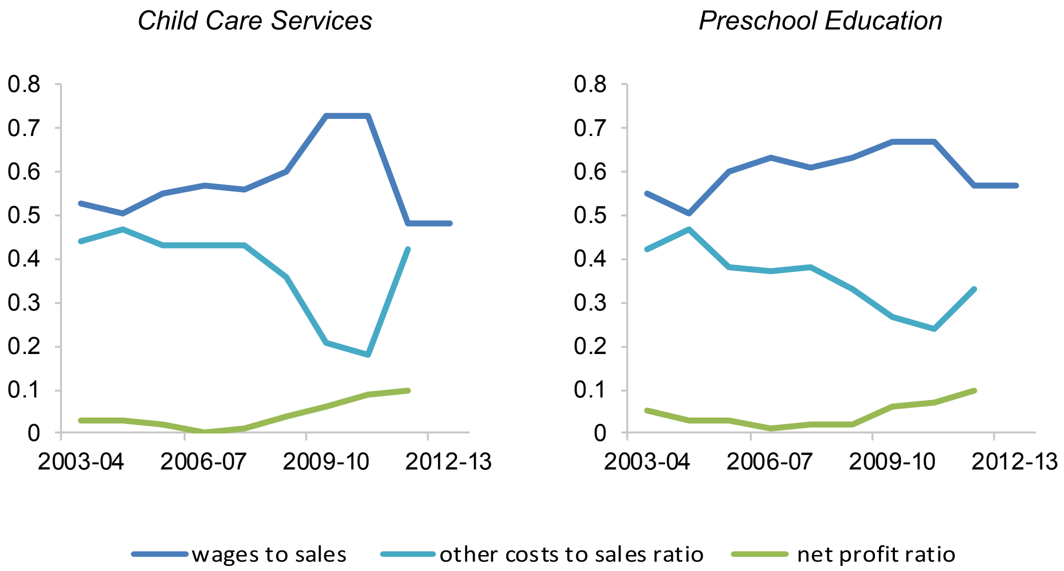
However, the estimates preceding the implementation of the NQF were highly indicative and driven by a range of assumptions, which may not have played out in practice. Although the phased introduction of the NQF is continuing, and the full impacts are yet to be experienced (indeed, some providers have indicated that the required change in staff ratios for 25-35 month old children, not yet fully implemented in NSW, Queensland and South Australia, could be a substantial driver of cost increases), the data available to-date suggest that:

- as a share of revenue, wage and salary costs appear to have readjusted to levels close to those before the introduction (and pre-announcement) of the NQF

- the profitability of the sector has not been eroded, and actually may have increased slightly, hence providing incentives for growth in supply (figure 9.9).

Figure 9.9 **The revenue share of wages and profits over time**[a,b,c]

Ratio to total business income, 2003 to 2013



[a] Data represents providers who, for tax purposes, are companies. [b] net profit ratio = (total business income less total expenses) / total business income; wages to sales ratio = salary and wages paid / total business income; other costs to sales ratio = 1 minus (wages to sales ratio plus net-profit ratio) [c] Childcare services (ANZSIC 87 100); Preschool education (ANZSIC 80100)

Source: ATO Taxation Statistics (2004; 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013).

Accordingly, it appears that cost increases to date have generally been passed through to parents and government, which is consistent with the expectations of the RIS.

A key question is whether parents or taxpayers have borne the larger burden of regulatory-induced fee increases. Based on modelling undertaken prior to the introduction of the NQF by the then Department of Education, Employment and Workplace Relations, parents and taxpayers were each expected to bear around half of any NQF-induced increase in fees (COAG 2009e, p. 41). However, since the generosity of subsidies has increased over time,[4] it now appears that taxpayers have met a greater share of such fee increases. As a result, costs for families have increased at a rate that is less than half the growth in childcare fees (AMP.NATSEM 2014, p. 15) (chapter 11).

The increased reliance on taxpayer funds may not be an ongoing concern if the impact of the NQF on fee growth is transitional. However, it is also possible that fee growth continues

4 In particular, the CCR was increased in 2008, from 30 to 50 per cent, and in 2011, the annual cap on government reimbursement of out-of-pocket costs for families was raised to $7500.

after the implementation of the NQF is complete. This could occur if, for example, subsidies or market imperfections (including a delayed supply response) lead to higher growth in wages or property and rent costs than otherwise would be the case.

Trends in ECEC wage rates

Upward pressure on wage rates can occur irrespective of any regulatory-induced changes. For example, even without the NQF, underlying wage rates may have increased to attract additional and better-qualified staff, or simply to reflect increases over time in wages across the economy. Moreover, wages generally increase at a rate that exceeds underlying inflation and particularly within some sectors where there is a high demand for specific skills or where labour supply is not very responsive to wages.

It is impossible to separate wage growth that stems from regulatory impacts from that which stems from underlying market forces. As such, this section identifies trends in wage rates for ECEC workers, controlling where possible for the quality of labour — that is, by examining wage trends for a given qualification of ECEC worker.

Award wages for certificate III early childhood educators have increased by 3.8 per cent per year over the period 2005 to 2014 (figure 9.10). This was slightly higher than the average annual increase in the ABS wage price index for all industries, which was 3.6 per cent over the same period, but was lower than for some other industries (ABS 2014n).

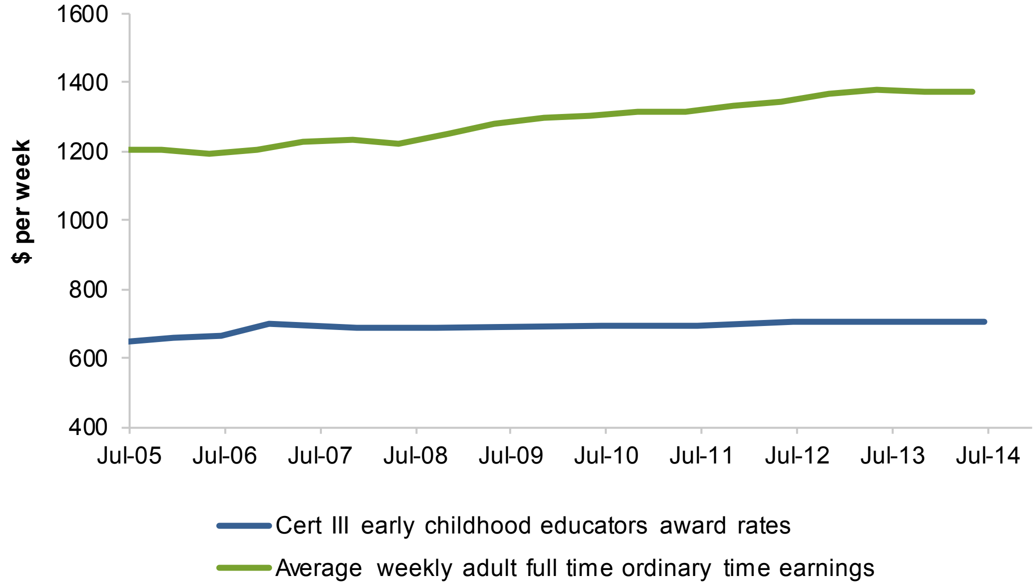
For example, wages growth in the mining industry was much stronger, with the wage price index increasing by an average of 4.3 per cent per year over the period 2005 to 2014. Average weekly earnings (AWE) across the economy also increased at a much higher rate than wages for ECEC workers (averaging 4.3 per cent per annum over the same period). But the increase in AWE reflects changes in the industry composition and skill of the entire workforce over the 10 year period as well as increases in wages for a worker of a given skill level.

The rate of increase in ECEC sector wages was relatively steady over the last 10 years, averaging around 1 per cent per year above the consumer price index, which was 2.7 per cent over the period 2005 to 2014. This was almost half the 2 per cent real growth in ECEC sector wage rates that the NQF RIS assumed in 2009, and occurred over a period when regulatory changes were increasing the labour intensity of the sector and changes to subsidies were driving up demand for services. Accordingly, it would appear that the supply of ECEC workers is responsive to relatively small changes in wages,[5] and given the low rate of real wage growth (figure 9.10), regulated quality improvements, so far, may have been less costly than was anticipated at the time of their introduction. Potentially, this leaves a larger share of recent price increases to be accounted for by factors other than regulated quality improvements.

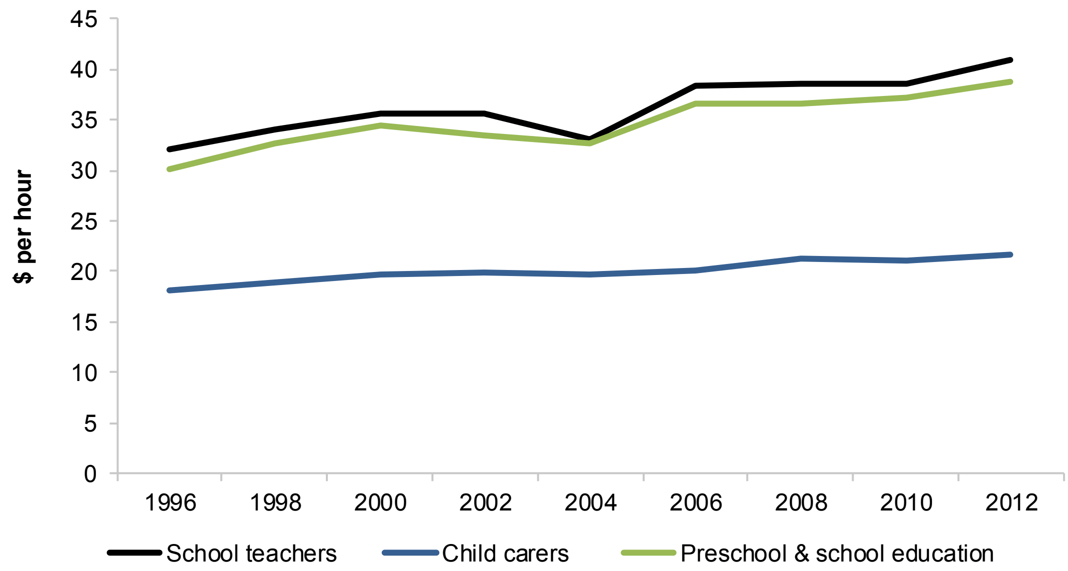
5 Overseas studies also find that labour supply is responsive in the childcare sector. For example, Blau (1993) reports elasticities of labour supply with respect to wages in the childcare sector as high as 1.9.

Figure 9.10 **Trends in ECEC wages[a]**

(a) Award rates for certificate III early childhood educators, real $ per week 2005 to 2014



(b) Average hourly total cash earnings, 1996 to 2012, real $ per hour 1996 to 2012



[a] Real values adjusted by CPI, 2012 reference point.

Source: (a) United Voice (unpublished); ABS. cat. 6302.0 (b) Employee Earnings and Hours Survey, ABS (cat. no. 6306.0,2012; 2010; 2008; 2006; 2004; 2002; 2000; 1998; 1996).

Compared with school and pre-school teachers, annual growth in wages for people identifying their occupation as a child carer in the ABS Employee Earnings and Hours Survey has been marginally lower (by an average of nearly 0.5 per cent per year over the period 1996 to 2012). This may reflect that school- and pre-school teachers are generally more highly qualified and, with recent NQF changes, have become relatively more scarce, potentially increasing opportunities for teachers to obtain higher wage increases (figure 9.10(b)).

Trends in rent and property expenses

On average, rent and property costs are equivalent to 10 to 15 per cent of revenues for childcare providers. However, rents can vary significantly across centre-based services (appendix H), reflecting the opportunity cost of the site. For example, Guardian Early Learning group indicated that annual rent costs in the inner-urban area of Sydney could be $5000 per place, but $1000 per place in other locations.

Rents also vary between types of providers with many not-for-profit centres having access to concessionary building and property costs from local governments. There appears to be a trend away from this type of in-kind support given the growth in for-profit providers across all childcare services, competitive neutrality issues and budgetary pressures facing local governments. Gowrie Australia noted:

> NFP services are no longer enjoying peppercorn or reduced rents for premises. Owners of facilities (government and non-government) are seeking commercial rates for rental income. NFP providers have little choice but to commit as the for profit sector is aggressive and competitive, and willing to pay market commercial rates to secure additional services. (sub. DR544, p. 5)

Average yields on childcare properties are starting to fall (Folkestone Education Trust 2014, p. 12). This may simply be a result of property prices increasing at a faster rate than rental incomes, and hence reflect an increasing opportunity cost associated with the use of land for childcare properties. However, yields remain healthy compared to other commercial and residential developments, and the stabilising effect of government subsidies is suggested to support continued investment in the sector.

For-profit providers are anticipating growth in property costs of CPI plus a margin of 1 to 2 per cent per year. For example, G8 Education has assumed 4 per cent annual escalation in rental costs when estimating its future financial liabilities (GEM 2013, p. 66). Similarly, Guardian Early Learning Group indicated that a 3.5 per cent annual increase in rents would reflect increases in both CPI and the fixed rate typically included in their lease agreements (sub. DR837, p. 4).

The effect on childcare prices of any increases in rent and property costs could potentially be offset by increasing the utilisation of facilities and by reducing the impact of distortionary controls imposed by local governments. Chapter 7 proposes that councils refrain from imposing restrictions on the number of childcare places and minimum share of places available for 0 to 2 year old children (recommendation 7.12). The adoption of such reforms should allow businesses to adjust their operations as their cost structures and viability change.

Conclusions on growth in costs

It is possible that increases in childcare prices would be comparable to other similar services, such as health, education and aged care services, were it not for cost increases due to regulated quality improvements. When regulatory changes are fully implemented, the rate of growth in costs, and thus in prices, should subside.

However, this would depend on whether the supply of additional ECEC workers continues to be achieved with relatively little upward pressure on wages. Any aggregate growth in demand for services, and the subsidisation of a wider range of service options, all of which would require qualified staff (chapter 8), could place upward pressure on wages. Moreover, wages rates in the sector could also increase depending on the outcome of the ECEC workers' pay claim (box 8.2).[6]

Because access to concessionary rents is diminishing and commercial rents for childcare facilities should reflect any forgone returns from alternative land uses, there may be upward pressure on rents. However, pre-existing long-term rental agreements should help to buffer any such trend, since such agreements generally include an escalation formula that increases at CPI, plus a pre-agreed fixed rate. For new facilities, particularly in inner city areas, rental costs could be a key determinant of future price increases.

9.4 The structure and performance of ECEC markets

A key question for assessing the performance of ECEC markets is whether a lack of competition has contributed to the increase in prices over recent years (figure 9.5) and the reported difficulties with accessing services in some areas and for some age groups (chapter 10). Weak competition can lead to poor control of costs or inefficient pricing practices, which could have contributed to price rises or impeded an efficient supply response.

An assessment of how competitive ECEC markets are requires identifying the:

- geographic range and service quality attributes that define a local 'market'
- ability of, and incentives for, parents to exercise choice in their selection of childcare services
- circumstances where demand is too low to support effective competition or where market services may be 'missing' (given the effective demand created by demand-led subsidies)
- strength of price-based competition in delivering a given quality of services

6 If successful, the Equal Remuneration Order could increase wage rates by between 40 to 80 per cent (depending on the qualification of the worker) (chapter 8).

- extent of quality-based competition in ECEC markets
- circumstances where competition may be weak due to market power
- the pricing conduct of providers, including whether providers cross-subsidise fees across families.

Each of these considerations is discussed below, with a focus on long day care services, since it accounts for the majority of expenditure on ECEC and more data are available on this type of care.

ECEC markets are very localised

Defining the 'market' is a necessary step towards assessing the degree of competition and choice available to families.

The geographic size of an ECEC market is mainly determined by a parent's transport and time cost in accessing substitutable providers. Generally, for childcare providers to be close alternatives or 'substitutes' they would need to be located near each other and provide a similar quality of service at a similar price.[7]

A number of providers told the Commission that around half of their parents choose a service within 2 kilometres of their home, while some parents travel further when using services near their workplace, commute route or a sibling's school. Other parents travel longer distances to access a service that provides the experiences and care they desire for their child. In some remote and very remote areas, parents may travel over 60 km each day (sub. 288, p. 2). Overall, the Commission estimated that the average distance travelled is around 4 to 5 kilometres (chapter 10).

Several providers told the Commission that they evaluate the financial performance of a service and levels of competition within a 2 to 5-kilometre zone or the nearest 5 to 6 centres. Similarly, the Australian Competition and Consumer Commission (ACCC 2004) has previously used a 5 to 10-kilometre radius of a 'target' site to assess competition in local ECEC markets.

As with businesses in other sectors of the economy, when a specialised service is offered (and advertised as such), the size of the market for that service is usually larger.

Choice in the use of ECEC services

The larger the number of services there are in an area, and the greater the amount of information assisting parents to choose a service, the more competitive a market is likely to

[7] Each type of childcare service generally competes only at the margins in separate, but related markets, which reflects differences in the quality or age-appropriateness of formal care options or differences in the price (and availability of government subsidies).

be. Parent choice creates a strong incentive for providers to lower costs (and prices), innovate, and raise the quality of services.

Benefits from competition are muted if the number of realistic alternatives for parents is low or parents are otherwise prevented from taking advantage of possible substitute services. Causes for this might include:

- high switching costs — such as breaking an established relationship between a parent and a local provider, assessing the quality of other suitable services and resettling a child. For outside school hours care, parents have very little capacity to switch care providers, as doing so would generally require moving schools
- waiting lists, especially for infant services, and caps on funded places for in-home care and occasional care (chapter 10), which may prevent parents from selecting their preferred service provider or accessing a service at all
- an insufficient density of demand to support the existence of multiple services (or any service at all) within a local area.

The Commission analysed the location of 'like' service providers within a 5-kilometre distance of one another and found that, in the vast majority of local ECEC markets, parents have a range of long day care services available to choose between in order to meet their needs and preferences. For example, within the major cities, 23 per cent of long day care centres have between 51 and 100 other centres within 5 kilometres and nearly 10 per cent have more than 100 centres within 5 kilometres (figure 9.11). On average, across Australia:

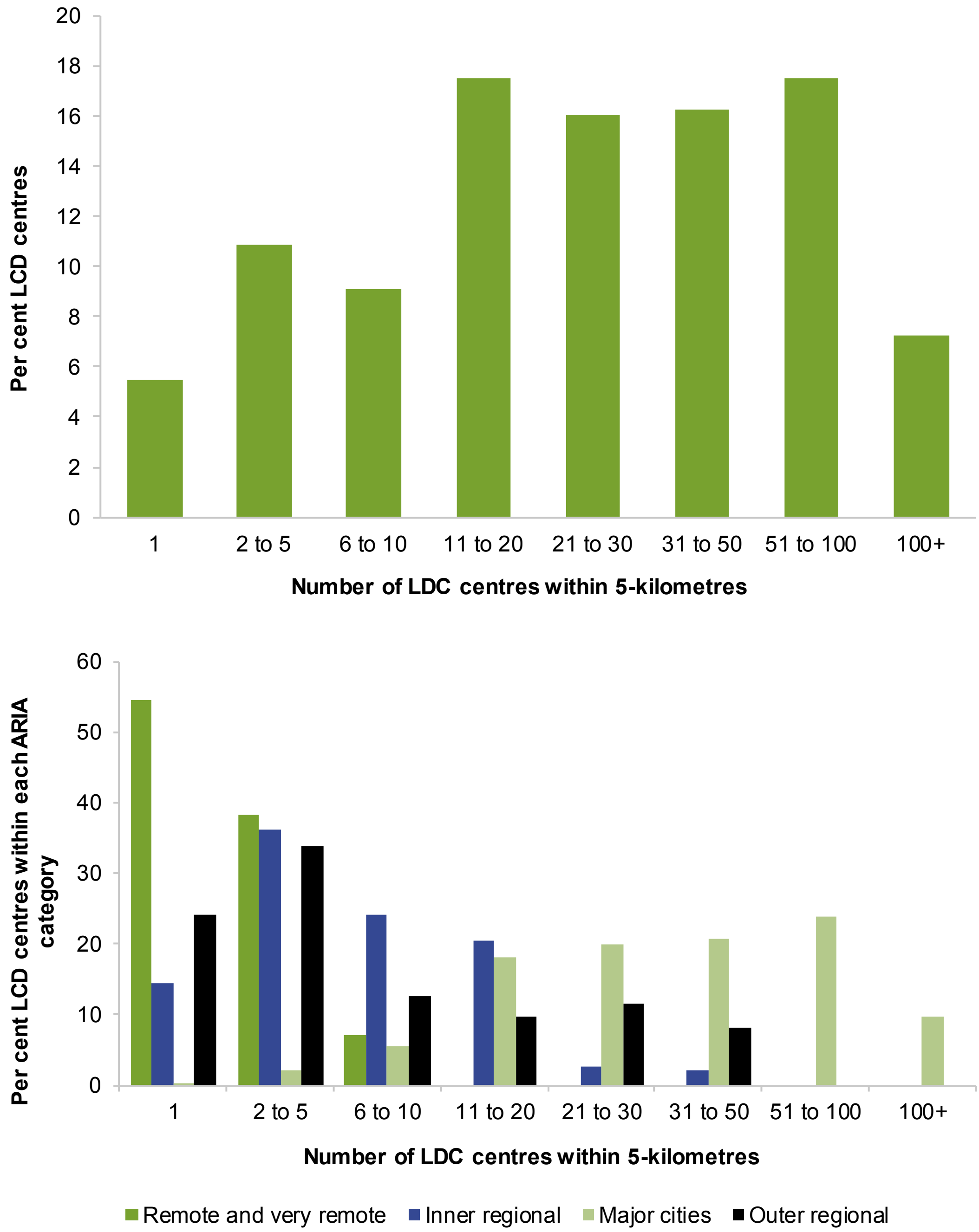
- 95 per cent of centres have at least one other potential competitor (providing a like service) within a distance of 5 kilometres
- 75 per cent of centres have more than 10 centres within a distance of 5 kilometres.

At the extreme, in Rockdale, Marrickville and Canterbury (inner suburbs of Sydney), over 150 providers of long day care services exist within a 5 kilometre radius of a given long day care centre. Even in many remote and very remote areas, choice is still available, with 45 per cent of long day care providers in such areas having at least one other service within 5 kilometres (figure 9.11). For example, in Mount Isa there are four long day care centres within 5 kilometres.

Services are generally located in residential areas or in key commuter corridors and work destinations. The exception is in central business districts of major cities, where childcare providers compete with other high value uses of real estate. In that case, childcare services congregate around the immediate fringe of the inner city precinct.

Figure 9.11 **There is a high potential for competition and choice in most long day care markets**

Per cent of LDC centres by number of LDC centres within a 5 kilometre distance of one another



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

Switching costs can present a significant barrier for parents in exercising choice, as found in studies of the Dutch childcare market. For example, Platenga (2012, p. 70) found that parents generally only exercise choice at the initial point of selecting a service. A survey of Dutch families (Berden and Kok 2009) found that one-third of families would never consider switching providers, with a switch having already occurred or not necessary because the preferences of such parents are already met by their current provider. The remaining two-thirds of parents faced switch costs that were either prohibitively high or would only consider switching if sufficient benefits were available in the form of cheaper fees or convenience to their home.

In Australia, lengthy waiting lists in some areas and waiting list fees may prevent parents from switching services or, at least, add to the cost and hassle of switching services, which even without negotiating waiting lists 'can cause a huge disruption in children's and families' lives' (CCCC NSW, sub. DR 825) (chapter 10).

Choice is limited for outside school hours care

To avoid children travelling or being at home unsupervised, outside school hours care is typically provided at a child's school. The school principal, a parent-school committee or a state government panel generally procures a service or directly employs staff to provide a service on the school site. As such, when a parent chooses a school for their child, they are also choosing an outside school hours care provider or, at least, they are implicitly nominating the school as their 'agent' for choosing a provider.

Several issues emerge from current outside school hours care arrangements, which limit parent choice.

First, 'principal-agent' problems can arise if the procurer of a service makes different choices about providers than parents would themselves. That includes a different emphasis placed on factors such as the price, rated quality, feedback from parents and children, and recreational as opposed to learning-based activities. For example, Primary Out of School Hours Care noted that the New South Wales Government's tendering process emphasised 'financial return over delivery of child focused, highest quality service' (sub. 266, p. 2). This may be of concern to the extent that parents have few alternatives to enrol their child elsewhere, meaning that an arrangement with which parents are dissatisfied can persist for much of a child's placement in outside school hours care.

Second, in engaging a service provider, the school representative's basis for choosing a provider may not be transparent. A particularly opaque aspect of outside school hours care is that schools apparently negotiate an upfront sum (or return on the fees collected) to be paid to the school by the service provider. It is unclear to what extent this is reflective of actual costs, such as for rent, building maintenance and utilities, or used by schools as a revenue source.

A third issue is ratio and qualification requirements applying to outside school hours care, which may constrain the number of places that can be provided within a school, raising the price and reducing the availability of services for parents. Options to change regulatory requirements and improve accessibility for outside school hours care are examined in chapters 7 and 10 respectively.

Demand may be very low or highly variable in some markets

Around 5 per cent of childcare service providers operate in areas where there are very few service users and high variability in the number of children from year-to-year (figure 9.12).[8] Given the limited demand, there may few service providers in such markets and:

- prices may be 'sticky' and not align with costs, given the limited number of 'transactions' and the resulting lack of competitive tension
- the cost of services per child may be high and profitability may be low due to difficulties in managing fixed costs with low or variable demand for services
- service providers may also have limited scope to differentiate service quality,[9] meaning families may lack choice, particularly among long day care providers (MAV, sub. 343, p. 6).

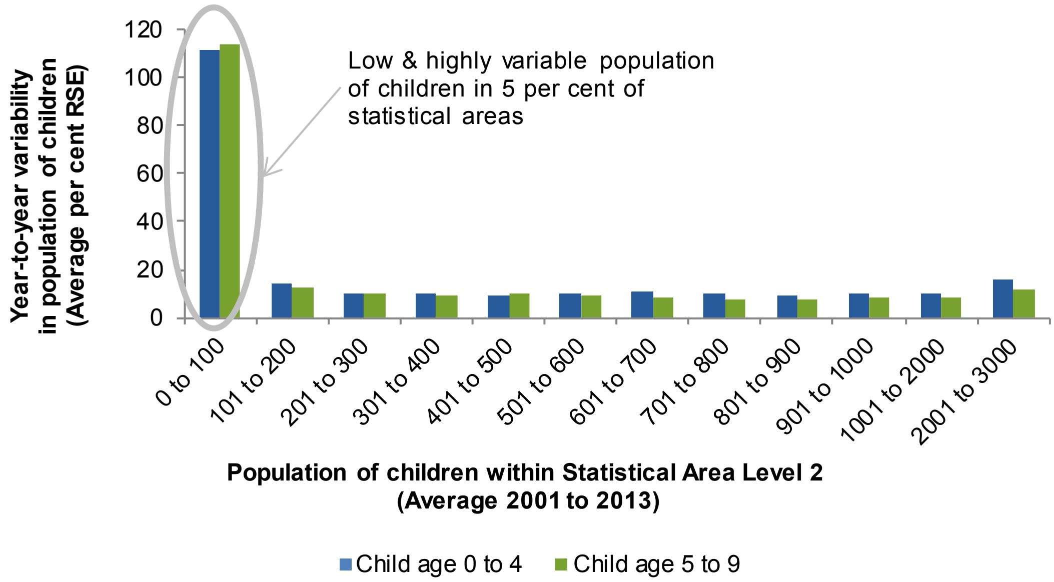
These issues are usually encountered in remote and very remote areas where just over half of long day care centres had no other like service within a 5 kilometre distance (figure 9.11).

Locations are also reported to have higher costs in locations where the population and number of service users is not particularly low, but is highly variable, such as due to tourism or other seasonal employment industries, , meaning services cannot sustainably meet peaks in demand (Early Childhood Quality Consultants, sub. 141, p. 2). However, rather than demand fluctuating seasonally or from year-to-year, in some regional and remote areas, services may experience low use of licensed capacity due to changing demographics (Uniting Care, sub. 387, p. 8).

8 The Commission estimated that 10 per cent of long day care services operate in markets with 5 or fewer other providers and a population density of 20 or fewer persons per square-kilometre; and 5 per cent in markets with two or fewer other providers and 10 or fewer persons per square-kilometre.

9 As is explored by Cleveland and Krashinsky (2009), economies of scale in childcare provision imply that in many remote areas, centres must select a quality level that can attract a sufficiently large continuing flow of parents willing to pay to consume the firm's chosen level of childcare quality. Therefore, in such markets, it is generally not possible to select a preferred level of quality among centre-based care. The main choice is between a centre, if one is available, and other models of care including in-home care, family day care services or informal options.

Figure 9.12 **The number of children in areas with low populations is highly variable**[a]



[a] Based on over 2200 Statistical Area (level 2) regions in NSW and Victoria. Year-to-year variability in the population of children is measured as the % relative standard error (standard deviation divided mean, multiplied by 100) averaged across statistical areas within each population category shown on the x-axis.

Source: ABS.Stat Beta, Estimated Resident Population by region, age and sex, 2011 to 2013.

In such cases, service providers may look for innovative ways to manage fixed costs, including by operating mobile services, reducing operating days and making the premises available for other community uses, or sharing qualified staff with other nearby centres. Similarly, home-based models with low capital start-up requirements and few fixed costs may be most efficient at delivering services in locations with highly variable populations.

Any lack of services in some remote and very remote areas reflects the reality that demand may be too variable or insufficient within a 'catchment' area to support low-cost services similar to those available to many parents living in more populated or urban areas. While such an outcome is not strictly a 'market failure', consistent with other comparable service industries, including aged care, education and disability services, governments have tended to provide additional assistance to childcare service providers in remote areas.

There appears to be price competition

In a competitive ECEC market, supply and demand conditions determine childcare fees. Providers have incentives to alter fees and aspects of their service to improve occupancy rates, utilisation of labour and profitability (appendix H). As providers enter or exit the market in response to supply and demand conditions, fees for equivalent quality services could be expected to converge across providers.

The Commission analysed the distribution of fees in local long day care markets to determine the degree of price competition. It found that roughly half of all long day care providers set their fees for a 3-year old within 5 per cent of the average fee within the local area.

Although caution is needed in interpreting these results — as childcare fees reflect a bundle of attributes, many of which are intangible and immeasurable — they suggest that fees are aligned across providers within localised markets. As such, competitive forces are likely to be influencing the pricing conduct of providers. Many childcare providers confirmed the presence of price competition, telling the Commission that they compare the fees of competitors and typically set their fees with reference to local market conditions, and not just according to delivery costs or revenue management.

The Commission also found that the number of 'like' competitors located near a childcare service appeared to influence the alignment of prices between competitors. In particular, in markets where long day care providers set their fees within 5 per cent of the average price, there were on average seven more competitors within a 5 kilometre distance compared to markets with wider disparity between prices.

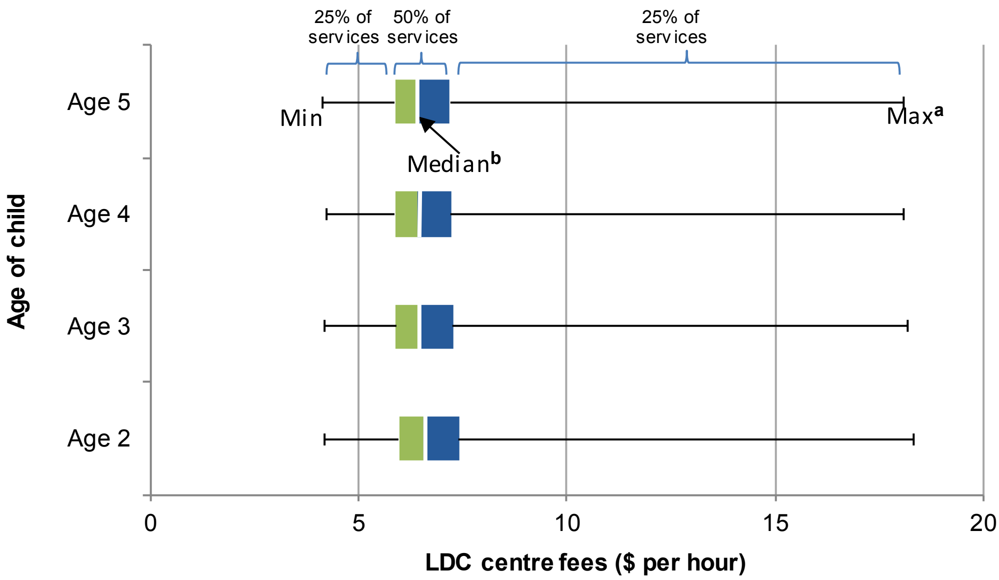
Price competition may be relatively weak in markets where demand exceeds supply, including in markets where waiting lists are long and tend to be permanent. Berden and Kok (2009) for example found less evidence of price competition in Dutch childcare markets where waiting lists were longer. Similarly, in Australia, some parents, particularly those seeking services for young babies in the ACT, have indicated that there is 'so little choice you just have to take what is available regardless of cost' (comment no. 249, users of ECEC services).

Nationally, there is also a tight (albeit skewed[10]) distribution of fees across long day care services, with the majority of providers charging very close to the national median fee (figure 9.13).

[10] There is a very long tail in the distribution of fees, with only 2 to 3 per cent of all long day care services charging more than $10 per hour (based on 2011-12 administrative data on fees). The exact source of such higher fees is unknown. On the one hand, higher fees can be symptomatic of high underlying input costs to deliver a basic service, such as in mining communities. Similarly, higher fees could reflect higher land costs in some CBDs of major cities. Higher fees could also reflect the provision of 'super-premium' services, as are reported to exist in several affluent suburbs.

Figure 9.13 **The distribution of long day care service fees**

By age of child in care



[a] When verifying the dataset, a very small number of outliers that appeared to reflect misreported data were removed. [b] 'Median' refers to the national median, with 50 per cent of services setting fees above the median and 50 per cent of services setting fees below the median. The green/blue shading shows the middle 50 per cent of services for each age group.

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

Quality-based competition is important

Competition based on service quality is a key feature of ECEC markets. For example, a survey by the Australian Childcare Alliance found that 66 per cent of providers actively compete on price and 85 per cent compete on quality (sub. 310, p. 20).

Unlike price competition, where services provide a comparable quality level and alter prices in response to demand, competition on quality results in service providers attempting to provide the highest quality service possible for a given market price. Often, this involves providers differentiating themselves according to an aspect of quality they can deliver for a given price that other providers cannot, or that other providers have chosen not to specialise in providing. Potentially, such differentiation of service quality can lead to wider differences in prices across providers if parents are willing to pay more to obtain certain quality features.[11]

[11] Quality aspects include locational convenience; hours of operation; inclusions such as food or nappies, or health and educational components; the age and condition of facilities; National Quality Standard ratings; and a range of intangible factors valued by parents. Such non-price factors are likely to moderate the close alignment of prices, masking the extent of price competition.

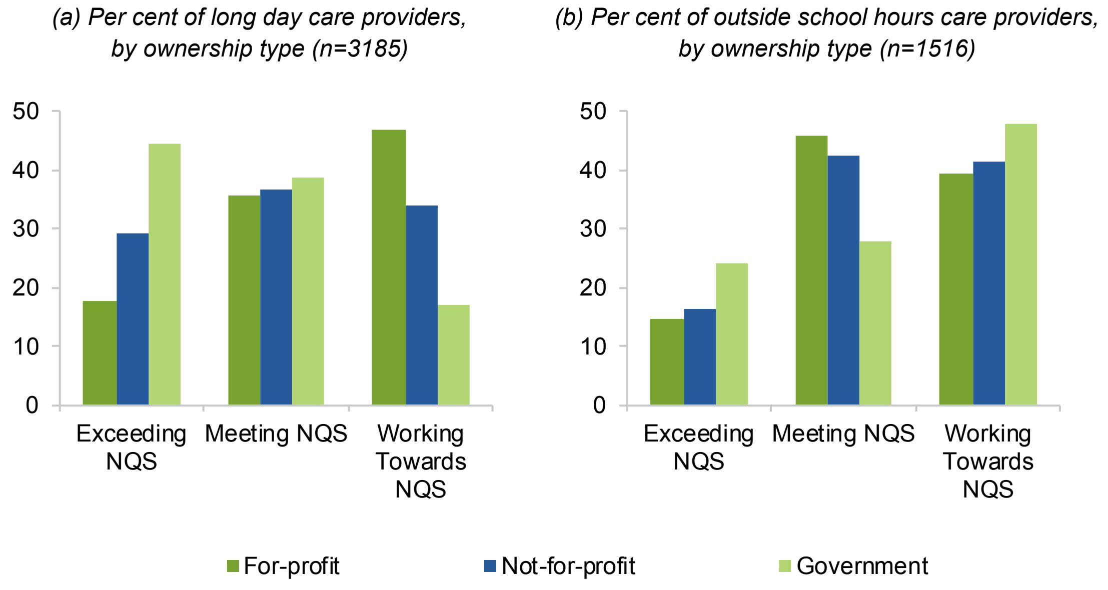
The scope for quality-based competition increases in densely populated areas where the depth and diversity of demand increases the scope for providers to specialise and differentiate quality aspects of their services.

Not-for-profit providers compete on quality

The Commission's analysis of National Quality Standard (NQS) ratings indicates that not-for-profit and government providers achieve a slightly higher average quality than for-profit providers (figure 9.14). This suggests that not-for-profit long day care providers compete on service quality — as measured by NQS ratings — rather than price, and could explain why, as a group, not-for-profit and government providers are able to charge slightly higher prices (figure 9.15).

However, the Commission's analysis of the NQS ratings of long day care services found that providers rated as 'exceeding' the NQS were only slightly more likely to charge higher fees than were their local competitors who were awarded a lesser rating. This could suggest that some services rated as higher quality under the NQS do not command a large price premium or that there could be other aspects of service quality, and particularly aspects of not-for-profit services, that appeal to parents.

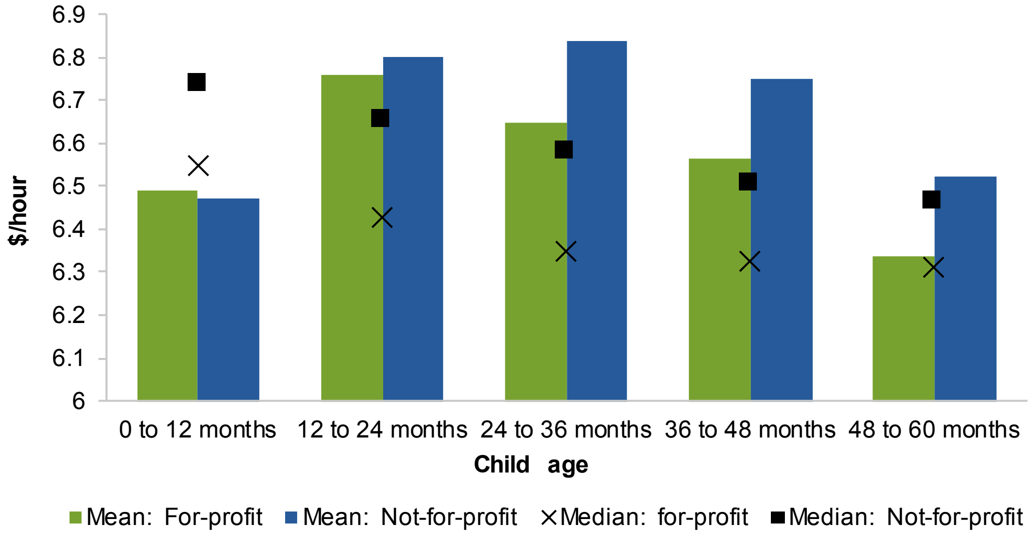
Figure 9.14 **National Quality Standard ratings**



Source: Productivity Commission calculations based on ACECQA data (1 October 2014).

Figure 9.15 **Not-for-profit long day care fees are slightly higher on average**

Average hourly fee, by age of child (n=6367)



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

It is unclear what features could differentiate not-for-profit services in the marketplace and allow them to set slightly higher fees, but it is unlikely that the not-for-profit 'brand' determines most parents' choice of service. In fact, most Australian parents' appear indifferent as to the profit status of providers, with 70 per cent of respondents to a Care For Kids Survey (2014) indicating that they did not mind whether a childcare service was a profit making or not-for-profit, as long as the quality was good and prices were equivalent.

Does competition improve quality?

Although vigorous price competition normally benefits families, when some aspects of quality are difficult for parents to detect, competition can reduce childcare quality as it may result in providers emphasising visible traits, such as the cleanliness of reception areas, over actual quality improvements (CCSA, sub. 305; Helburn 1995; Milgrom 1981; Mocan 2007; Xiao 2004).

However, Akgunduz and Plantenga (2013) found that, with appropriate regulatory safeguards, competition can lead to improved quality outcomes and lower quality-adjusted prices (in the Dutch childcare market).[12] The authors concluded that more productive use of

[12] The Dutch childcare market is, like Australia's, regulated through staff-to-child ratio and qualification requirements, with government subsidies paid to parents. Quality-adjusted prices were measured as the quality-price ratio, with quality assessed on a scale evaluating child-caregiver interactions.

staff and management capability were the likely mechanism by which competition spurred quality improvement.[13]

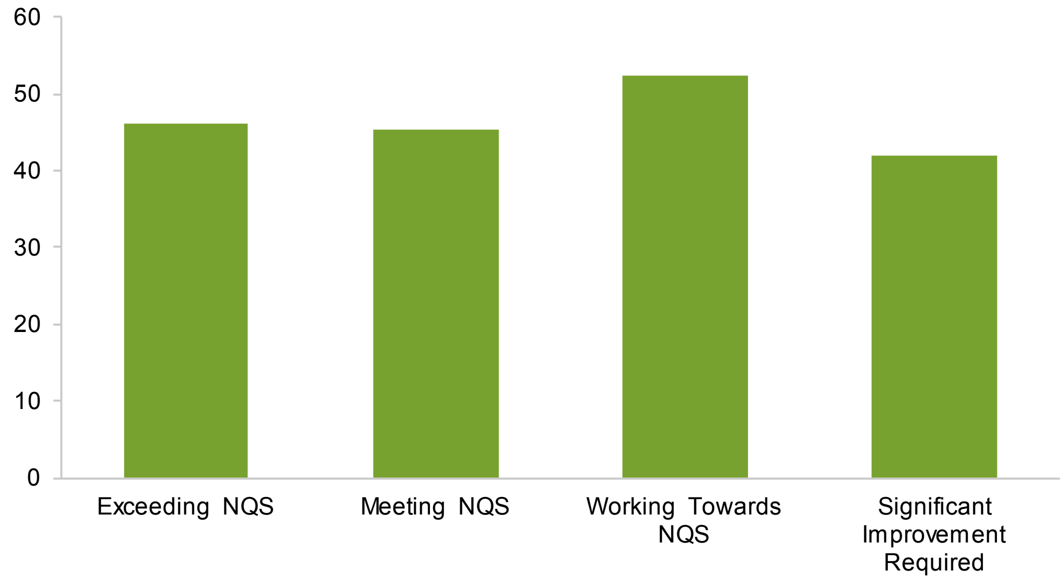
As discussed, the Commission found that the alignment of fees between competitors was associated with a larger number of competitors in a market. This may suggest price competition dominates over the differentiation of service quality. Equally, however, competition might also increase the quality content of services for a given market price, which is consistent with the findings of Akgunduz and Plantenga (2013).

Using limited available data, the Commission analysed the relationship between the concentration of competitors within local areas and NQS quality ratings. No clear relationship was found between the number of competitors within an area and the average quality of services (figure 9.16), suggesting that competition may not lead to improved quality as measured by the NQS.

However, this simple analysis did not control for a large number of factors influencing childcare quality, such as locational convenience. A more detailed analysis of the relationship between service quality and competition is required before reaching a reliable conclusion.

Figure 9.16 **Quality ratings and competition in major cities**

Average number of competitors within 5 kilometres, by NQS rating for long day care centres in Australian major cities (n=1662)



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

13 The decrease in quality-adjusted prices was attributed to the cap on the hourly rate of government subsidy, such that providers do not consider the use of additional inputs to achieve higher quality to be a viable strategy, since it would cause fees to rise above the subsidised rate.

Can providers signal high quality to parents?

Because many aspects of childcare quality are unobservable, it can be difficult for providers to communicate aspects of quality to parents and hard for parents to judge service quality when choosing a provider. Such information asymmetry problems can frustrate quality-based competition and impede the effective functioning of markets.

In particular, poorly informed decisions of parents can lead to low quality services persisting in the market and reduce the incentives for 'good' providers to invest in raising the quality of their services — as stated by the OECD, 'the belief that quality improvement can be left to market competition is naïve' (2006, p. 126). Half of parents responding to a Care For Kids survey (2014) indicated that they were unable to find enough information on childcare options or that they were unaware any information, such as on the quality ratings of services, existed.

Because of this, and as was discussed in chapter 7, ACECQA enforces a minimum level of quality as defined by the NQS. NQS ratings also identify services that exceed minimum standards, creating incentives for providers to offer high quality services if demanded by parents.

However, NQS ratings cannot capture a complete range of service attributes contributing to a parent's choice of service. In particular, parents might prioritise a convenient location, or intangible factors such as signs that their child is settled or the rapport they develop with a particular carer or centre director above objective NQS quality criteria. Figure 10.5 showed that Australian parents tend to place a greater weight on the locational convenience of services than they do on quality, with nearly 50 per cent of parents choosing a long day care centre because it was close to home. Berden and Kok (2009, p. vii) similarly found that in market-based systems overseas, parents 'prefer care close to home and pay less attention to quality'.

As such, providers may seek to differentiate themselves by not only improving their performance against NQS ratings, but also by strategically communicating information to parents about the quality of their services, focussing on aspects of quality that:

- are highly visible to parents — for example, Mocan (2001) found that centres with very clean reception areas tend to produce lower levels of quality for difficult-to-observe aspects
- are highly valued by parents and reduce responsiveness to fees.

Berden and Kok (2009) found that 'with regard to quality aspects that are not noticeable to parents there is hardly any competition'.

There are emerging signs that strategically marketed and well-located providers are specialising in delivering premium childcare services. They use a variety of approaches to signal quality dimensions to parents, including providing access to elective health services such as occupational therapists and child psychologists, or through 'luxury' equipment such as iPads, handcrafted cots, European bed linen, onsite chefs, baby massage, and a concierge to help parents make medical and other appointments (Ginis 2012). For example, a long day care centre in Mosman, Sydney, charges up to $158 per day and offers a range of extracurricular activities including a dance academy, computer labs, drama, sing-with-me classes and Zumba (Wilson and Cornish 2014).

Do providers have market power?

Weak competition in the delivery of services in some locations may result in a single provider gaining significant market power or in several providers coordinating to increase average prices.[14]

Market concentration

A number of providers operate multiple services (table 9.1). However, more than half of all providers have only a single service and nearly a third provide 2 to 4 services. Less than one per cent of all providers have more than 20 services.

Table 9.1 **Number of approved services per provider**

	2009-10	*2010-11*	*2011-12*	*2012-13*
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 (2009-13).

Current market shares for long day care are less concentrated than in 2007-08 when ABC Learning accounted for over one-quarter of market revenue and employment in Australia (IBISWorld 2010) and, in Queensland, for 70 per cent of services.

- The majority of long day care centres are independent centres that are not part of a network or group of services (figure 9.17). These are often family run centres or committee-managed not-for-profit services. A further 25 per cent of all centres are operated as part of a network of less than 10 centres.

[14] The ACCC addresses anticompetitive conduct and has the power to investigate the competitive consequences of takeovers. The last example of this was when the ACCC imposed conditions on acquisitions made by ABC Learning in 2006 (ACCC 2006).

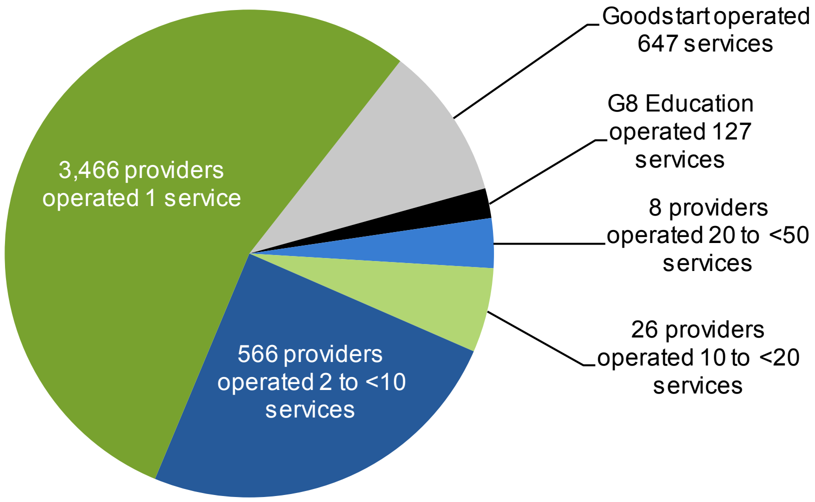
- Goodstart Early Learning is the largest market participant, operating 643 centres or 10 per cent of the total number of long day care centres across Australia in 2012-13. G8 Education is the second largest participant operating 127 centres at the beginning of 2012-13 (although G8 Education has recently increased its market presence and now owns over 400 centres).
- The next 12 largest market participants (those owning 20 or more services) collectively operated less than 6 per cent of long day care centres in 2012-13.

Outside school hours care similarly has a number of chain or network providers, with Camp Australia being the largest single provider and operating around 10 per cent of services. However, the majority (58 per cent) of outside school hours services are delivered through very small networks operating less than five separate services.

While overall market concentration is low, it is possible that clustering of ownership within a given local area may result in local market concentration being high and competition muted (though clustering ownership can also reduce costs for providers, particularly by enabling more flexible management of labour costs and reducing administration overheads).

Figure 9.17 **Concentration in the ECEC market is low**

Share of long day care services (n=6387), by ownership 2012–13



Source: Productivity Commission calculations based on Department of Education administrative data (2012-13).

Market acquisition activity

The Australian ECEC market became more fragmented in 2008 with the exit of ABC Learning as the dominant and most rapidly growing provider of long day care services. This opened up the potential for providers with access to capital and efficient and scalable operations to increase their market shares and profits. Most large multi-service providers have grown through acquisitions rather than establishing new services — that is, an operator purchases an intangible business asset (often, with a rental agreement in place), rather than owning the physical land and building, which is typically a purpose built facility.

G8 Education Ltd and Affinity Education Group are the two key market participants currently acquiring a growing portfolio of established services. In particular, G8 Education has expanded significantly in recent months, more than doubling the size of its network since August 2013. As of 1 October 2014, G8 Education Ltd has acquired 403 centres across Australia with a capacity of 28,801 places (G8 Education Ltd 2014).[15] Affinity Education group was listed on the ASX in December 2013 and either owns or manages over 100 centres, with its footprint largest in Queensland and only one of its centres being a greenfield site (Affinity Education Group 2014).

Various analysts identifying investment opportunities suggest that, in the present market, sector consolidation through acquisitions is attractive because:

- acquisition costs are low and there is little competition to acquire assets
- it avoids any delays associated with licensing and approval processes required for a new development, and avoids the vigorous and unprofitable competition required to gain market share as a new centre
- when available, capital is relatively cheap (G8 Education has financed much of its acquisition activity through share market capital raisings and issuing bonds)
- strategic purchases in prospective locations can deliver a market advantage (over not-for-profit services who may cross-subsidise unviable centres (see later)) (Henshaw 2013).

However, recent acquisition activity by G8 Education — along with reports of the extent of its profitability[16] and having recently exceeded its self-imposed purchase price threshold of four times earnings before interest and tax — has initiated some speculation about the potential to exercise market power in the future (Stensholt and Gardner 2014; Vance 2014).

The impacts on competition associated with individual market transactions are beyond the scope of this inquiry, but the Commission notes that, rather than stemming from any exercise of market power, profits could be the payoff from productive efficiencies and more cost-reflective pricing strategies in a rapidly expanding market. Ongoing monitoring of acquisitions by the ACCC should provide protection against any future exercise of market power.

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[15] Rather than involving the purchase of the physical asset, recent acquisitions have primarily involved the purchase of business entities, including licensed places and lease agreements.

[16] G8 Education (2013) reported a margin on earnings before interest and tax of over 17 per cent across its network in 2013, which is higher than many of its competitors.

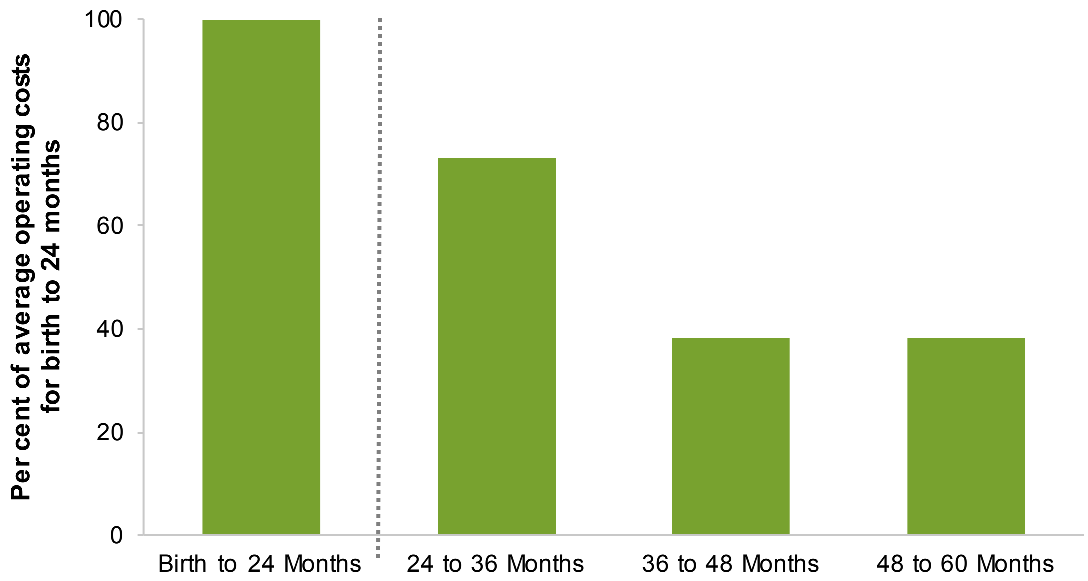
Cross-subsidisation of fees is common

Cross-subsidisation involves the surplus from a profit-making service (or activity) being used to prop up a loss-making service. In effect, it averages fees across different users, and is a practice that is widely adopted in the ECEC sector. Examples of where average fees may not fully recover the cost of services include:

- for children under 2 years in long day care, which due to higher staff-to-child ratio requirements cost more than double that of a child aged 3 to 5 years (figure 9.18) but are priced similarly (figure 9.19)
- in some inner city areas where competition from other high value uses of real estate leads to high rent costs, or in some remote areas where low and highly variable utilisation can raise the cost of services
- for children with additional needs, where additional staff are required.

Figure 9.18 **Children aged 0 to 2 cost roughly double that of 3 to 5 year olds**

Average operating costs per child in long day care, by age of child[a]

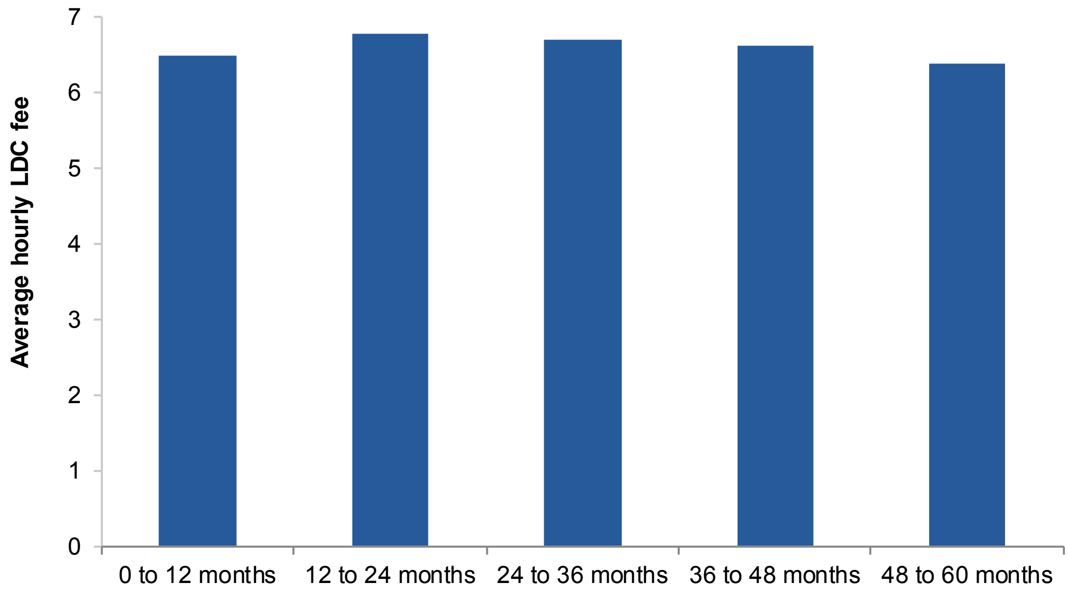


[a] Operating costs include centre-based direct staff costs and some non-staff costs (such as nappies), but exclude many fixed costs (such as rent, maintenance, utilities and any non-centre based administrative overhead costs). Factoring in these costs, which are similar across age groups, would reduce differences in costs across age groups somewhat. It should be noted that nationally consistent staff-to-child ratio requirements only apply to the 0 to 2 years age group.

Source: Productivity Commission calculations based on sector provided data.

Figure 9.19 **Fees structures do not reflect cost differences**

Average hourly fee for long day care services, by age of child (n=6367)



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

Cross subsidies may lead to a misallocation of childcare places

Cross-subsidies distort price signals and can result in a sub-optimal allocation of childcare places.

The Commission found varying degrees of cross subsidisation between different age groups of children in the long day care market. However, most centres appeared to make losses on their places for birth to 2-year-old children. Of course, long day care providers could increase fees to reflect the much higher cost of care for 0 to 2 year old children, but providers appear reluctant to do this. As a result:

- parents of children aged 2 years and under who can access a nursery place at a long day care centre benefit from the under-pricing of such services.
- parents who would be prepared to pay more for the same service, but cannot access a long day care place because of long waiting lists, are worse off than if prices were more reflective of costs.
- waiting lists could persist for this age group
- parents of older children at long day care will tend to underuse services, as their fees reflect both the delivery cost of services *and* a margin to fund cross-subsidies.

Fees set in this way will be higher on average than if the true costs of delivering services was reflected in fees and parents adjusted their use accordingly. Likewise, investment incentives will be muted, as prices do not signal to existing suppliers or new entrants where additional capacity would be profitable.

The more responsive the use of childcare services is to price changes, the greater the potential for cross-subsidies to cause losses to allocative efficiency. However, because providers have not adopted more flexible charging practices, the willingness of parents to pay more towards the cost of services for 0 to 2 year old children is unclear. While there is evidence that demand for ECEC services in Australia is relatively inelastic, parents still show responsiveness to price signals, particularly among mothers with lower levels of education, multiple children and lower household incomes (Gong and Breunig 2012b).

What is the business case for the cross subsidisation of fees?

Though unclear, there is likely to be a business case for the cross-subsidisation of fees across child age groups at long day care centres, particularly when competition is relatively weak and when parents tend not to switch services once a relationship has been established. For example:

- some degree of average pricing is usually efficient given transaction costs incurred by providers to accurately apportion costs across users and because more complex fee structures could deter some parents from using services
- services for 0 to 2 year old children may be 'loss leader' services if providers are able to 'lock-in' repeated use of services, meaning that cross-subsidisation between child age groups results in a transfer of profits (and losses) over time — that is, initial losses can be recouped with the ongoing use of services as the child ages and the cost of care declines[17]
- the willingness to pay for services could vary between parents of different aged children, which could create opportunities for providers to price-discriminate between users — that is, charge a mark–up on the price of the most inelastic service.[18]

Based on the Commission's assessment, it is possible that cross-subsidisation could provide a strategy for providers to maximise their market share and overall profitability — that is, under-pricing services for young babies could simply be a type of 'introductory offer' that maximises long run profits across the suite of services offered. To be effective, however, such a strategy relies on high switch costs for parents, since these act as a barrier

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[17] Such inter-temporal transfers may be efficient if all families commence using a service when their child is the same age and each use the service to the same extent. However, many parents never use a service for their 0 to 2 year old, or when they use such services they do so for far fewer hours than they use a service when their child is 3 to 5 years old.

[18] Prima facie, given the preferences of parents to care for their very young children, parents are likely to be more price elastic when their child is 0 to 2 years old compared with when their child is older. As children get older, the potential cognitive and social benefits of childcare may outweigh any hesitation from parents to place their child into formal care.

to entry, preventing the recruitment of parents by a competitor who does not cross-subsidise their services.[19]

Cross subsidies may be directed at social goals

In addition to creating inefficiencies, cross-subsidies also affect distributional outcomes, as those parents who benefit from cross-subsidies only do so at the expense of other parents who are made worse off.

Not-for-profit providers may cross-subsidise fees to deliver more equitable access to childcare services across the community. One organisation described the cross-subsidisation of fees across their services as an attempt to 'reach as many children as possible across a variety of demographics'. Others have characterised the practice as a 'social inclusion' supply model, which includes providing 'a developmental experience for children at a price that families earning moderate incomes can afford' (Cleveland and Krashinsky 2009, p. 446).

In the case of services for children with disabilities or for families living in remote areas, there may be accepted equity principles as to why the averaging out of fees is desirable. In particular, cross-subsidisation of fees may delay or prevent the exit of services in unprofitable locations. It may also allow unviable services to exist for children with disabilities, for whom the funding is often insufficient to cover the additional costs of providing care (chapter 13). Undesirably, however, cross-subsidisation can also allow inefficiently operated services to continue longer than might be optimal, including by taking the pressure off providers to seek out cost savings and price efficiently.

Competition should limit cross-subsidies

That providers are able to cross-subsidise their services could also be an indication of broader market imperfections, including those created by regulatory impediments to competitive entry and expansion by providers. As such, the commission's recommendations in chapter 7 to reduce entry barriers will be important to strengthen competition.

There are signs that competitive pressure may already be reducing opportunities for providers to cross-subsidise services. For example, the Commission found that many long day care centres with flat fee structures across child age groups, and therefore extensively cross-subsidising fees for 0 to 2 year old children, struggled to maintain viable occupancy rates among older age groups, especially when competing against services that do not offer care for younger children. In addition, the Commission's recommendation to subsidise nanny services provides a further service option to families, which could increase competitive pressures on service providers.

[19] Any capacity to make a significant surplus within a local market (in order to cross-subsidise other services) should be bid away through new entry by suppliers not cross-subsidising their services.

The emergence of more effective competition and resulting changes to pricing behaviour, will take time and will be disruptive for parents and providers who currently benefit from such arrangements. The policy consequences for affordability and accessibility that may arise with the unwinding of cross-subsidies are taken up in chapter 15, and depend on:

- the value that the wider community places on supporting access to affordable services for particular groups of children and parents
- whether such groups can be effectively identified and targeted when designing and administering government assistance.

9.5 The impact of government assistance on ECEC markets and prices

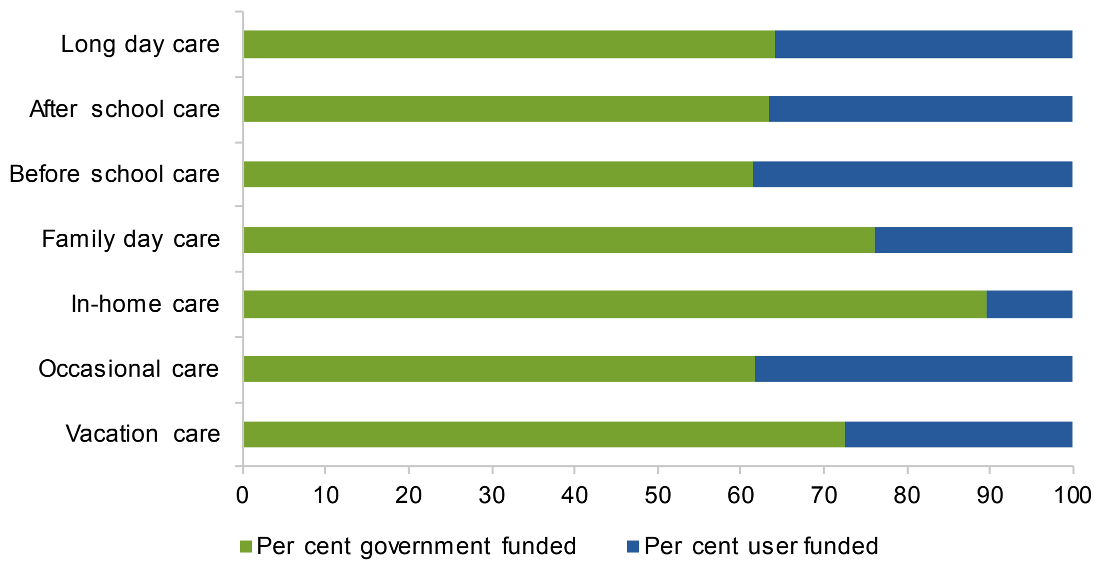
A range of government assistance to users and providers can affect the functioning of ECEC markets including:

- subsidies to parents, which cover the majority of user fees and therefore are a key determinant of the demand for childcare services (figure 9.20).
- subsidies to providers, and tax exemptions and concessions, the latter which tend to favour not-for-profit providers and can inhibit competition.

As a result, there is an important relationship between the existence of subsidies and the functioning of ECEC markets, with neither operating in isolation of the other (figure 9.21).

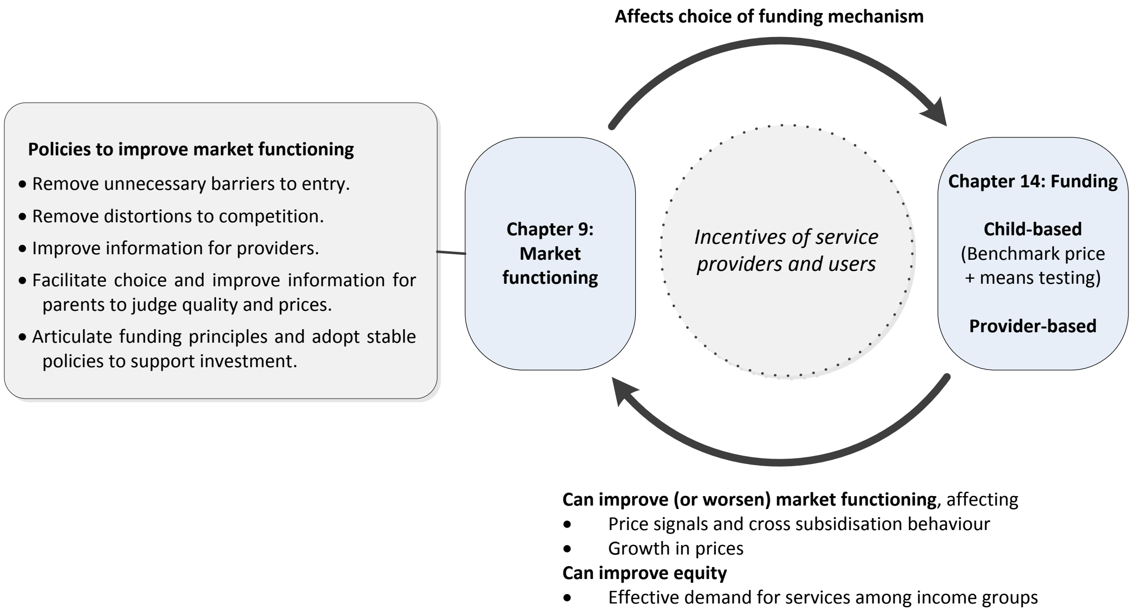
Figure 9.20 **Government assistance covers the majority of fees**

Per cent of total fee, by care type



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

Figure 9.21 **The relationship between market functioning and funding**



How do subsidies affect market functioning and prices?

Subsidies are used to alter the use and provision of childcare services in order to address particular economic and social goals that deliver community-wide benefits. Current childcare subsidies directed to parents, such as the Child Care Benefit (CCB) and the Child Care Rebate (CCR), are intended to:

- reduce out-of-pocket costs for families to reflect any community-wide benefits from childcare use, including those related to child development (chapter 5) and/or workforce participation (chapter 6)
- achieve desired distributional outcomes by increasing the affordability of childcare services for particular groups of parents and children.

Subsidies affect the incentives faced by parents, who respond to changes to their family budget and relative prices. (These are known as the 'income' and 'substitution' effects of childcare subsidies and are discussed in box 9.4.)

Box 9.4 **Subsidies have ‘income’ and ‘substitution’ effects**

The income effect of subsidies can increase the use of formal childcare services and improve the incentives for parents to participate in paid work. However, by reducing the strain on family budgets, childcare subsidises can also:

- facilitate expenditure on other goods and services desired by families. Some mothers may even work less with subsidies, owing to the reduced need for employment earnings to meet childcare expenses and support a chosen lifestyle
- allow parents to select their preferred (higher) level of childcare quality, without necessarily increasing their hours of use of childcare and increasing their own supply of labour into the workforce.

Substitution effects arise because subsidies change relative prices, including between:

- formal and informal care options — for example, currently unsubsidised, informal care options, such as nanny services, are made relatively more expensive when subsidies are available for formal services, such as long day care and family day care
- different types of formal services — for example, different rates of CCB currently apply across formal care types, which potentially bias parents’ decisions to use one form of care over another.

How does the CCR affect parents’ incentives?

The way in which parents’ incentives change will depend on the design of subsidies. For example, fixed value subsidies, such as the proposed benchmark rate (chapter 14 and appendix I), will affect parents’ incentives differently to fee-based subsidies, such as the CCR where the subsidy is tied directly to the fees providers charge (box 9.5).

As a fee-based subsidy, CCR does not change the relative price of services that qualify for subsidies. However, it may alter the childcare choices of parents, lead to ‘over-servicing’ by providers and growth in childcare prices. Any such inefficiency stems from the effect of a fee-based subsidy on a parent’s choice of service and push-back against price increases. In particular, the presence of a fee-based subsidy might:

- lead to minimal, if any, increase in a parent’s workforce participation, who instead select a more expensive, higher quality service
- weaken the incentive of parents to resist price increases, since all taxpayers bear a portion of any price rise.

Another feature of the CCR is that parents (and particularly those whose demand for quality is high) have incentives to stay under the $7500 CCR cap by ensuring their use of services does not exceed a few days per week. This reflects that once the cap is exceeded, the marginal price of childcare doubles. Although only 5 per cent of children exceed the $7500 CCR cap, this number has been growing and it is unclear to what extent a larger share of families reduce their use of childcare in order to avoid hitting the cap (chapter 11).

Box 9.5 **The difference between fixed value and ad-valorem subsidies**

The current CCB is a form of fixed value subsidy since the subsidy per hour of childcare used is untied to the actual fee parents pay. The Commission's proposed 'benchmark rate' is also a form of fixed value subsidy, since it does not vary with the actual fee charged for the service a parent chooses. In contrast, the current Child Care Rebate (CCR) is a form of ad-valorem subsidy, since it covers 50 per cent of a parent's out-of-pocket childcare expenses (up to an annual cap of $7500 per child), regardless of how expensive the service is. This means that families paying the most for childcare receive larger subsidies, who also tend to be higher income families.

When markets are not perfectly competitive, the payment of ad-valorem subsidies to parents may create upward pressure on prices. Further, because aspects of service quality can vary, ad-valorem subsidies may lead to over-servicing (particularly with respect to improvements in quality that are highly visible and valued by parents). This occurs because:

- an ad-valorem subsidy contributes towards the entire bundle of service characteristics chosen by individual parents
- for every improvement in quality that costs $1 to produce parents will only be required to pay a fraction of that amount
- ad-valorem subsidies reduce pressure on providers to limit price increases since costs are also borne by taxpayers, meaning a $1 increase in the price providers receive will cost families less than that amount (and a $1 reduction in the price providers receive will save families less than that amount).

How do current subsidies affect providers' incentives?

Even when subsidies are directed to parents, they can affect the behaviour of service providers. For example, subsidies can reduce incentives for providers to minimise costs and set cost-reflective prices, especially if:

- markets are not highly competitive or there are barriers to entry, which prevent supply responding to changes in demand and allow established operators to include a markup in the price charged for services
- subsidies are administered on the basis of fees charged, as occurs for CCR, rather than being based on a fixed value, as would occur with the Commission's proposed 'benchmark price' approach
- subsidies establish an artificial benchmark or floor price on which providers base their prices and price rises over time.

Appendix I and chapter 14 explore evidence of these issues and their consequences for the design of subsidies in more detail. They conclude that, by changing the incentives facing both service users and providers, a 'benchmark price' offers a better approach to administer subsidies. Providers should, in theory, have stronger incentives to only pass-on cost increases that similarly affect other providers within the local market and therefore compete to minimise costs and bid down prices.

The impact of government subsidies on childcare prices

As outlined already, gross childcare fees (the price that providers receive) have been growing faster than the rate of inflation and price rises in other similar industries (figure 9.5). Although some of this growth in fees may be transitionary as providers implement new quality regulations, subsidies are also likely to have contributed to some degree.

The Henry review of Australia's taxation system noted that childcare subsidies linked to fees or out-of-pocket expenses 'may put pressure on child care fees and government expenditure' (2009, p. 590). However, other drivers of supply and demand will also influence growth in childcare fees, and under certain conditions, these could overshadow any impact of subsidies on prices. For example, overseas studies have found:

> … the most important drivers of average child care prices are economic and demographic factors, such as income levels, employment rates, rents and population, rather than childcare policy. Subsidy expenditures are one factor influencing childcare demand but they generally have not had a large impact on child care prices … (Davis et al. 2009, pp. i–ii)

Ultimately, however, the more generous the subsidy, the greater the likely impact on prices (Davis and Connelly 2005; Davis et al. 2009; Murrufo, O'Brien-Strain and Oliver 2003), although careful design of subsidies and responsive supply can moderate this somewhat. Similarly, there is greater potential for prices to increase when demand is growing quickly, because of either subsidies or other economic and demographic factors, and when supply cannot adjust quickly.

Growth in fees following subsidy changes is consistent with non-responsive short run supply

An increase in subsidies will drive additional demand for services, which pushes up fees until supply can adjust. In the short term, this means providers can capture additional revenues from subsidies (sometimes referred to as subsidy 'leakage'), either through above normal profits or inefficient management of costs.

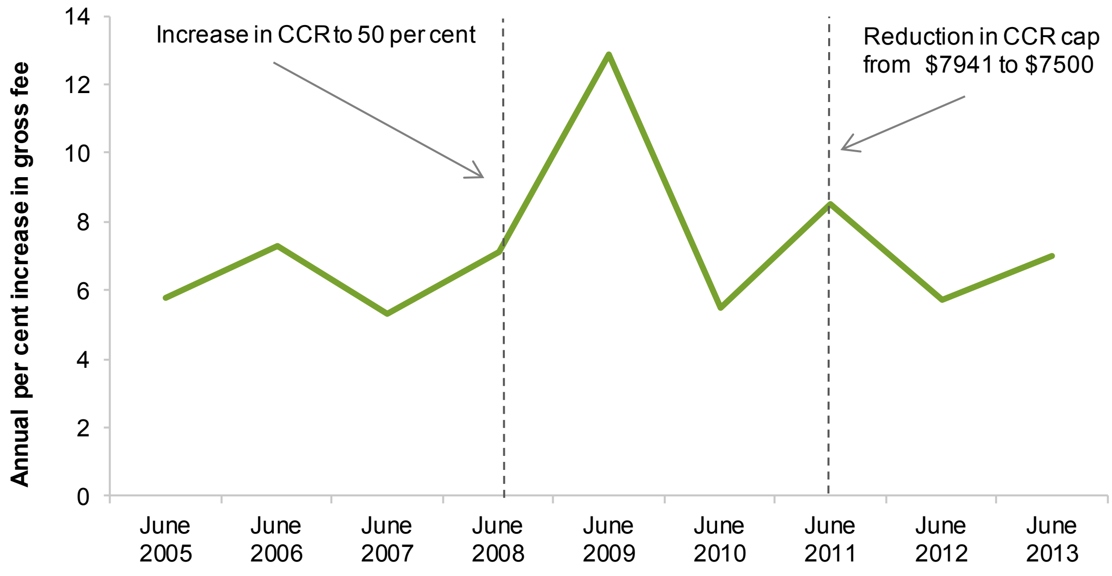
In the longer run, subsidy leakage should reduce. Leakage may be sustained, however, if markets are not competitive or regulations or other impediments inefficiently delay entry and expansion activity — chapter 7 discusses such impediments.

Following an increase in the rate of the CCR in July 2008 (from 30 to 50 per cent of a family's out-of-pocket expenses), the average annual increase in long day care fees accelerated (figure 9.22). However, by July 2009, the rate of increase in fees slowed. This indicates that, although supply takes some time to adjust, in the medium term, childcare providers can vary their supply decisions and new entry is possible.

As discussed in section 9.2, due to the need for purpose built facilities, long day care places are likely to be less responsive to price incentives in the near term. However, as is consistent with the findings of overseas studies including Davis et al. (2009, p. 29), it appears that in Australia home-based care can respond within a relatively short timeframe to meet any excess demand.

The strong growth in family day care over the past few years followed a range of changes to government assistance arrangements, including the availability of Community Support Programme funding to family day care agencies in 2004 and the removal of caps on approved places in 2007.

Figure 9.22 **Annual increases in long day care fees**



Source: Department of Education (2014b, p. 9).

Subsidy leakage increases when demand responsiveness is low

The prospect of providers capturing subsidies and raising fees increases when demand for ECEC services is not responsive to price changes.[20] As previously discussed, a low level of responsiveness to price changes can arise when there is insufficient supply to meet demand in a local area or when high switching costs prevent a parent from readily changing providers. Low demand responsiveness can also arise when parent's do not have to co-contribute towards fees.

Current forms of government assistance cover the majority of fees set by providers (figure 9.20), but families receiving CCB (and Jobs Education and Training Childcare Fee Assistance) may have upwards of 80 to 90 per cent of their childcare expenses subsidised. In such cases, price signals are significantly muted and providers may be able to increase fees with minimal, if any, reduction in parents' use of services. However:

[20] Gong and Breunig (2012b) found that an increase in childcare prices reduces demand for childcare among Australian families by a proportionally lower amount. A 1 per cent increase in fees results in a 0.132 per cent decrease in childcare use and a 0.25 per cent decrease in hours.

- fewer than 10 per cent of families receive subsidies covering more than 90 per cent of the fee charged (chapter 11, table 11.1)
- the ability of providers to respond to any such weak demand side pressure, which would result in subsidy leakage, relies on such families being geographically co-located and using the same services. If such families are not co-located, those parents receiving fewer subsidies may continue to impose a competitive constraint on the majority of providers' charging practices.

To assess the prevalence of highly subsidised users accessing the same service provider, the Commission identified the number of providers who currently derive more than 90 per cent of their revenue from subsidies. (This threshold was chosen for illustrative purposes only.) The Commission found that:

- less than 0.5 per cent of providers of long day care receive more than 90 per cent of their revenue from subsidies (CCB, CCR and JETCCFA). Of these, there were more than 8 other long day care services within 5 kilometres (and, in some cases, over 100 other services)
- less than 9 per cent of family day care services receive more than 90 per cent of their revenue from subsidies.

These results suggest that for the majority of providers, substantially increasing fees is likely to generate a demand response, which should help to limit subsidy leakage.

Accordingly, with effective competition and limited barriers to provider responsiveness, addressing concerns about subsidy leakage may not be a key concern when administering subsidy policies in practice. Still, where concerns about subsidy leakage and consequent price inflation might arise, governments should generally focus on:

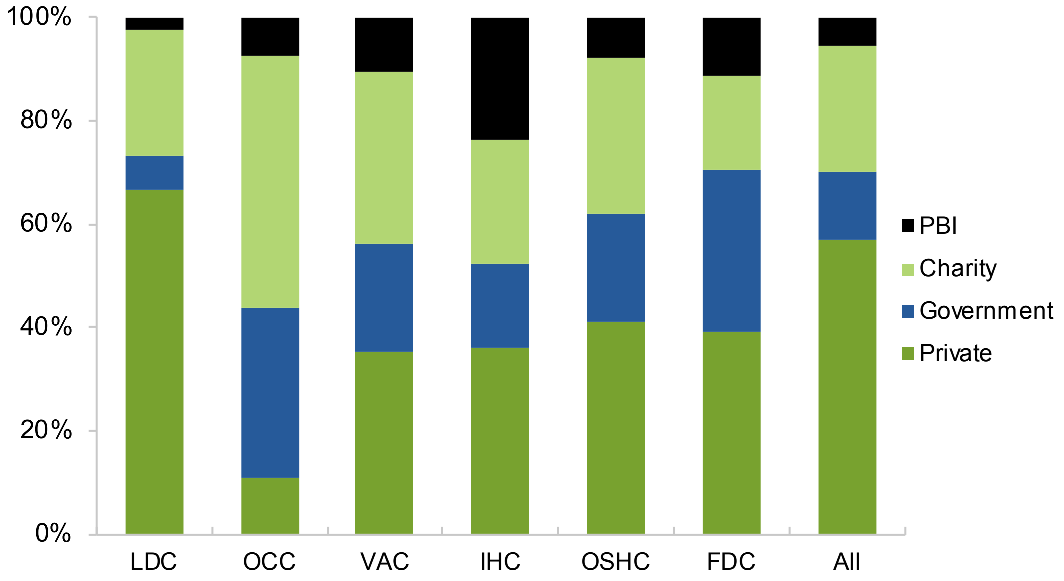
- addressing any regulatory-induced barriers preventing or delaying an efficient response from providers to demand and price changes (chapter 7). As stated in a review of competition and efficiency in publicly funded services published by the OECD, supply side initiatives should address entry and exit barriers, ensuring that changes in the volume of voucher subsidies results in capacity and services supplied rather than changes in price (Lundsgaard 2002, p. 90).
- ensuring the market structure is workably competitive and that parents' costs of switching between providers are as low as possible
- improving the design of subsidies, including by addressing the inefficient incentives of parents and providers created by the current CCR.

What is the likely impact of tax and other concessions?

Around one-third of childcare providers receive tax concessions under Commonwealth legislation because they are charities or Public Benevolent Institutions (PBI) (figure 9.23).

Figure 9.23 **One in three ECEC services receives tax concessions**[a]

n=15 755 services



a A service is endorsed as a charitable or PBI service provider for the purposes of accessing an income tax exemption under Commonwealth legislation. Other includes both for-profit providers and government services.

Source: Productivity Commission calculations based on Department of Education administrative data and ATO data.

As detailed in box 9.6, tax concessions subsidise the cost base of one group of providers relative to another, giving not-for-profit providers a competitive advantage over for-profit providers.[21] In some cases, rather than directing tax concessions towards reducing prices or improving access to services for the community, not-for-profit providers may increase the quality of their services or pay staff higher wages. In other cases, not-for-profit providers have suggested that tax concessions are needed to compensate for the challenges they face in accessing efficient sources of capital (YWCA Australia, sub. DR752).[22]

21 In addition, local governments have traditionally assisted not-for-profit childcare providers — mainly, in the form of free or subsidised rent and access to facilities. However, the Commission considers that the availability of assistance is diminishing as local governments review their fiscal sustainability and the competitive impacts of such arrangements (box 9.6). For example, one provider told the Commission they now had to tender to use their existing building, which resulted in their annual rent expenses increasing from $1 to $150,000 and added $1 to 2 per hour to fees.

22 Some not-for-profit providers also argued that for-profit providers can access tax deductibility options that are not available to the not-for-profit sector (sub. DR707). However, any such deductions are only for expenses incurred in the course of generating income that is assessable for tax purposes. A for-profit provider would have to claim deductions that completely offset their assessable income (that is, make zero profit) to receive tax treatment that is analogous to the income tax exemptions available to not-for-profit and charitable organisations. As a result, tax deductions may help to lessen the competitive distortion created by the availability of tax concessions to not-for-profit providers, but only somewhat.

Box 9.6 Concessions available to not-for-profit organisations

Since 2004, the provision of childcare services on a not-for-profit basis has been deemed (under the *Extension of Charitable Purpose Act 2004)* as a charitable purpose.

Concessions depend on whether a provider is classed as a not-for-profit provider, a registered charity or a PBI by the Australian Charities and Not-for-profits Commission and, thereby, endorsed by the Australian Taxation Office to access concessions.[23] A PBI receives a more generous concession than a not-for-profit childcare provider or a registered charity because its main purpose is classified as 'relieving poverty, sickness, suffering or disability'.

Under the *Income Tax Assessment Act (ITAA)1997*, childcare providers who are not-for-profit, a registered charity or a PBI may qualify for a number of tax concessions including:

- exemption from income tax
- a rebate or exemption on Fringe Benefits Tax
- Goods and Services Tax concessions
- refunds of franking credits.

Under state and territory legislation, not-for-profit providers can access payroll tax exemptions. Typically, these are the primary source of tax concessions for many not-for-profit organisations, amounting to tens of millions of dollars for larger organisations. The value of payroll tax concessions varies across jurisdictions, with different thresholds applying to the exempted payroll expenses, but given that the majority of providers operate a single service, 'the vast majority of private operators would pay little or no payroll tax' (Guardian, sub. DR837).

Local governments also provide assistance to not-for-profit long day care providers, often in the form of free or heavily subsidised rents for premises, or in making land available at below cost. Similarly, in some jurisdictions, school facilities can be provided at a low or no rent to outside school hours care providers. However, there is a trend away from this in-kind type of support.

Source: www.ato.gov.au.

However, regardless of how tax concessions are used by providers (or any natural disadvantages not-for-profit providers face that concessions might help to offset); they can still have a negative impact on the functioning of efficient markets. Concerns about the efficiency impacts of tax concessions would have little foundation if not-for-profit providers strictly focused service delivery in areas of social need where the commercial provision of services is infeasible. However, a large proportion of not-for-profit providers operate extensively alongside commercial providers, which means tax concessions are likely to distort competition.

Tax concessions available to not-for-profit childcare providers are a form of government spending. As such, public benefits emerging from them should be examined against alternative spending arrangements that could potentially achieve the same goals. This is consistent with the scrutiny and transparency required of all government expenditures under Australian budgetary processes.

[23] Charitable status and access to concessions applies to the ITAA 1997, the FBTAA and other Commonwealth Acts.

Relevant questions when evaluating the impact of tax concessions on childcare provision include:

- how access to tax and other concessions changes the behaviour of eligible childcare providers, including pricing practices and decisions to operate unprofitable services
- how providers might change their behaviour in the absence of such concessions — namely, what 'social goods' would no longer be provided
- do the social benefits of tax concessions to the community offset the market efficiency losses and fiscal cost of concessions?

Not all forms of tax concessions are equally distortionary

The exemption from income tax (which is a tax on profit) does not change the behaviour and decisions of not-for-profit providers about how many staff to employ or pricing strategies (PC 2010, p. 203). However, such an exemption may boost the viability of a not-for-profit provider, allowing them to deliver services that would otherwise be uneconomic.

Conversely, state-based payroll tax exemptions and Australian Government Fringe Benefits Tax and GST exemptions are likely to bias input choices and generate efficiency losses. One for-profit provider argued that payroll tax concessions are of substantial assistance to not-for-profit providers, but are 'used to help them mask poor labour practices'.

Lady Gowrie Tasmania estimated that the annual value of the payroll tax exemption exceeds $0.5 million and suggest this allows them to reduce their fees by over $10 per child per week (sub. DR544, p. 5). Goodstart estimated the value of payroll tax exemptions was nearly $28 million in 2013-14 (sub. DR 875, p. 76). Clarendon Children's Centre considered that the removal of their exemption from payroll tax would necessitate fees increasing by $4-5 per day (sub. DR527). However, if such concessions have cushioned inefficient practices, as suggested above, any increases in fees associated with the removal of payroll tax exemptions need not be as high as anticipated.

Based on other confidential evidence the Commission has collected, the value of various tax concessions to childcare providers is equivalent to less than 5 per cent of revenue from childcare fees. However, because this is composed mainly of distortionary tax concessions (roughly three-quarters is payroll tax exemptions), the competitive impacts may not be trivial. For example, Fringe Benefits Tax exemptions or rebates allow a not-for-profit provider to employ staff at below market rates (for their given qualification level).

What 'social goods' do not-for-profit providers deliver?

Because not-for-profit childcare providers are very close to the communities they serve, they may be better placed to address community issues than a Commonwealth or state funded and run program. In particular, governments can be slow to identify and respond to emerging community needs and, given bureaucratic structures, can be unwieldy.

Nevertheless, in some situations, the actions of not-for-profit childcare providers may not meet community-wide preferences and will not take account of alternative calls on government spending. Moreover, because childcare providers are not well placed to decide the appropriate tradeoff between efficiency and equity objectives, it is important to look for evidence of the social goods that not-for-profit childcare providers deliver.

It is not apparent that not-for-profit providers systematically target social goals, such as addressing socioeconomic disadvantage, with not-for-profit market shares within each local area being unrelated to measures of socioeconomic disadvantage (figure 9.24). Further, the Commission found that, on average, not-for-profit and government long day care providers actually charge slightly higher fees than for-profit providers, both on average (figure 9.15) and in more disadvantaged areas (figure 9.25).

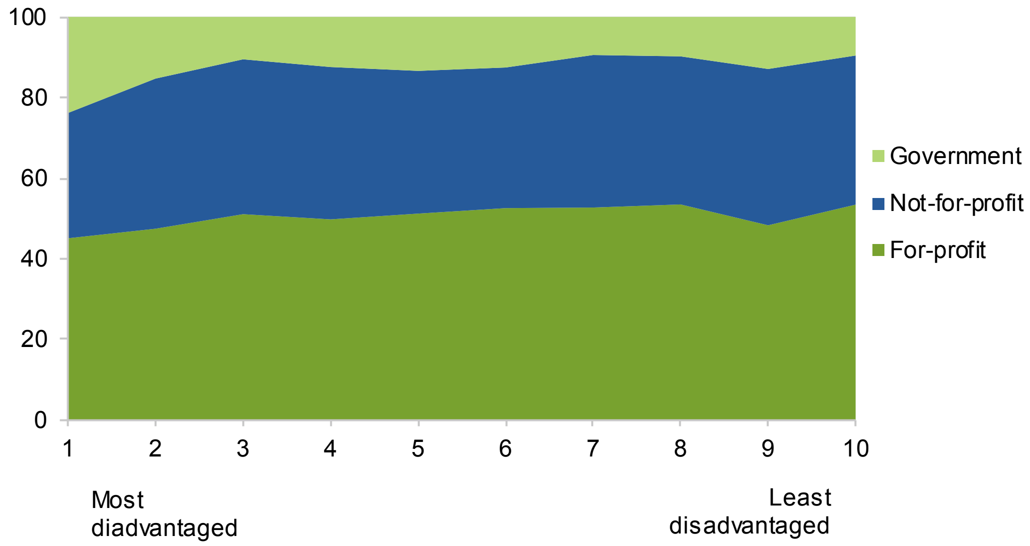
As a result, tax concessions provided to not-for-profit providers are likely to be causing market distortions with uncertain benefits, because:

- it appears that not-for-profit provision of childcare services is no more prevalent in disadvantaged communities (which tend to be less profitable). Goodstart Early Learning indicated it supports loss-making services in disadvantaged communities (with SEIFA deciles of less than 3) because it 'believes it is important that children in those communities have access to quality early learning' (sub. DR875, p. 75)
- not-for-profit providers deliver services in markets where commercial provision of services is feasible and therefore directly compete with for-profit providers.

Not-for-profit providers have told the Commission, however, that they write-off large unpaid debts of a number of low income and disadvantaged families. Also, they may bridge any funding gaps relating to the care of children with disabilities and developmental vulnerabilities, such as where the Inclusion Support Subsidy is not sufficient to cover the hours of attendance and staff costs to support quality care. For example, St Joseph's Family Services indicated the funding shortfall to cover the cost of an additional staff member to support the care of a child with a diagnosed disability was $7.50 per hour (sub. DR836, p. 4). Similarly, Goodstart indicated it supported nearly 1000 children in 2013-14, even though inclusion support payments only covered two-thirds of the cost for such children (sub. DR875, p. 75).

Figure 9.24 Not-for-profit long day care providers are no more prevalent in disadvantaged communities[a]

Per cent market share, by SEIFA decile

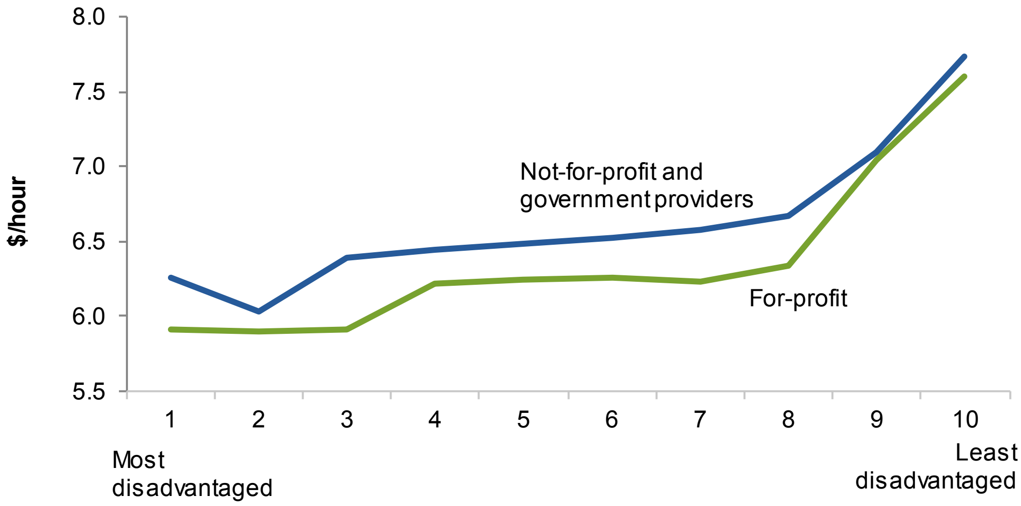


[a] While the figure shows market shares as a per cent of total long day care services, similar market shares were found when using long day care places.

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

Figure 9.25 Not-for-profit long day care fees are slightly higher than for-profit fees in disadvantaged areas

Median fee[a] by SEIFA decile (socioeconomic index of areas disadvantaged, 2011)



[a] The same relationship was observed when analysing both median and average fees.

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

Remove tax concessions and fund social goals more directly

The best ECEC policies are compatible with both increasing community wide net benefits and addressing concerns about equity or additional needs groups. Wherever possible, social goals should be pursued in the least-distortionary manner and be well-targeted. Providing tax concessions to all not-for-profit childcare providers is a blunt instrument to achieve social goals.

There are better ways to administer government assistance for social objectives, and the Commission recommends the phased removal of such arrangements. Allowing a sufficient period for adjustment recognises that some providers would need to adapt their business practices and that many not-for-profit providers:

> … have invested in facilities and services on the basis of the existing business models that include tax concessions. Were these concessions removed, viability would be compromised and financially marginal services would fail. (Catholic Education Commission NSW, sub. DR 720)

Several participants have raised the concern that reform of concessions to not-for-profit and charitable organisations 'needs to be systemic and based on considered policy action across the whole not-for-profit sector' (Community Council of Australia, sub. DR721). And, this will not be achieved if governments:

> … identify one sector (early childhood education) and raise the possibility of withdrawing concessions that will continue to apply across other not-for-profit sectors. (Community Council of Australia, sub. DR721)

Such arguments hold merit in terms of supporting consistency in the tax treatment of different organisation types, and the Government's forthcoming White Paper on Australia's Tax System could consider tax concessions to not-for-profit and charitable groups. However, the balance of the benefits and costs accruing from tax concessions will inevitably vary across sectors. As such, the sectoral consideration of such arrangements is as important as is the consideration of consistency in tax treatment (especially when the argument for consistency can apply between for-profit and not-for-profit childcare providers as much as between diverse groups of not-for-profit organisations).

Rather than facilitating unspecified charitable activity by childcare providers, governments should systematically channel funds to achieve accepted social goals, including by directing additional childcare assistance to disadvantaged or other groups with clearly demonstrated additional needs. The Commission has proposed a range of changes to funding arrangements for children with additional needs (chapters 13 and 15). These should reduce the reliance on charitable providers (and the cross-subsidisation of fees between families) to bridge any funding gaps for such children.

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.

10 Accessibility and flexibility

Key points

- For the majority of families, ECEC services are accessible. However, some families experience difficulties accessing ECEC.
- A family's ability to access ECEC is influenced by factors such as where they live and the age of their children:
  - there are fewer services offering places for 0-2 year olds relative to 3-5 year olds
  - families often struggle to secure outside school hours care for children of school and preschool age
  - while some regional and rural markets are well serviced by ECEC, others are not. Some families travel long distances to access ECEC
  - there are reported shortages of ECEC places in the CBD and inner city areas of major cities.
- Families would be better able to plan their work and organise their ECEC requirements if basic information on waiting lists, including the number of families on the list, was published. Parents would also benefit if their position on the waiting list was readily available.
- While most families find the operating hours of ECEC services sufficiently flexible to meet their needs, parents who have non-traditional, irregular or unpredictable work patterns are not well served by the current system.
  - Innovations trialled under the Childcare Flexibility Trials do not have high take up rates.
- There are a number of ways that ECEC can be made more accessible for families:
  - state and territory governments should play a bigger role in encouraging outside school hours care by improving the access of services to school facilities or by placing the onus for organising outside school hours care on schools
  - regulations that mandate minimum operating hours for approved services should be abolished
  - existing caps on the number of occasional care places should be removed
  - nannies who satisfy minimum qualifications and appropriately tailored National Quality Framework requirements should be able to apply for approved provider status, to provide an additional ECEC option for families.

10.1 How accessible are current arrangements?

A motivation for this inquiry and a key issue highlighted by many inquiry participants is that many families find childcare inaccessible at current subsidised prices. For ECEC services to be considered accessible, appropriate vacancies in ECEC services should be available within a reasonable distance of the homes or workplaces of families at times that they are needed. This section explores the evidence on the extent of access difficulties.

Concerns about the extent to which ECEC services are accessible were frequently presented to the Commission — many submissions and about 38 per cent (or nearly 430) of the personal comments received highlighted problems with accessing ECEC services (box 10.1). This suggests that many families experience difficulty in accessing ECEC to the extent that they would like.

Evidence of accessibility issues can also be observed by examining survey data. Availability is reported to be the third most prominent reason why childcare inhibits workforce participation, behind cost and a preference for looking after their own child respectively (appendix D). Additionally, information from the HILDA survey suggests that about 60 per cent of partnered mothers and single parents who used or thought about using childcare in order to work experienced difficulty with availability in 2010 (more than with cost or quality) and that 25 per cent continued to report difficulty in 2012, suggesting that some availability problems may be persistent. Specific concerns around accessibility presented to the Commission covered a wide range of issues, however, some of the more commonly canvassed concerns included that:

- too few ECEC places are available
  - in particular, participants commented on a lack of places for particular age groups or for particular care types
  - participants also commented that there were long wait times to secure ECEC places
- places are not available for the times of year, week, day or hours that parents need (or are only available by using a combination of ECEC services)
- ECEC places are available, but not in a service that families consider of acceptable quality
- there are insufficient places in a service to accommodate all siblings, or
- parents are not aware of all the available ECEC services near to them and it is costly to access this information.

A lack of ECEC places in some areas or age groups requires some families to make compromises around the quality or location of childcare used, or in the amount and pattern of work undertaken by parents.

The widespread use of both formal and informal care indicates that for the majority of families, ECEC services are accessible. In addition, the number of children using formal care has been steadily increasing (both numbers and as a per cent of children), which provides an indication that formal services are becoming more accessible (chapters 2 and 3).

Box 10.1 **Participant's views on accessibility**

Amber Moncrieff said:

> … access to quality childcare was a significant challenge. Most centres in inner Newcastle have very long wait lists for children under 2 and it is now at the point that unless you register before the birth of a child that you don't have a chance. From talking to the management of our current centre, it is clear I would have been unable to secure a spot for my twins had their older brother not already been going due to the sibling priority as now the centre has been operating for a couple of years the demand and waitlists far outstrip supply.
>
> I don't believe it is right that luck effectively determines a woman's ability to return to her chosen profession. (sub. 57, p. 2)

Billabong Childcare Centre commented:

> Availability of high-quality childcare and after school care places is a significant issue in some suburbs, with parents often needing to put their children on waitlists before birth in order to secure positions. (sub. 28, p. 2)

A submitter whose name was withheld said:

> I put my son's name down on 12 centre lists when I was 3 months pregnant. When he was 13 months old I finally got 1 day per week (I was after 4 days p/w), and only because I ended up calling weekly to harass them. For my second son I was told we would be priority at our current childcare centre and so only put his name down there. I finally managed to get him 2 days pw when he was 16 months old (I wanted more days, but they had to be the same days as my eldest, which made it more difficult to find a spot). (sub. 108, p. 1)

Melissa Jones commented:

> My baby is currently 8 months old and I returned to work on a full-time basis in January 2014 (when my baby was 7 months old). During the early stages of my pregnancy, I put my name down (and paid the obligatory "non-refundable application fees") for various long day cares in my area.
>
> None of the childcare centres contacted me until about November 2013 when I received emails informing me that I had been unsuccessful in obtaining a position for my baby (not even one day). I contacted a few centres before receiving this email to check the progress of my application and was informed the centres would be determining spots in about November 2013. (sub. 335, pp. 1–2)

Giovana Arrarte said:

> … I had no option but to enrol my son in 3 different places of care each week (2 long day care centres and 1 family day care) in order to satisfy work commitments. On that occasion we spent 2 very distressing months as this particular "solution" was not suitable to my child or me. Luckily after two months we finally found a place in one of the long day care centres. (sub. 269, p. 1)

Noel Leung commented:

> Access to child care has become a bit of a joke and there is a need for a more transparent and speedy process to access care. It is not acceptable to be on a waiting list for 2-3 years before getting a place. The system also doesn't properly assess the need for childcare and has become so competitive that many families now try to get on as many waitlists as possible just to try to maximise the chances of getting a place, meaning that waiting lists just keep getting longer. (sub. 202, p. 1)

(continued next page)

Box 10.1 **(continued)**

Nina Olle said:

> In my experience, and those of the majority of mothers that I know, accessibility is the biggest issue facing families seeking education and care services for their child. It is difficult to know the extent of the issue, as like so many others, my husband and I have been forced to put our son on at least 10 different waiting lists in our area, and pay an administration fee with each application. Like all parents, I would like to be able to make choices based on the quality of the service, as per the objectives of the National Quality Framework and its quality assessment and rating process, rather than feel pressured to take whatever place is available. (sub. 178, p. 1)

The NSW Government submitted that:

> Ensuring supply aligns with demand is important to achieving universal access to early childhood education programs in the year prior to school and developing strategies to support workforce participation by better meeting the needs of families.
>
> Anecdotal evidence suggests that some locations face childcare shortages, and this affects the ability of parents and carers to participate in the workforce in their preferred way. This evidence is often based on the experiences of parents in areas of localised shortage (the inner west of Sydney for example) and is often focused on the length of waiting lists for places.
>
> At the same time as some communities are experiencing shortages, the Department of Education and Communities has identified that in other areas there is an oversupply of places. (sub. 435, p. 12)

James McFarlane said:

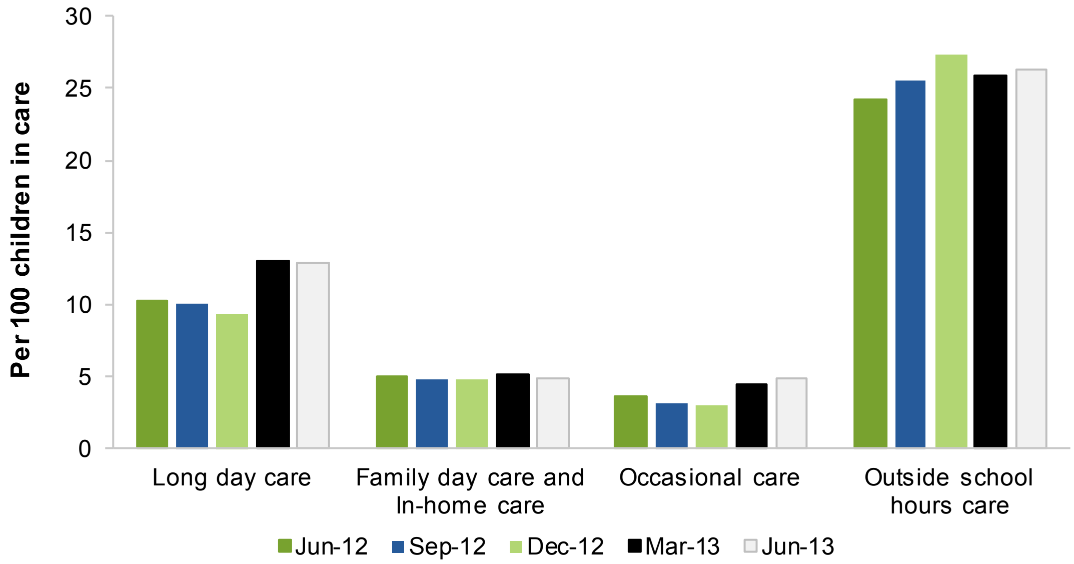
> Our family has found itself in the current scenario in 2014.
>
> - One child needs to commence kindergarten in 2015
> - Schools in the local area have been contacted, but they have been unable to guarantee a place in before and after school care, which is a necessity if either of the parents cannot be available at school drop-off and pick-up times.
> - One option for the family is for one of the parents to exit the fulltime workforce. This is both a drain on the family budget, as well as detrimental to the NSW economy.
>
> A second option is to move to another area, but this family has experienced difficulty in finding suitable guaranteed places in before/after school care. It is difficult to plan major decisions such as buying a house and moving suburbs without certainty at least 12 months in advance. (sub. 155, p. 1)

10.2 How common are ECEC vacancies?

There is a requirement for ECEC services approved for child care benefit to regularly report the expected number of vacancies for their service. That information suggests that across Australia, vacancies in ECEC services are reasonably common.

The reported number of vacancies by service type is sizable when compared with the number of children using each type of ECEC services (figure 10.1). As not all services have reported if they had expected vacancies, the number of notified vacancies is likely to be an underestimate (with the underestimate likely to be largest for ECEC services with the lowest rate of reporting — notably family day care and occasional care).

Figure 10.1 **Reported vacancies by form of ECEC**[a]



[a] A very small proportion of services (particularly occasional care and vacation care) reported having no vacancies. Significantly more services failed to report vacancies – for example, around 50 per cent of approved FDC and OCC services did not provide vacancy information.

Source: Department of Education (2014b).

While useful, vacancy data does not present a full picture of how accessible ECEC may be. Although vacancies appear particularly high in outside school hours care (OSHC), this is one of the least substitutable types of care — vacancies in care at one school are rarely accessible to children from other schools who need OSHC. Likewise, families with children of particular ages, or in particular locations, may find it difficult to access ECEC even if vacancies are present — for example, a family with a 1 year old child cannot use a service that has vacancies for children aged 3 to 5 years.

The role of waiting lists in managing ECEC accessibility

Waiting lists are used by ECEC services to minimise the risk and duration of vacancies. ECEC services are most likely to use waiting lists when there is a shortage of places in their local area. In its annual surveys of parent experiences with finding and using ECEC services — including information on waiting lists — Care for Kids found that of the 1386 parents (out of approximately 1900 parents in the 2014 survey) who responded to the question ‘did you go on a waitlist?’:

- 70 per cent indicated joining at least one waiting list
- 54 per cent indicated that they joined multiple waiting lists.

The Commission received numerous comments from parents concerned with the operation of waiting lists for ECEC services. The most common concerns included:

- children often have to be placed on waiting lists well before birth, but even then a place cannot be guaranteed
- significant uncertainty on being able to obtain a place means parents tend to put their child's name on multiple lists, and typically leave them there even after having been offered a place elsewhere. Given waiting lists tend to be used where there is a shortage of places, it is not surprising that parents joining multiple waiting lists may also find it takes significantly longer to find suitable child care (figure 10.2)
- services are charging non-refundable fees for joining their waiting list even if there is little likelihood of obtaining a place. While the most common waiting list fees were under $60 per application, some waitlist fees exceeded $100 (figure 10.3)
- parents are not informing ECEC providers when they are no longer needing a place and providers are not informing parents of progress in relation to their application
- there is often subjectivity around priorities for who obtains a place when it becomes available and the existing priority system can mean that the likelihood of a child being offered a place varies substantially over time
- some OSHC services refresh their waiting lists at the end of each year meaning that parents may have a 2–3 month period over the summer when they do not know whether they will be able to work outside of school hours in the coming year.

There are clear business benefits for ECEC providers to use waiting lists — they have a ready list of self-identified customers to use their services as soon as places become available.

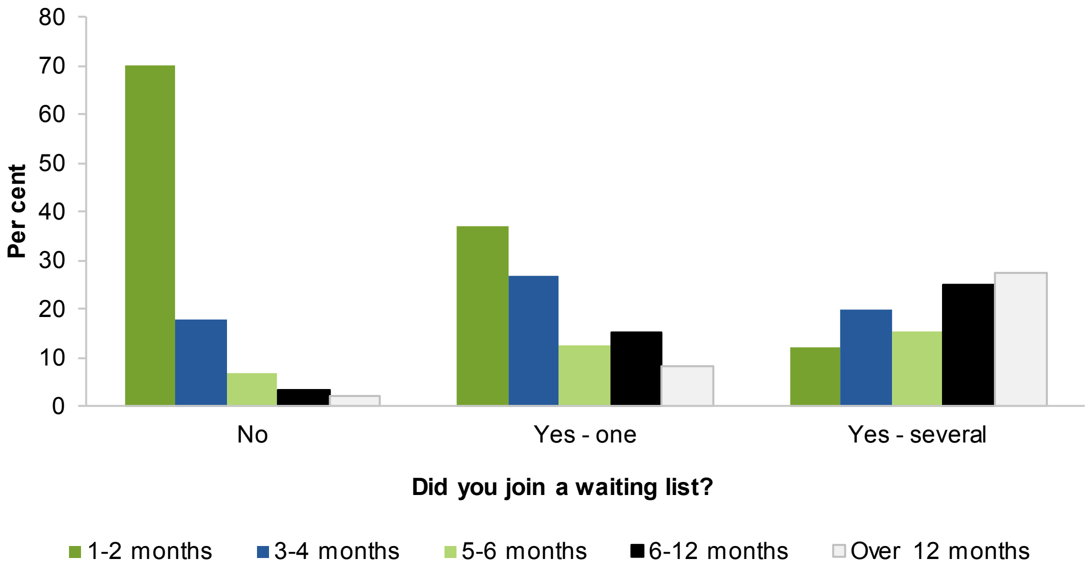
For families, the value of waiting lists are greatest if they are transparent. Information on waiting lists and the realistic prospects of obtaining care can provide a better basis for families to plan their working lives and organise their ECEC requirements. In particular, families would benefit if providers were to publish:

- information on fees charged to families wishing to be added to the waiting list
- information on the number of families on the waiting list, ideally broken down into suitable age categorisations
- the number of places offered to children from their waiting lists. This information should be updated regularly — ideally on a quarterly basis.

Suitable platforms already exist to present this information, including the MyChild website and the websites of providers.

Figure 10.2 **How long did it take to find suitable childcare?**

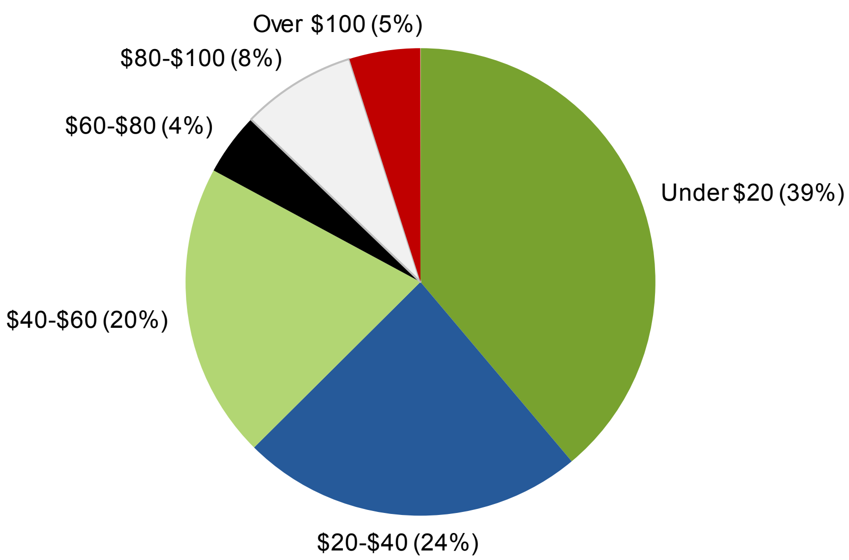
By number of waiting lists joined[a]



[a] Data from non-representative survey. Number of responses is 1865.

Source: 2013 Care for Kids survey.

Figure 10.3 **Fees for joining waiting lists**[a]



[a] Data from non-representative survey. Number of responses is 1134.

Source: 2014 Care for Kids survey.

The case for publishing this information is strengthened when families pay to join a waiting list. The Commission accepts that it is reasonable for providers to charge a fee to parents joining their wait list, but notes that this is likely to change the expectations that parents have of the service. Specifically, parents can reasonably expect that if they are paying a fee to be placed on a waiting list with a service then they should be able to obtain their position on the waiting list at their request.

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.

Are 'priority of access' guidelines needed?

Family assistance law prescribes priority of access guidelines that LDC, FDC, OSHC and in-home care (IHC) services are required to follow in cases where demand exceeds supply. The priority of access guidelines stipulate three categories of priority, with a number of subcategories within each (box 10.2).

The purpose of these priority of access guidelines is to ensure places for those families with the greatest need for childcare support (Department of Education 2012). However, the Commission is unconvinced that this is achieved through the current guidelines for a number of reasons:

- there is little evidence that these guidelines are being enforced and there appears to be little recourse for families who feel that they have been overlooked for a place in favour of a family ranked lower on the guidelines
- typically, an assessment of where a child sits in relation to these priorities is static and made only as they enter a service. While the regulations specify that it is possible to replace a third priority child with a higher priority child, this requires the service to notify the family upon their entry into the service that the service follows this policy. This practice does not appear widespread
- providers often develop their own ordering around who accesses their services that may not necessarily match the prescribed guidelines. For example, the Commission has heard that may services give preference to the siblings of children already in a service and for the convenience of families, this is understandable.

Box 10.2 **Priority of access guidelines**

When allocating places to children from waiting lists, approved ECEC services must abide by guidelines around which children have priority in accessing vacant places. There are three priority levels:

- ‘First Priority’ — a child who is at risk of serious abuse or neglect
- ‘Second Priority’ — a child of a single parent who satisfies, or of both parents who satisfy, the work/training/study test
- ‘Third Priority’ — any other child.

Within these main categories, priority should also be given to children:

- in Aboriginal and Torres Strait Islander families
- in families which include a disabled person
- in families which include an individual whose adjusted taxable income does not exceed the lower income threshold of $42 997 for 2014-15, or who or whose partner are on income support
- in families from a non-English speaking background
- in socially isolated families
- of single parents.

Source: Department of Education (2013h).

The Commission considers that a more targeted subsidy system that delivers more assistance to children at risk, children with additional needs and tighter means testing, coupled with a tighter activity test, will help to facilitate access to ECEC for children who are likely to benefit most from attending. These funding reforms are outlined in chapter 15. As such, the Commission recommends these guidelines be removed.

Should the Australian Government elect to maintain priority of access guidelines, there needs to be an avenue for families to complain should they feel they have been unfairly treated by a service’s application of the guidelines. There also needs to be recourse for upheld complaints to be resolved. This could be under the same complaints mechanism recommended by the Commission in recommendation 17.3.

RECOMMENDATION 10.1

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

10.3 Accessibility for different child age groups

While there is evidence of vacancies in ECEC services, the Commission was also advised that accessibility is particularly problematic for some age groups.

ECEC is less accessible for children aged 0 to 2 years

The ABS Survey of Income and Housing highlights around 10 per cent of parents whose youngest child is aged 4 or under are prevented from working due to unmet need for childcare. A recurring theme in submissions and parent comments was the difficulty in accessing suitable care for very young children, and babies in particular (box 10.3).

Box 10.3 **What the Commission heard on accessing care for 0 to 2 year olds**

Comment no. 148, ECEC user said:

> In order to access care, I had to have my unborn baby's name on waiting lists and cross my fingers and hope we were blessed with a spot. I wasn't offered a spot in childcare until our daughter was 15 months old, almost two years since I had listed our names.

Amanda Clarke, sub. 34, said:

> My baby was born in June last year and I am still trying to get her into full time childcare. (p. 1)

Comment no. 341, ECEC user said:

> Childcare services were almost impossible to access in the first year I returned to work despite my baby's details being on a multitude of wait lists for over a year and a half.

Penrith City Council, sub. 403, said:

> In this area, there is a high demand for baby and toddler places in long day care (LDC) and an undersupply. In the services managed by the PCCSC, in the last financial year, available places for 0-3 year olds were fully utilised with some families on the waitlist being unable to be accommodated. (p. 6)

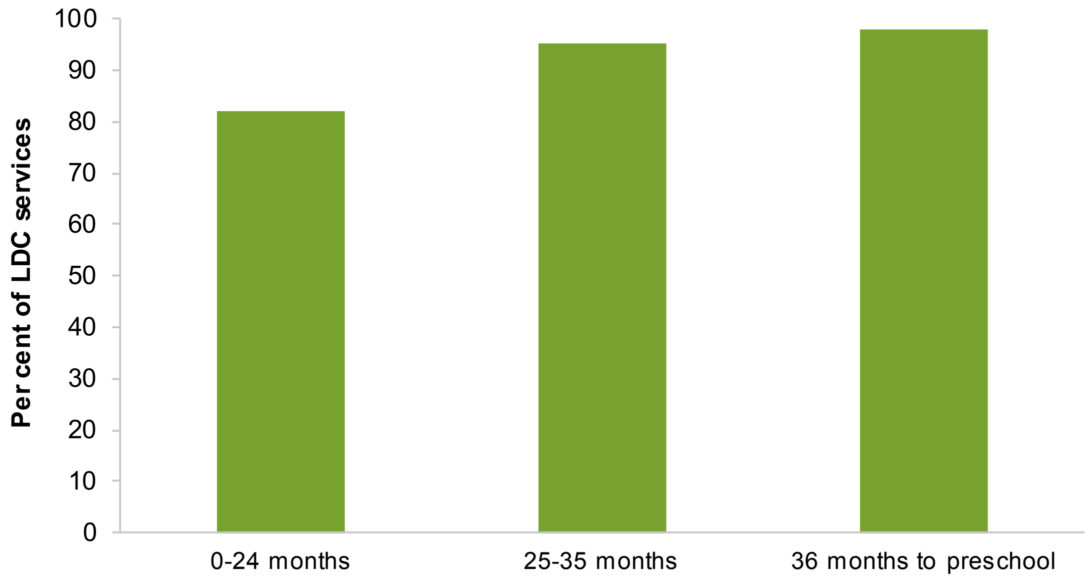
Comment no. 244, ECEC user said:

> It was hard to find childcare in my area, even though I put my name down at various centres while I was pregnant, no vacancies were available a year after I put my name down.

These concerns have added weight given that — relative to older age groups — fewer services offer places to younger children. In their submission, the Australian Childcare Alliance (ACA) reported results of their 2014 member survey which indicated that 25 per cent of ACA members do not provide care for babies (0-2 year olds). These members attribute this to the space/structural limitations in the current service (65 per cent), the higher cost of providing care to babies (57 per cent) and the staffing costs associated with educators-child ratios for the age group (sub. 310, p. 25). More broadly however, the ACA suggested that an undersupply of places for 0-2 year olds was not necessarily widespread, but depended on local factors (such as the demographic profile of families in the area).

Australian Children's Education and Care Authority (ACECQA) administration data confirms that a lower proportion of Long Day Care (LDC) centres offer places to children aged between 0 and 24 months than to older children (figure 10.4). Furthermore, there are localities where services offering care to 0 to 2 year olds are particularly uncommon — for example, Randwick City Council (sub. 289) indicated only 16.5 per cent of LDC services within its boundaries cater for children aged 0 to 2.

Figure 10.4 **Proportion of services offering places by age**



Source: ACECQA administrative data (20 January 2014).

The Commission heard that access to ECEC was generally higher for children aged between 3 and 5 years. There are two main reasons for this:

- services are often more willing to accept children of this age group because relative to younger children, it is less costly to provide care (chapter 9)
- the National Partnership Agreement on Universal Access to Early Childhood Education provides additional funding to states and territories to deliver preschool to children in the year before formal schooling.

An examination of preschool in Australia — including options for increasing the accessibility of preschool programs — has been undertaken in chapter 12.

Many families do not have access to outside school hours care

For older children, the Commission heard about accessibility problems with OSHC that were either related to no provision of OSHC at their school or in the local area, or insufficient places given the number of children at the school needing care (box 10.4).

Box 10.4 What the Commission heard about accessing outside school hours care

Comment number 197, ECEC user:

> The lack of before and after school care puts strain on families, affects the way they can provide for them and their contribution to the economy.

Comment number 1, ECEC user:

> My children went to school and I was stunned and felt shunned. There was no before or after school care available, public or private. The principal told me to get a nanny which we could not afford.

Comment number 2, ECEC user:

> The lack of before and after school care is a serious problem when it comes to workforce participation rates …

James McFarlane (sub. 155) stated:

> Lack of availability of before and after school care places in the Inner West area of Sydney is a significant burden on families that intend to have both parents in full-time employment. (p. 1)

Bronwyn Batten (sub. 63) submitted:

> I would prefer to work 2 days a week but cannot do that as I have not got a before/after care place. Instead I am working three short days (within school hours). (p. 2)

Comments also extended to vacation care. For example, comment number 377 from an ECEC user stated:

> One difficulty I have is that I work for an organisation where the only time off I can have over the Christmas/New Year period are the public holidays. I am sure there are other parents in the same position. However, I cannot find Vacation care as all centres I have contacted (six in total) are all closed for the period between Christmas and New Years.

The way school hours are structured (typically with six hour school days and at least 12 weeks of school holidays per year) does not facilitate parents participating in paid work. For many parents with school aged children, access to an appropriate OSHC service (including vacation care) is critical if they are to undertake employment. Standard school hours are not conducive to full-time employment and may also be restrictive for parents who undertake part-time or shift work. Likewise, 12 weeks of school holidays exceeds the annual leave entitlements of most parents and therefore access to vacation care is also important.

Evidence from the HILDA survey suggests that families whose youngest child is aged between 5 and 12 years were more likely to report childcare availability as the main reason why ECEC stops parents from working (or working more) than families who have younger children (appendix D). The degree to which OSHC is available on school sites varies across jurisdictions. In the ACT, over 87 per cent of schools have an OSHC operating on site, in contrast to around 8 per cent of schools in Western Australia (table 10.1).

Further, demand for OSHC and vacation is expected to grow by about 30 per cent in the next 15 years (chapter 3). Unless this is matched by an increase in supply, it is likely that an increasing number of families will experience difficulty accessing OSHC.

Table 10.1 **OSHC services by jurisdiction**

Jurisdiction	*Number of services offering OSHC on a school site*	*Number of services offering OSHC on a non-school site*	*Total number of OSHC services* [a]	*Number of primary schools* [b]	*Per cent of schools with an OSHC service operating onsite*
New South Wales	851	248	1 099	2 411	35
Victoria	499	57	1 046	1 785	na[c]
Queensland	585	307	934	1 398	42
Western Australia	67	265	332	888	8
South Australia	339	19	358	616	55
Tasmania	98	22	133	215	46
Northern Territory	44	3	47	162	27
Australian Capital Territory	89	10	99	102	87

[a] There were 490 services in Victoria, 42 services in Queensland and 13 services in Tasmania whose location was not reported. As such, this column does not represent the sum of the previous two columns for these jurisdictions. [b] Includes primary/secondary combined schools. [c] Due to the large number of services whose location is not known, the Commission has not calculated the per cent of schools with an OSHC service in Victoria.

Source: Productivity Commission estimates using ACECQA administrative data (20 January 2014), ABS (2014k).

What options are there to encourage more outside school hours care?

OSHC services, including vacation care services, are ideally integrated with schools. Schools are generally well set up to accommodate OSHC — most schools have halls, libraries, playgrounds and age-appropriate facilities which are safe and suitable environments for children to undertake supervised play and recreation. Additionally, OSHC located on school grounds results in the least disruption for children — they do not need to be transported to a new location — and is typically in locations convenient for parents. Given this, the Commission considers that school grounds represent the most efficient location for OSHC services to be provided.

In most jurisdictions, opening of school facilities for alternative uses during non-school hours is under the control of the school principal. Many providers already operate OSHC in school premises, but the support provided by schools for these services appears to vary widely. Some schools are very supportive, promoting the availability of the service and integrating it with other school activities, such as fund raising and school sports.

Other schools consider that school leaders should not be responsible for organising or facilitating OSHC or vacation care. In consultations undertaken during the course of this inquiry, the Commission heard that some school leaders have an aversion to allowing OSHC to operate within schools. It is also an issue that has been presented in comments to this inquiry:

> The lack of out of school hours care is a seriously overlooked problem … It would also make a massive difference if NSW Public School principals were directed/encouraged to support OOSH [outside school hours care] at their sites (using school halls and libraries etc.). There are clear policies on this at Dept level but the individual principals have complete discretion and often refuse OOSH because it is 'too hard' 'inconvenient' 'not suitable' etc. (comment no. 3, ECEC user)

This was also raised by the Northern Sydney Council of P&C associations:

> At present the use of school buildings for OOSH is at the discretion of the Principal. Some are willing and interested in making school buildings available for OOSH and some are not. (sub. 144, p. 3)

The Commission envisages a greater role for state and territory governments in encouraging the provision of outside school hours care.

Several states and territories provide guidelines and procedures for schools to follow when opening up school facilities for non-school use. These procedures — if sufficiently enforced — provide a policy lever available to governments to encourage OSHC. At present, the position of OSHC within these guidelines vary.

For example, the South Australian guidelines note that:

> OSHC should be available to primary aged school children where it is established that a service is viable, sustainable and can meet the requirements of the National Law. (Government of South Australia 2013, p. 4)

Other jurisdictions seem to place less emphasis on OSHC. In New South Wales for example, OSHC appears to sit low on the priority of use of school facilities (box 10.5).

Given the positive workforce participation implications of families having access to OSHC, the Commission is in favour of OSHC having a high priority to access to school facilities during non-school time, and believes that this should be reflected in state guidelines for facility use.

Alternatively, states and territories could place the onus on organising OSHC on schools by directing principals to take responsibility for ensuring an OSHC service is available if demand is sufficiently large for the service to be viable. This does not necessarily mean a school should run an OSHC service but rather arrange for an outside provider to make use of school facilities in providing a service, or as a second-best option, facilitate the transport of children to another suitable facility for OSHC. Surveys of the school community — which include accurate information about the likely cost and availability of OSHC — could be used to gauge the expected demand for a service.

Box 10.5 Priority of school facilities for community use in New South Wales

1. Board of Studies purposes
2. Parent body activities (such as Parents and Citizens Association meetings)
3. Departmental and associated groups (such as Adult Migrant Services Classes, recognised Community Colleges, TAFE NSW and registered language schools)
4. Other not-for-profit educational and Children's Services providers (which includes Parents and Citizens Association OSHC services)
5. Other uses.

Source: New South Wales Government (2013).

Other options for encouraging OSHC provision centre on financial inducements. The Commission does not favour this in most instances — OSHC is already supported through child-based Commonwealth funding arrangements. Further, when a market for OSHC is sufficiently large to be viable — and assuming a co-operative environment from school leaders and no major regulatory impediments — it is reasonable to expect an OSHC provider will move into that space. A case for special assistance could be made in instances of highly variable demand in regional or rural areas. The Commission's recommended Viability Assistance Program (chapter 15) addresses this issue. State, territory or Commonwealth government grants — for example, through sport, recreation and cultural departments — may also assist OSHC providers by delivering funding for specific activities for children attending OSHC (for example, sporting programs).

In some countries — particularly those in continental Europe — OSHC is co-ordinated and integrated more formally with sporting and leisure clubs (Plantenga and Remery 2013). This offers the advantage of allowing students to participate in organised recreational activity without the need for parents to leave work and transport children to other locations. Such models are adopted in many private schools in Australia but would be worth exploring further for Australia's public school system.

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.

10.4 Geographic characteristics of access issues

The distribution of approved services varies to some extent within regions. Long day care accounted for around 40 per cent of services in major cities, inner regional areas and outer regional areas, but for just over half of services in remote and very remote areas.

Family day care made up a larger share of the services in outer regional and remote and very remote areas. In contrast, outside school hours care accounted for a larger share of the services in major cities and inner regional areas (table 10.2).

Table 10.2 **Share of approved ECEC services by service type and region**
March Quarter 2013

	Major cities	*Inner regional*	*Outer regional*	*Remote and very remote*
	%	%	%	%
Long day care	40.3	39.3	44	52.1
Family day care	2.5	3.7	4.9	5.2
In-home care	0.3	0.8	0.7	1.8
Occasional care	0.6	1.4	1.5	0.0
Outside school hours care	56.3	54.8	48.9	40.9
Total	100.0	100.0	100.0	100.0

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

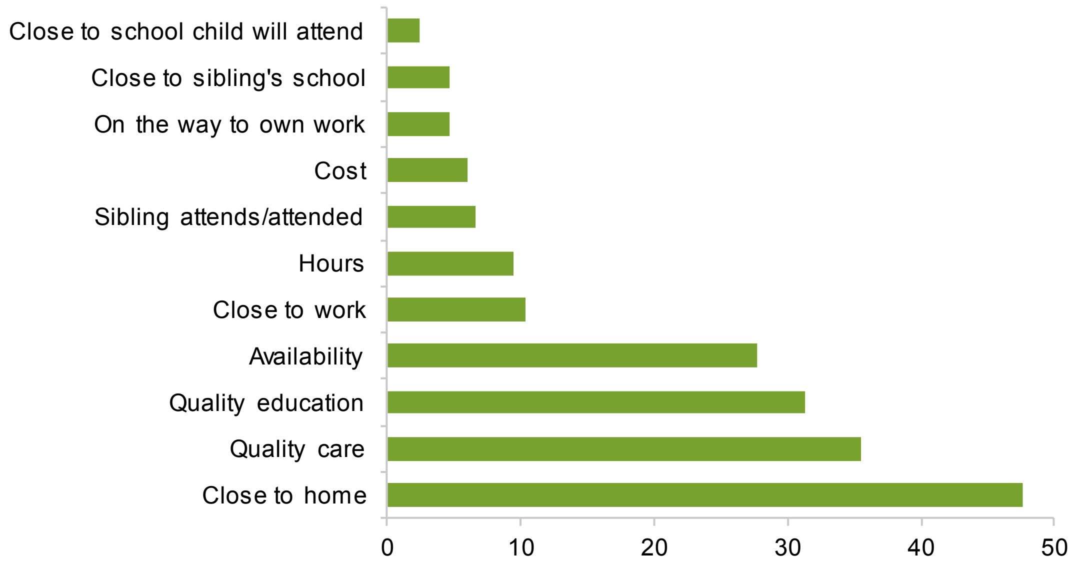
The degree to which childcare can be accessed varies across Australia. Although exceptions do exist, outer cities and urban fringes are generally relatively well serviced by ECEC providers. In other areas, ECEC may be harder to access.

How far do families travel for ECEC?

Parents' preferred location of ECEC services varies. Many participants have indicated that ideally they would like ECEC services either near home or work or in the transport corridor in between. For parents who use LDC, proximity to home is the primary reason for choice of a particular centre, followed by quality of care and education, and the availability of places (figure 10.5).

Figure 10.5 **Reasons for choosing the long day care centre[a]**

Per cent of children

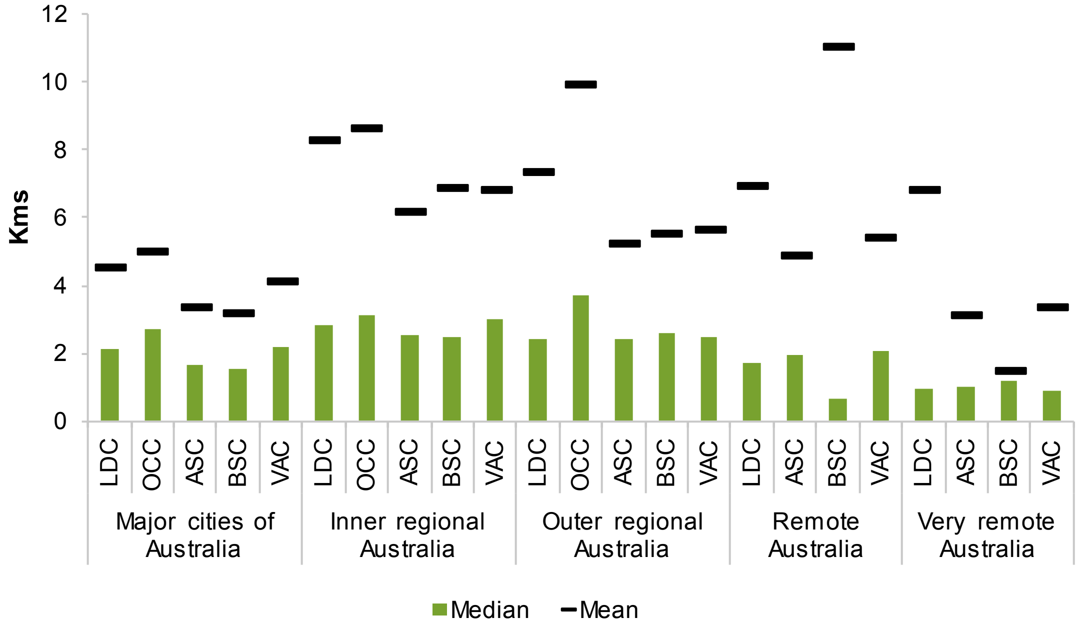


[a] Children may attend the particular LDC centre for more than one reason.

Source: Productivity Commission calculations based on ABS (2009c).

An analysis of distances travelled to approved ECEC services indicates that families generally do not travel far to use ECEC services — in 2011-12, two-thirds of Australian children that used an approved ECEC service attended a service within five kilometres of their home. This suggests that many services draw the majority of their clients from a small geographic catchment (figure 10.6). With several exceptions, families generally travel less for OSHC and further for occasional care and LDC. This is most likely related to the number of hours at a time for which each type of care is used and/or the purpose of using the care.

Figure 10.6 **Distance between home and ECEC service**[a]



[a] LDC = Long Day Care, OCC = Occasional Childcare, ASC = After School Care, BSC = Before School Care, VAC = Vacation care.

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

In 2011-12, 75 of the approximately 560 local government areas (LGAs) in Australia had no approved long day care, before school care, after school care, vacation care, occasional care or Budget Based Funded services operating within their boundaries. This does not necessarily mean that these LGAs do not have an ECEC service located within them — some will have FDC or IHC. Of the approximately 28 900 children aged under 13 years who live in these LGAs, around 10 per cent (3000 children) travelled to ECEC services outside of their LGA (table 10.3). The most striking differences between care use by parents of these children and the rest of the population who use ECEC are the relatively long distances between home and care, and the relatively few weeks of care used. There is also a relatively high use of FDC and IHC.

Table 10.3 **Use of approved care by children with limited services in their own Local Government Areas[a]**

2011-12

	Children using service type	*Average number of weeks attended*	*Median distance between home and care*
	number	number	kilometres
Family day care	1 235	24	na
Long day care	1 196	23	40
In-home care	141	27	0
Vacation care	179	4	22
After school care	171	14	20
Before school care	53	11	25
Occasional care	22	12	64

[a] Budget Based Funded services not included.

Source: Productivity Commission estimates based on administrative data.

It can be difficult to access ECEC in inner cities

Several participants commented that they have difficulty in accessing ECEC places in the CBD and inner city areas of major cities. For example, a user of ECEC services commented:

> … I find myself and a lot of other local parents [find] it very difficult to get a place, or to get enough days, or the days that they need to suit. There is a massive shortfall in inner-city Melbourne for available places in childcare. (comment no. 117, ECEC user)

Clair Hill noted:

> We live in an inner city suburb of Melbourne and notice a significant shortage of long day care spaces in our area. Our children were on waiting lists for years (since birth) before being allocated a spot in our current centre. (sub. 31, p. 2)

KU Children's Services submitted:

> Most capital cities are currently experiencing high levels of unmet childcare demand. This is compounded by the fact that CBD areas is where most large employers are located, so parents seeking childcare close to work add to the demands of local residents. (sub. 384, p. 7)

In their submission to this inquiry, the City of Sydney noted that demand for ECEC places outstrips supply, with the quantum of excess demand expected to rise into the future:

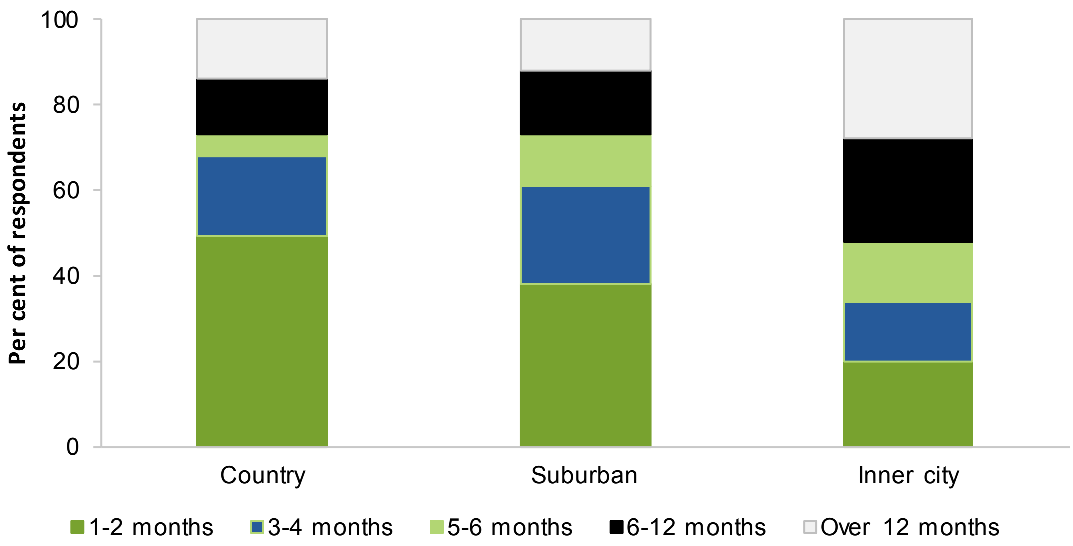
> … in the provision of childcare and early childhood education places, the City of Sydney has identified a gap of 3104 places which are required to be created in order to meet the current demand for childcare in the LGA [Local Government Area]. The City's research forecasts that this gap will rise to 5976 by 2031. (sub. 180, p. 1)

Leichhardt Municipal Council — which neighbours the City of Sydney — also found a gap of 284 ECEC places within its boundaries, with this gap expected to increase to 443 places by 2021 (Leichhardt Municipal Council 2013). Media reports also suggest the presence of shortages in Melbourne (for example, (Browne 2013; Cook 2013)).

Respondents to the Care for Kids survey from inner city areas took considerably longer to find appropriate ECEC than families in country areas or suburbia. Over half of inner city families took at least six months to find suitable ECEC, compared with 27 per cent for both suburban and country families (figure 10.7).

The two biggest reasons why providers seem less willing to establish services in CBD and inner city areas relate to real estate costs (chapter 9) and local government planning regulations — particularly parking requirements (chapter 7).

Figure 10.7 **Time taken to find suitable childcare, by location**[a]



[a] Data from non-representative survey. Based on 1890 responses.

Source: 2013 Care for Kids survey.

People who live in inner city areas may also have to consider considerable commute times when making childcare decisions. A presenter at the Commission's Melbourne hearings stated:

> … if you've got your children in childcare in Frankston, it's a hour and a half's commute each way. It's not worth it, so they drop out [of the workforce] completely (trans., p. 6, Melbourne, 19 August 2014)

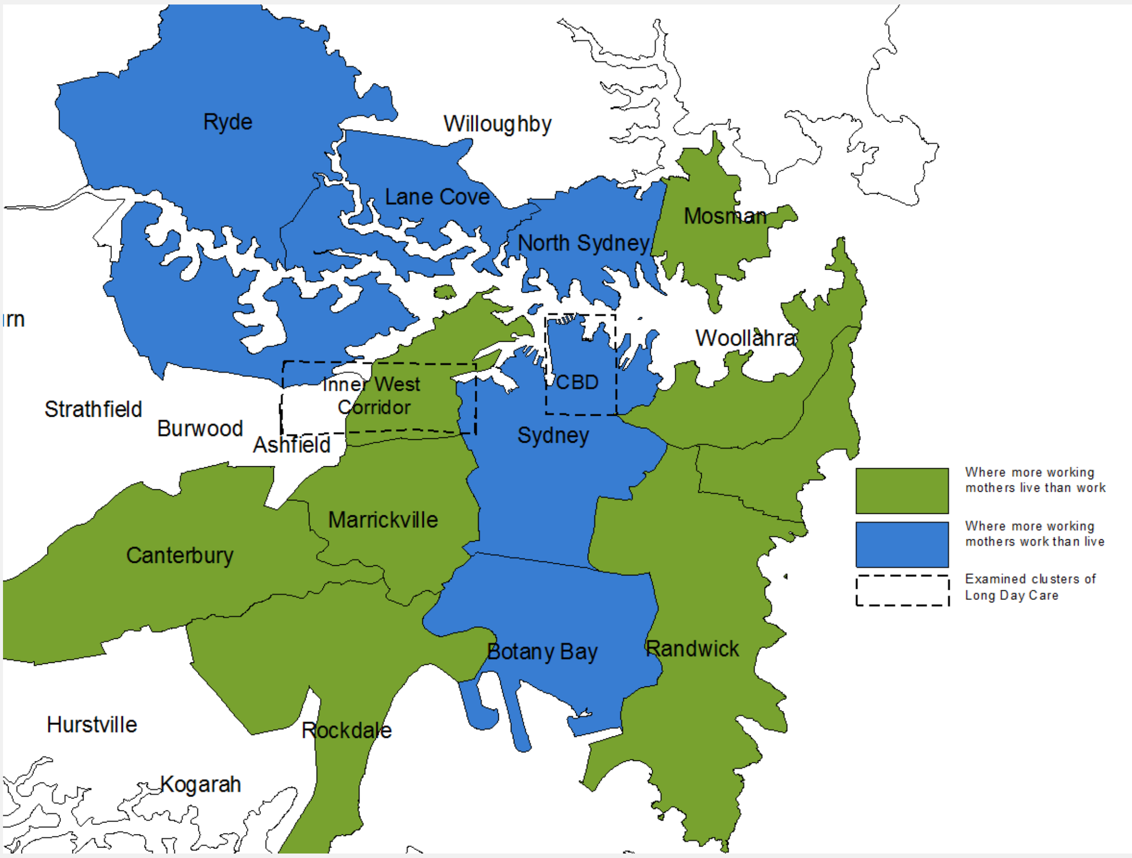
Westpac also commented on some of their workers having to commute out of CBD areas just to access ECEC:

> Inner city areas are quite difficult and some people were forced to accept a place further out. This required them to travel away from the CBD to drop off their child at childcare and then come back into the CBD for work. (sub. 327, p. 6)

As a consequence, some families may elect to use ECEC along a commute or travel corridor. Box 10.6 examines the travel patterns of some ECEC users commuting from the outer suburbs of Sydney.

Box 10.6 Travelling to and from ECEC services — examples from Sydney

The two areas of Sydney examined have distinct characteristics that are likely to influence who uses LDC care in each of these areas. The Sydney CBD represents an area of high employment of mothers, while the Inner West Corridor serves families commuting from the West.



Over 65 per cent of children in LDC in the Sydney CBD travel more than five kilometres to access their service — which is double the national average. People who work in the CBD are drawn from all parts of Sydney and beyond. Of the families who travel more than five kilometres, over half live West of the city. A recent study has found that there is substantial shortages of LDC places in the Sydney CBD (CRED 2013). If families are having difficulty accessing ECEC close to home and close to work, it is likely to place additional pressure on LDC services around key commuting corridors.

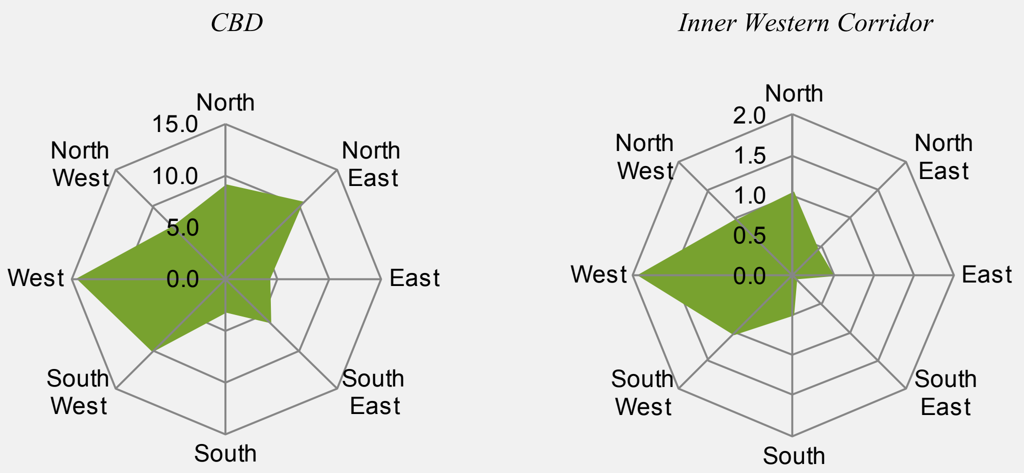
(continued next page)

Box 10.6 **(continued)**

Compared to the CBD, the Inner Western Corridor has relatively few children (around 7 per cent) attending services who live more than 5km away. Predominantly, families who travel more than 5km to access services in the Inner West Corridor travel from the West and North, suggesting many are travelling towards the CBD.

Direction to home for families who travel more than five kilometres to an LDC centre

Numbers represent the proportion of children who attend care in the area but live more than five kilometres away



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

Access in rural and remote areas is variable

Issues in accessing ECEC also appear to extend into rural and remote areas. Some submitters identified viability issues in these areas. For example, the Northern Territory Government explained:

> The very small population of children in the NT (total annual birth cohort is approximately 3,600, of whom 1,600 are Indigenous) means that economies of scale in service provision are often difficult to achieve. Fixed infrastructure and staffing costs become increasingly prohibitive where the market does not readily respond to demand and the number of service sites grows to cater for small and dispersed populations.
>
> Furthermore, the mobility of the remote and very remote population, including children aged birth-12, impacts access to and continuity of services, and on the outcomes able to be achieved by them. (sub. 461, p. 3)

Regional Development Australia Wheatbelt reported a number of factors that may affect the viability of ECEC services in regional and rural areas.

> Providing education and care services for children in regional and rural areas such as the Wheatbelt is particularly challenging. We have to contend with distance, smaller numbers of children, isolation, limited resources and a lack of access to training opportunity. Furthermore, in regional areas such as ours, there is a heavy reliance on volunteer committees to manage services, and this really impacts on the long-term viability of the services. (trans., p. 19)

Three Springs Childcare described the operational difficulties for ECEC services in rural areas, particularly in the face of low and fluctuating demand for ECEC.

> I think small rural community centres are very different to larger run centre[s] in regional or urban centres. Of our 35 children enrolled for 2014 only 4 children are attending for 3 or more days (8-5 pm). The majority of our children only attend for 1 or 2 days and some of them only attend on an irregular basis which makes programming, observations and reflections on child progress difficult. (sub. 15, p. 1)

Viability issues in rural and remotes areas may impact on families through a lack of accessibility and choice of ECEC services. For example, the Remote and Isolated Children's Exercise (RICE) reported that children in isolated areas are disadvantaged by a lack of ECEC services.

> There is no doubt that children living in the remote and isolated areas of South Australia are disadvantaged because of their geographical location. There are no services other than the services offered by RICE in these areas. (sub. 51, p. 3)

While the Isolated Children's Parent's Association of Australia said:

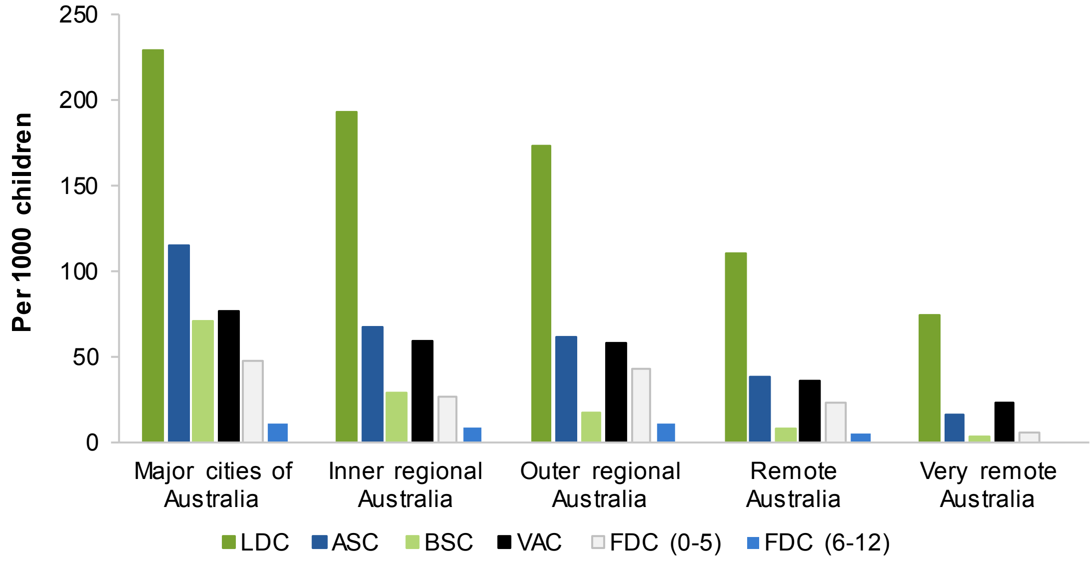
> Like all Australians, our members desire equity of access as a basic requirement in the area of child care and early learning services. By virtue of where they reside, many of our member families are disadvantaged in terms of access to education. They are generally located beyond the boundaries of a town and not able to utilise mainstream education or regular child care/early learning services for their children. (sub. 120, p. 1)

It can be expected that ECEC is less common in rural and remote areas, and families when choosing to live in these areas need to be conscious of this. A comparison of the number of places in ECEC services with usage confirms substantial variations in accessibility across different parts of Australia. When compared to the relevant population of children, not surprisingly it is apparent that on a per child basis, fewer ECEC services are available in remote and very remote locations than urban centres (figure 10.8).

Families who live in rural areas often demand different types of ECEC to families who live in urban areas. For example, Farmsafe Australia Inc. identified IHC (where the carer stays with the family) and mobile childcare services (available during peak times) as the preferred form of care for farming families nationally (Farmsafe Australia Inc. 2005).

Figure 10.8 **ECEC places per 1000 children, by Accessibility/Remoteness Index of Australia (ARIA)**

Places by type of ECEC service per 1000 children living in ARIA category[a,b]



[a] The ratios are calculated using children aged 0-4 years for long day care (LDC) and for children aged 5 to 12 years for after school, before school and vacation care (ASC, BSC and VAC respectively). [b] Occasional care has been excluded because due to the small number of providers, any attempt to represent its prevalence would not be visible in the figure. In addition, the analysis does not include information on Budget Based Funded services, which are predominantly located in remote and very remote areas. Family day care has been estimated by dividing the number of FDCs by the number of children in FDCs and then applying this occupancy rate on a national level.

Source: Productivity Commission calculations based on Department of Education administrative data; ABS Census data (Tablebuilder).

The Community Support Programme and accessibility

Under current arrangements, the Community Support Programme (CSP) aims to provide additional support in unviable markets, including in regional or remote communities:

> … the Community Support Programme has been designed to strengthen a service provider's ability to set up and run a child care service in areas of the country where services might otherwise be unviable. (Department of Education 2014h)

The CSP was originally developed to assist mainstream ECEC providers who served regional, remote or disadvantaged communities in locations that were unlikely to be viable without government support additional to mainstream Child Care Benefit (CCB) and Child Care Rebate (CCR) arrangements. Despite the Programme's stated objective, funding data presented in chapter 4 reported that in 2012-13, close to 90 per cent of the money spent under the CSP was directed at providers in major cities and inner regional areas. Further, in 2012-13, about 80 per cent of CSP funding was in the form of operational assistance to

FDC. This suggests that the CSP has become an alternative way of supporting FDC services (overwhelmingly in major cities and inner regional areas) which was not its original intent and suggests that the CSP is not meeting one of its objectives of improving access to ECEC in rural and remote areas.

A review of the Programme by the Australian National Audit Office (ANAO) also found that it was not clear that the CSP was meeting its policy goals (box 10.7). The findings of the ANAO have been echoed in submissions to this inquiry. For example, the Queensland Department of Education, Training and Employment noted:

> This program has resulted in significant growth in the number of FDC services, but it is unclear whether this process has resulted in a commensurate increase of children receiving education and care. Rather, evidence suggests that existing FDC educators created their own FDC service with existing children. While this result is not necessarily a poor outcome, the investment arguably did not meet its policy objective, and has had the flow on effect of substantially increasing regulatory costs for the state-based Regulatory Authorities. (sub. 405, p. 12)

Box 10.7 **ANAO review of the Community Support Programme**

The CSP was reviewed by the Australian National Audit Office in 2012. The purpose of the audit was to 'assess the effectiveness of DEEWR's [the Department of Education, Employment and Workplace Relations] administration of the Community Support Program funding' by looking at its planning, management and performance reporting. It found that the delivery arrangements of the CSP were 'generally sound' but questioned whether the policy settings of the program were realising desired outcomes. Key findings included:

- the Department has not evaluated the effectiveness of the CSP in improving access to childcare (p. 15)
- the majority (71 per cent) of CSP expenditure in 2011-12 was allocated to support FDC (which has about 10 per cent of children in formal care). Only 21 per cent of CSP funding was allocated to LDC and OSHC, despite these care types accounting for approximately 90 per cent of children in care (p. 16)
- the Department had not analysed the market to identify the areas where the market would not meet ECEC needs without CSP funding (p. 16).

The ANAO recommended that the Department:

- analyse the childcare market, including the areas where the market would fail to meet child care needs without CSP funding; and
- review the appropriateness of the current eligibility criteria and payment rates in light of this analysis.

Source: ANAO (2012).

In response to the review, the Department of Education has tightened the requirements for FDC to be eligible for CSP funding to be more in line with other care types. For operational support, this includes a requirement that the service is the only FDC provider within a specified geographic locality and is able to demonstrate to the Department that there is unmet ECEC demand in the area where the service operates. Additionally, a cap has been introduced that limits operational support payments to $250 000 per annum for a FDC service (appendix B).

While these arrangements could potentially encourage CSP funding to be distributed more in alignment with policy goals, the Commission remains concerned that CSP funding will continue to support services that are never likely to be viable.

RECOMMENDATION 10.3

The Australian Government should abolish the Community Support Programme.

However, the Commission is cognisant that for some providers, fluctuating demand may make them unviable in the short term, even if over the longer term, they will attract a sufficient number of clients to operate without additional government support.

The Commission therefore is recommending a new funding stream — the Viability Assistance Program — to assist ECEC services that may be subject to fluctuations in demand that make it hard to remain viable every year. This program would not assist unviable services but rather require services to be viable most years. The Viability Assistance Program is discussed in detail in chapter 15. There are some communities where the market for ECEC services is sufficiently thin that centre-based services may never be viable. In such circumstances, the community might explore more sustainable care options such as home-based care or mobile care. The Commission's recommendations for removing restrictions on operating hours may also enable some services not currently viable when open for 5 days per week to operate fewer days per week and be viable.

10.5 How flexible are current arrangements?

A concern raised by many parents is that ECEC services are not sufficiently flexible to meet the needs of families. Common themes presented to this inquiry include:

- operating hours that are not sufficiently broad to allow parents to meet work commitments
  - in particular, ECEC services are not available for those who regularly work outside the traditional 9-5 work day
- there is little or no flexibility to vary the days that can be used (parents must pay for the same days each week, even if work commitments vary).

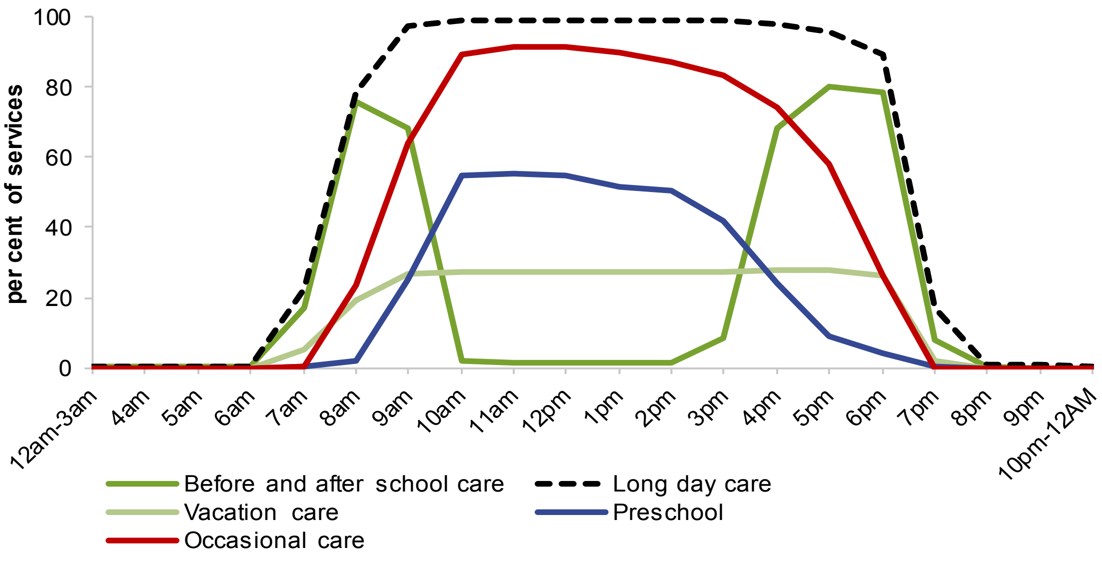
This section explores the flexibility of ECEC services to meet the needs of families. A wider definition of flexibility also encompasses the extent that employers can accommodate flexible work patterns of parents so that they can provide care for their children. Flexible work arrangements are discussed in chapter 6.

How flexible are operating hours?

The proportion of approved services operating over the course of a weekday, by care type, is outlined in figure 10.9. Apart from a small number of services which operate 24 hours per day[1], the majority of centre-based services (excluding OSHC) are available from 6-7am in the morning through to 6-7pm in the evening.

The number of hours a service is open each day varies considerably by care type, which is understandable given that different types of care serve different functions. Commission analysis of ACECQA administration data shows almost all places for before school hours care operate for less than three hours per day, while almost all after school care places operate for no more than four hours. As these services operate in conjunction with schools, they can enable between 8 and 13 consecutive hours of non-parental care time. Approximately 70 per cent of LDC places operate for at least 11 hours per day. Information for FDC is not available, but it is typically espoused as being a more flexible form of childcare than other care types in terms of operating hours, and a small number of FDC services operate for 24 hours a day.

Figure 10.9 **Operating hours of centre-based care services**



Source: Productivity Commission calculations from ACECQA administrative data (20 January 2014).

1 ACECQA administration data made available to the Commission indicates that there are about 130 services that operate for 24 hours per day. Most are family day care services.

On the operating hours of LDC services, Early Childhood Australia's (ECA's) *Long Day Care Survey Report* for 2014 found that:

- 25 per cent of LDC services opened at 6.30am, and 68 per cent opened between 6.30-7.30am
- 72 per cent of services closed between 6.00-6.30pm
- around 9 per cent of LDC services were open on weekends, although the survey found that occupancy rates were low.

For the majority of families whose employment is focused around a standard 'nine to five' working day or those regularly working longer hours on weekdays, current opening hours are likely to be sufficient to meet their childcare needs. It is those parents working non-standard hours — such as shift workers, night workers or on-call workers, those working weekends and those with long work commutes — who are most likely to experience difficulty accessing childcare at times when they need to work. This too was evident from ECA's survey, which shows that parents with changing work hours and shift workers as having the highest take up rates of flexible ECEC arrangements. Parents working long hours also featured highly.

One problem raised by many inquiry participants is that LDC, in particular, tends to offer care in full day sessions only — that is, parents who do not need a 10-12 hour day nevertheless have to pay for that. ABS data report median hours per child in childcare per week as 16 for LDC whereas the Department of Education administration data reports an median of 24 hours per week per child. While this is a part of the business model for many LDC providers, there would potentially be considerable support from parents were other business models to emerge that offered part day centre-based care options which could be booked on a regular basis (essentially a more permanent and reliable version of occasional care).

Under Family Assistance Law, providers must meet certain criteria around operating hours in order to be eligible for Australian Government subsidies. A subset of this criteria is outlined in box 10.8.

These requirements were introduced to support workforce participation by ensuring the availability of ECEC. They also effectively preclude parents who use preschool services that are not operating out of an LDC from getting Australian Government assistance through Child Care Benefit (CCB) and Child Care Rebate (CCR) — instead, preschools are funded through the states and territories, usually through a mix of National Partnership Funding and their own expenditures (chapter 12).

Box 10.8 Selected operational criteria for Child Care Benefit approved services

Long day care, family day care and in-home care

- The service operates on all normal working days in at least 48 weeks of the year.
- The service is available to provide care for any particular child for at least 8 continuous hours on each normal working day on which it operates.

Occasional childcare

- The service operates up to a maximum of 9 hours per day.

Outside school hours care

- The service will operate on each school day up to a maximum of 12 hours (including on pupil free days).

Vacation care

- The service is available to provide care for any particular child for at least 8 continuous hours on each normal working day in at least 7 weeks of school holidays in the year.

Source: Department of Education (2014e).

However, these requirements also limit services' flexibility, especially in rural and remote areas where demand may not be sufficient to sustain a service for five days a week (as noted by the Minister's Education and Care Advisory Council, sub. 290) or for 48 weeks a year (for example, in locations with seasonal employment such as tourism or agriculture). In fact, it is possible that these criteria have, in some instances, resulted in outcomes contrary to their objectives by reducing the availability of ECEC — either through increased fees (to cover costs for days or times with low demand where the service would otherwise not operate) or even by potentially preventing services from opening where it would otherwise have been viable to do so (for instance, for three days a week instead of five).

Although services can apply for an exemption from these criteria under exceptional circumstances, such exemptions are currently only granted to 30 services across Australia (Department of Education, pers. comm., 2014).

Over 18 per cent of respondents to the ECA's survey indicated that Child Care Benefit issues (including Family Assistance Law and regulations) were a barrier for LDC services to implement more flexible ECEC arrangements. While workforce issues (including access to staff, wage costs and industrial relations barriers) ranked higher, this is still a substantial proportion of respondents.

The Commission considers that these criteria constrain the ability of services to offer more flexible operating hours to their clients. In the draft report, the Commission recommended that these operational requirements be removed, thereby allowing services which were not able to viably meet these requirements to be eligible for Australian Government childcare assistance.

The Commission maintains that requirements around minimum and maximum daily operating hours represent an unnecessary regulatory burden on providers and should be removed. Likewise requirements on OSHC services to operate on every school day also restricts the ability of providers to offer a service if demand is not sufficient for OSHC to be run five days a week, as might be the case in regional or remote schools.

However, the Commission is cognisant that removing requirements on the number of weeks a service must operate in order to be approved for subsidies is more complicated. This is because removing these requirements would effectively remove the mechanism through which a very large range of child-based services (including non-LDC preschools) are excluded from Commonwealth Government funding arrangements. This creates a cost-shifting issue — a number of services that are currently adequately funded either by families or by other government programs would become eligible for ECEC assistance. As most of these services (particularly the non-LDC preschools) operate in conjunction with school terms (meaning they operate for around 40 weeks per year), cost shifting is largely avoided if requirements to operate for a minimum number of weeks per year remain. If these requirements could be removed, the accessibility of ECEC would no doubt be improved, however, the Commission accepts that this is unlikely to happen while this cost-shifting issue persists. As such, the Commission recommends that restrictions on operating weeks remain.

For school-aged care (that is, before school care, after school care and vacation care), requirements around operational weeks should remain to ensure a degree of care continuity and because it would be administratively very costly for Government to enable the establishment of providers who only offer very short term (a few weeks per year) of care.

Implications for occasional childcare

Occasional care is currently capped by the Australian Government. This means that a new occasional care service is unable to operate without the Australian Government allocating them places. When a service ceases to operate, the number of places it was granted are retained by the Government, and reallocated to different services at a future date.

The current cap on occasional care places greatly restricts the accessibility of occasional care for families. In their submission to this inquiry, Occasional Child Care Australia noted:

> Whilst there has been a recent allocation of occasional care places, there has been a decrease in occasional care services throughout the nation. This is due to the cap placed on occasional care places and limited allocation of places. It is very important that the occasional care service type is not lost to the community but rather supported and places increased. (sub. 200, p. 2)

There is evidence that occasional care is becoming less common. Between 2004 and 2012, the number of children accessing approved occasional care fell from 11 000 to 7000, or by about 40 per cent (DEEWR 2013b).

For many families, short-term or irregular ECEC represents the care type most suited to their needs. As examples, Occasional Child Care Australia listed families where parents are shift workers, employed on a casual or contractual basis or studying as families who use occasional care. Occasional care also serves an important function in meeting the needs of families with an emergency need for care. Occasional care is also useful for rural families with seasonal work patterns — for instance, at harvest time for farming families (Natalie Akers, sub. 460).

The Commission notes that the prevalence of occasional care will likely increase in the future as a result of a recent allocation of occasional care places by the Department of Education and by proposed funding under the National Partnership on the National Occasional Care Programme announced in the 2014-15 Australian Government Budget. However, there is also evidence of substantial unmet demand for occasional care places — in the last allocation round, 1672 places were applied for against an allocation of 539 places.

The removal of requirements for services to operate for minimum or maximum hours in order to be eligible for child-based subsidies would effectively remove the distinction between occasional care and other centre-based care types. In practice, the Commission understands that this will mean that the current caps that limit the number of occasional care places could no longer apply, since it will not be possible to distinguish occasional care from long day care. However, should the Australian Government elect not to proceed with the removal of operational hours requirements as outlined in recommendation 10.3, the current caps on the number of occasional care places should be abolished.

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.

Scope to vary days of ECEC used

At present, there is limited scope for parents to vary the days they use some types of care. Many participants, and especially shift workers, commented that this lack of flexibility meant that the system was not meeting their needs:

> My other issue is inflexibility with days as I work five days a fortnight but childcare centres have stated I need to book for four or six days a fortnight. I am therefore relying on friends and family in order to work the fifth day. (comment no. 85, ECEC user)
>
> There is no flexibility for shift workers who don't always work the same set days. (comment no. 102, ECEC user)
>
> It would be wonderful if childcare could be more flexible. We work on a 4 week roster and different days are needed on different weeks due to shift work. There is no flexibility for alternating days over a two or four week cycle. (comment no. 209, ECEC user)

The degree to which parents have scope to vary their use depends on care type. LDC and OSHC, which are typified by recurring attendance on set days of the week, are generally the least flexible, although the capacity of services to accommodate changes in hours or days of care varies. In their LDC survey, Early Childhood Australia found that:

- 25 per cent of services allowed families to change their hours at short notice
- 29 per cent of services allowed families to cancel at short notice
- 46 per cent of services allowed respondents to change days at short notice, and
- the ability of services to accommodate flexibility in relation to enrolment seemed to be highly dependent on the occupancy of the service — in other words, services with more vacancies generally have a greater ability to accommodate changes. (ECA 2014)

FDC may be more flexible depending on the capacity of the provider to meet the irregular working patterns of parents. However, occasional care can be entirely variable, but often cannot be booked by parents more than a week or two before it is required. Occasional care is therefore not currently a reliable source of care for use by working parents.

An opportunity to promote a more flexible ECEC system is through the manner in which providers respond to periods of extended absences by children in their care. Under current regulations, families receive 42 days of allowable absences per annum, in which they remain eligible for CCB and CCR even if their child does not attend the service, and without a need to identify the reason for this absence. Additional absence days may be claimed beyond these 42 days in some circumstances such as proven illness, periods of local emergency or for attendance at a preschool.

One way families use these allowable absences is to take extended leave from child care, for example, for holidays, or when a parent has short-term work in a different city. In such instances, the Department recommends terminating the enrolment of the child and re-enrolling them on their return.

> When a child is absent from care for an extended period of time (i.e. more than six weeks), it is a business decision for each CCB approved child care service on how this is reported (if at all).

> However services are advised that they should not use CCB and CCR payments as a way to subsidise holding fees, exit penalties, other administrative charges or unpaid accounts.
>
> In instances where a family asks a service to hold a place while they are on an extended holiday or have a work placement in another city, services should end the child's enrolment and create a new enrolment when the child returns to care. How a family is charged for the interim period is each service's business decision. (Department of Education 2014e, p. 66)

In practice, the Commission understands that many services do not take this approach — rather, services retain the enrolment of the child for the time they are absent, and charge fees (and receive government subsidies) as if the child was attending the service (although some services offer discounts). Similarly, families may elect to 'hold' a place — that is, pay for ECEC that they do not really need — in order to make sure they do not lose a place in a service they are already using. Often, this occurs because the mother is on maternity leave, and therefore is able to care for their child at the home, or because a parent, while not currently working, expects to return to work soon, and does not want to lose the care that has been secured.

The Commission considers that there would be benefits — in terms of flexibility and accessibility — if providers were to offer the places of a child on an extended absence to other children for the duration of the absence. The families of children who are taking an extended absence would not be required to pay regular fees for the duration of their absence (although the service could elect to charge a reasonable administration fee) as their place would be filled by another child. During this time, assistance from the government would be claimed only for children actually using places.

Services could also consider charging a higher rate for children using care in short term places. Some OSHC services already do this for casual bookings (although the current practice of receiving subsidies for both the absent child and the casual child should be addressed).

For the families of the children who fill the temporary vacancy, the advantage is that it allows them short term access to ECEC (or more ECEC if they already attend the service) during which assistance from the government could be claimed. Their place is relinquished once the child on extended absence returns to the ECEC service.

The Commission understands that there are no regulatory barriers that currently prevents this practice from occurring and there has been at least one attempt to develop a process by which temporary vacancies can be filled using a mobile application (Bryant 2014). The biggest obstacle seems to be the decision on behalf of providers to charge families on the basis of hours of care *booked* rather than hours used, and the government's willingness to subsidise on this basis.

The removal of caps on occasional care, and the removal of requirements around the hours of operation that differentiate occasional care from other care — as recommended by the Commission — will make it harder for providers to sustain charging models based on hours booked. As such, the Commission expects that short-term enrolment where parents are charged on the actual hours their children are in care will become increasingly common.

10.6 Use of home-based care options for greater flexibility

Nannies

Nannies are the preferred form of childcare for many families. The main benefits of nannies compared with centre-based care or family day care, as cited in submissions and comments, are:

- the greater flexibility they offer — hours of care and activities undertaken can be tailored to the individual child and family needs
- children are cared for in their home environment and are less exposed to infectious illnesses
- multiple children from the same family can be cared for together and nannies may be the most cost effective form of care for larger families
- the typical number of children cared for by nannies is much lower (often one-on-one) than average child-to-staff ratios in other forms of care, LDC in particular
- they are often available at short notice, including when places are unavailable in LDC, FDC or OCC.

A subset of parents' views about the benefits of nannies is contained in box 10.9.

While nannies tend to be a more costly form of childcare, particularly when employed through an agency, and are therefore used more by higher income households than those on lower incomes, they are not used exclusively by the 'rich':

> We have clients from all over Australia who wouldn't be classified as 'rich'. … Our clients range from professionals to blue collar factory workers. (Dial-an-Angel sub. 135, p. 5)

That said, if nanny services were more affordable, for example if government support reduced out-of-pocket expenses, it is likely that more families would consider using them.

Box 10.9 Parent views on nannies

One parent commented:

> I have a 6 month old daughter and am facing return to work in the next 6 weeks. 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. After months of research into what sort of care is available for our family I have decided a nanny is the only way to go forward. (comment no. 23, person not involved in ECEC)

Another parent said:

> I use a nanny to look after my children at home because I work irregular hours and because I prefer for my children to be looked after in a home environment by someone I know and trust, and for whom I set the ground rules … I could not go back to work without the peace of mind and flexibility afforded to me by nannies. (comment no. 346, ECEC user)

Olivia del Piano stated:

> Employing a private nanny is the only practical option for our family. It is a very expensive option and one not taken lightly given the significant financial outlay as a proportion of my salary. However, in our situation where we both work long and unpredictable hours without family childcare support … we strongly feel it is in the best interests of our family for many reasons including consistency and quality of care, length of time of care and the lack of flexibility afforded by childcare centres. (sub. 35, p. 1)

Melissa Jones noted:

> Even if we had been offered a position in long day care in our area, it would have been difficult for us to manage this arrangement given the lack of flexibility (especially given the long commute between our home and the city). A nanny is actually a sensible option for us and so far we are pleased with this arrangement. (sub. 335, p. 1)

Extending government assistance for families using nannies

Most families using the services of nannies are not eligible to claim any government assistance to offset the cost. Some nanny services qualify, as registered care, for the Registered Care Child Care Benefit (which is paid at a much lower rate than CCB for approved services). A limited number of nannies are also working within the existing government subsidised IHC and Special Child Care Benefit schemes (Australian Nanny Association, sub. 254) (chapter 4).

There is support for extending government assistance, currently available for other childcare services, to nannies (box 10.10). More than 62 per cent of the nearly 1700 respondents to a CareforKids survey considered that 'families who use nannies should be able to claim the CCB and CCR' (CareforKids.com.au 2014 Child Care & Workforce Participation Survey, unpublished).

Submissions also pointed to some potential benefits — beyond the obvious improvement in affordability this would generate for families — of making nannies eligible for support:

By professionalising the industry and opening the rebate to nannies, this would provide some protection for the families and the nanny who is employed by them. (Dial-an-Angel sub. 135, p. 6)

Box 10.10 **Extending government assistance to nannies**

A number of submissions, for example, Peter Apps (sub. 414) and the Australian Nanny Association (sub. 254), as well as a number of website comments, supported government assistance being extended to cover nannies:

> Extending the child care rebate to in home nanny care would allow for families like my own to source affordable and quality in home care for our children, enabling us to pursue a career. (comment no. 170, ECEC user)
>
> A nanny would be more appropriate, however then I have to pay upfront. Therefore, I am getting help from grandparents in looking after my daughter. I simply can't afford a nanny at $25 an hour without any rebate or assistance from government. (comment no. 140, ECEC user)
>
> Rebates and deductions (perhaps capped) should apply to qualified nannies. Why can't I choose my own form of Childcare that best suits our family’s needs? (comment no. 193, ECEC user)

Some suggested that the assistance provided could be subject to specific limits to contain the budgetary cost. Peter Apps, for example, suggested:

> The cost could be contained by limiting claims to those for one child aged five or under where both parents (or the sole parent) work full-time as an initial step. (sub. 414, p. 17)

Other participants are opposed to the extension of government assistance to nannies for various reasons. They include doubts about the ability of nannies without a qualification to deliver educational and development gains for children (Lady Gowrie, sub. 355) and that many families using nannies have high incomes and do not need the assistance — indeed in some cases the provision of assistance makes no difference to the parents’ decisions about participation in the workforce or use of ECEC services. Some ECEC services believed that extending government assistance to nannies would make it difficult for them to retain staff (Only About Children, trans., Sydney, 14 August 2014, pp. 54–55; Crèche and Kindergarten Association, sub. DR757). Some participants suggested that extending government assistance to nannies would result in housework and other household tasks being subsidised rather than ECEC (Child First Learning Centres, sub. 104; Karthika Viknarasah, sub. DR578; UTS Child Care, sub. DR593; Guardian Early Learning Group, sub. DR837).

In the Commission’s view, extending assistance to those families using nannies that meet the equivalent standards and regulations of existing approved care services receiving government assistance would make the current assistance arrangements more equitable and improve the accessibility, flexibility and affordability of childcare for many families.

How should nannies be regulated?

The Commission considers that nannies should be able to continue to provide childcare services without meeting minimum regulatory standards and parents should have the choice to employ such nannies. However, where Government is subsidising the cost of nanny services, the community should rightly expect that those nannies will meet certain quality standards.

Generally, participants recognised that such an extension of subsidies should be conditional on nannies being subject to certain regulatory requirements in order to ensure standards of care are reasonable and that it is care of children and not housework and other home duties that taxpayers are subsidising. For example:

> ANA recommends that any government assistance provided to a family for the use of a nanny should be conditional upon the nanny being appropriately licensed. (Australian Nanny Association, sub. 254, p. 4)

> There would need to be some regulatory oversight, including some form of registration system and compliance monitoring to ensure the parents as employers are tax and legally compliant. (ACCI, sub. 324, p. 11)

The Commission considers that nanny services eligible for Australian Government subsidies as approved care should be brought within the National Quality Framework (NQF), but subject to standards that are appropriate for the type of care provided and the needs and expectations of parents. Dial-an-Angel, for example, suggested that nannies could be included under the NQF 'with similar exemptions and requirements to those of Family Day Care' (sub. 135, p. 5). Staff ratios should be equivalent to those applying to FDC which would enable parents to 'share' a nanny.

ACECQA (sub. DR641) proposed that if nanny services were eligible for Australian Government subsidies as approved care, the regulatory approach could involve nannies being registered with and supported by a central coordination unit. The coordination unit would support the quality elements across the service and regulatory compliance by the service and individual nannies. ACECQA (sub. DR641) further noted that the regulation of nannies would need to carefully consider the unique attributes of service delivery within a parent or carer's home.

Further consideration is required, but key elements of any regulatory arrangements for nannies should include a minimum qualification requirement of a certificate III in Early Childhood Education and Care (or equivalent), with appropriate recognition of prior practical experience, as well as enforcement of existing mandatory working with children checks. The Australian Nanny Association agreed that where nannies received Australian Government assistance as approved care, a certificate III in Early Childhood Care was appropriate as a minimum qualification, provided that there was a diploma qualified coordinator based within an agency similar to the arrangements applying to family day care (sub. DR741). Dial-an-Angel (sub. DR640) supported nannies receiving government subsidies having to meet the NQF and being regulated similarly to family day care services and that nanny agencies be encouraged to become approved providers. Others such as United Voice (sub. DR824) and Wendy Boyd (sub. DR845) concurred that nannies should be regulated in a way similar to family day care.

Other participants were opposed to nannies being eligible for Australian Government subsidies, as compliance with the NQF would be difficult to enforce and would be a retrograde step in respect of quality of care (CareWest sub. DR814; UTS Childcare sub. DR593). Similarly, Catholic Education in Western Australia (CEWA) (sub. DR820) did not support extending Australian Government subsidies to nannies due to the difficulties in applying the necessary checks and balances. It also commented that care by nannies should be limited to the children living in the home where the care is provided, as having a nanny provide care to children from multiple families in the one location would be equivalent to family day care and should meet all the requirements of family day care (sub. DR820).

A compliance and inspection regime tailored for nannies, based on the adoption of a risk management approach, would need to be put in place to ensure minimum standards of care are being met. This would need to be designed so as to ensure efficiency, recognising the practical difficulties and cost likely to be associated with in-home inspections. Costs of regulation would also be substantially reduced if, as expected, a large proportion of nannies were engaged through agencies and authorities are able to rely to some extent on the quality control and monitoring processes employed by those agencies. PORSE Education and Training, a large provider of home-based early childhood education in New Zealand, noted that quality of care and health and safety issues arising from nannies operating in the family home in New Zealand had been addressed by PORSE through the development of a model that supported both nannies and families with all elements of program delivery including initial and regular hazard and mitigation strategies in the home and this model could be adopted to meet the NQF (sub. DR747).

As is currently the case for approved services, a further condition of eligibility for assistance would be that nannies provide a tax file number or Australian Business Number. This would assist authorities with data matching and the identification of tax avoidance or welfare fraud. With the same objectives in mind, consideration could also be given to imposing a requirement on parents that engage nannies directly to report payments made to the Australian Taxation Office.

While it should not be compulsory for nannies to be employed through an agency or existing childcare centre in order to be eligible for assistance, requiring nannies at a minimum to be registered with a coordination unit with at least a diploma qualified coordinator (similar to family day care) would likely provide administrative efficiencies for the government, some savings in compliance costs for parents and nannies, including potentially simplifying and/or improving the efficiency of:

- the administration of any childcare subsidy payments
- monitoring of compliance
- providing professional development

- ensuring superannuation and tax obligations are met and that appropriate workers compensation insurance cover is in place.

RECOMMENDATION 10.5

Government 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.

There is also scope for existing centres or family day care services to include more home-based care, such as nannies, in their service mix.

The Commission is envisaging home-based care — including care provided by family day care, nannies and other certificate III workers who satisfy the NQF — will represent an important part of Australia's ECEC sector in the future. It will also allow more families to receive subsidised ECEC in their home environment.

In-Home Care

Under current arrangements, subsidised care in a child's own home only occurs under the In-Home Care Program. The In-Home Care Program is a very small component of Australia's ECEC system — just 8450 children received IHC in 2011-12, or about 0.7 per cent of children in care. Like occasional care, IHC is capped, and allocation rounds for places have been greatly oversubscribed.

Families receiving IHC must meet a tight eligibility test (box 10.11).

Box 10.11 **Current In-Home Care eligibility**

In-home care is only available to a child for whom:

- only an in-home care service can provide suitable care; and
- one or more of the following characteristics applies:
  - the child has, or lives with another child who has, an illness or disability
  - the child's guardian (or guardian's partner) has an illness or disability that affects their ability to care for the child
  - the child lives in a rural or remote area
  - the work hours of the child's guardian (or guardian's partner) are hours when no other Child Care Benefit (CCB) approved child care service is available or
  - the child's guardian (or guardian's partner) is caring for three or more children who have not yet started school.

Source: Department of Education (2014e, pp. 28–29).

Moving nannies into the formal care system will markedly increase the prevalence of families having children cared for in their own home because families will not need to meet these current criteria in order to receive subsidised home-based care (although they will need to meet the eligibility test outlined in chapter 15).

In the draft report, the Commission noted that once nannies and other certificate III workers who satisfy the NQF have been moved into approved care, the case for maintaining a separate category for IHC is diminished, and should be removed. Some submitters questioned the impact of this reform on rural and remote families currently receiving IHC (for example, the Isolated Children's Parents' Association QLD Inc., sub. DR549) or that the In-Home Care Program should be expanded in lieu of subsidising nannies (for example, WACOSS, sub. DR835). Other submissions, for example, the National In-Home Childcare Association (sub. DR600) were supportive of existing IHC educators and nannies working under the same care system.

The Commission maintains that once nannies are brought into the approved care system, maintaining a separate approved care category for IHC is not required. Families who receive subsidisation under IHC would still be eligible for subsidised care provided their carer satisfies the NQF.

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.

Au pairs

Au pairs offer families some of the benefits associated with nannies (for example, flexible hours, including overnight care, and closer relationships with children) and typically at a substantially lower cost. They usually provide care for the children in the family in exchange for board and some payment. Families also often cite language and cultural exchange benefits as a factor in their decision to engage an au pair.

Au pairs are able to work in Australia under the Working Holiday Maker Program, which makes visas available to passport holders from those countries participating in the program (box 10.12). Arrangements are being negotiated with additional countries. The program promotes cultural exchange by allowing visa holders to have an extended holiday and combine work with travel. The vast majority of au pairs are young females, but increasingly males are applying for positions. There are estimated to be around 10 000 au pairs currently working in Australian homes (AuPairWorld, sub. 446).

There is also an emerging trend to more mature au pairs, sometimes referred to as 'Granny au pairs' (AuPair-Assist, sub. 153). AuPair-Assist (sub. DR670) suggested that those families that did not have grandparents available for informal care could invite Granny au pairs into their family home.

In response to the draft report, AuPair-Assist said:

> It is simply not necessary for the Granny au pairs to have an Australian work visa. As stated on page 4 of my submission, the provision for work without remuneration (board and lodging acceptable) has already a place in the visa conditions for visitors. Although this exception seems to be applicable solely if the work undertaken is for a registered charity, the question here is very simple: What is the cost to Australia if visitors were allowed to help out families with their childcare needs in return for board and lodging? (sub. DR670, p. 2)

The current tourist visas, in general, do not allow the visa holder to work in Australia. Visitors may be able to work as a volunteer if:

- your main purpose in visiting Australia is tourism and the voluntary work is incidental to tourism
- the work is genuinely voluntary and you are not paid for it, other than for meals, accommodation or out-of-pocket living expenses
- the work would not otherwise be done in return for wages by an Australian resident (http://www.immi.gov.au/Visas/Pages/651.aspx).

Given these requirements, it is not clear whether or not the current arrangements would facilitate the uptake by families to employ Granny au pairs staying in Australia on three month tourist visas. A further issue is whether or not more mature aged tourists, particularly from those countries with living standards comparable to Australia, would be willing to undertake such voluntary work.

Box 10.12 **Working Holiday Maker Program — key requirements**

- For young people aged between 18 and not yet 31 years of age.
- With a passport from an eligible country.
- Two sub classes, depending on country of residence:
  - Working Holiday Visa sub class 417 (for example, United Kingdom, Canada, France, Italy, Germany, Japan, Republic of Korea).
  - Work and Holiday Visa sub class 462 (for example, Argentina, Bangladesh, Indonesia, Malaysia, Thailand, Turkey and USA).
- Need to meet certain health, character, and financial requirements.
- Stay in Australia for up to 12 months and work in all types of work.
  - Limit of six months with any individual employer.
  - May be able to apply for a second Working Holiday Visa (sub class 417 only) if three months' work has been completed in a 'specified' field or industry in a designated regional area while on the first 417 visa — au pairing is not a specified field of work.
- Annual limit to the number of visas issued to each country.

Source: Department of Immigration and Border Protection (2013).

It is appropriate that parents continue to have the option of using au pairs to care for their children. The evidence provided in submissions of the growing unmet demand for au pairs suggests families are increasingly finding this childcare option attractive. A range of participant views on au pairs is contained in box 10.13.

However, services provided by au pairs are essentially unregulated, so families assume the risks associated with ensuring the suitability of the au pair. Agencies that facilitate the placement of international au pairs with families undertake varying degrees of vetting and this can reduce such risks to some extent. Au pairs employed through agencies are also better able to access information and advice about their rights and obligations.

While au pairs are a more affordable care option for families, they typically do not have any formal training or qualification in childcare. It is generally accepted, therefore, that they are principally carers, rather than educators. Most au pairs also do not hold a current first aid qualification and few have undergone a working with children check from either overseas or Australia (AuPair-Assist, sub. 153). Families have the discretion to choose an au pair with particular previous experience and families who wish to can arrange to have their au pair acquire first aid qualifications. AuPair Assist said:

> It should not be underestimated that the foremost criteria to invite an au pair is a 'gut feeling' (again this would not hold up as an employment criteria) by the host family rather than qualification that it will be a good match. (sub. DR670, p. 4)

The Cultural Au Pair of Australia Association pointed out that its members undertook a number of screening measures such as requiring the completion of police and medical check, completion of a first aid certificate and reference checks on the prospective au pair (sub. DR 728).

AuPair-Assist (sub. DR670) raised the superannuation and tax obligations faced by families employing nannies and suggested that to assist families the government should specify the maximum amount of 'pocket money' paid to an au pair that would meet the tax free threshold.

The Commission considers that it would not be appropriate for families to be able to claim government assistance to subsidise the use of au pair services because:

- au pairs typically have little or no relevant ECEC training or experience
- au pairs live with the family so there is not a clear separation between childhood development and education, childcare responsibilities and other household tasks they may assist with.

The Commission is of the view, however, that more could be done to improve access to au pairs who meet the expectations of parents and to ensure the rights of au pairs are protected. Specifically, the Australian Government should give further consideration to:

- amending existing working holiday visa requirements to:
  - as far as possible, eliminate unnecessary differences in the requirements applying to the two sub classes or between countries within the sub classes
  - ensuring the criteria for determining whether countries can participate in the working holiday visa program are transparent and consistently applied
  - allowing people over the age of 31 to apply for working holiday visas
  - streamlining application processes, whilst at the same time ensuring that health, character, financial and educational requirements are rigorously enforced
  - allowing au pairs to work for a family for the full term of the working holiday visa (sub class 417) and the work and holiday visa (sub class 462) (12 months, rather than the current limit of 6 months per family).

Box 10.13 **Au Pairs — participants' views**

One view was that there were inadequate checks on au pairs and their suitability for caring for children (Cultural Au Pair Association of Australia, sub. 238) as the Australian Government imposes no specific conditions for the screening, placement and ongoing support of au pairs and some agencies also offer little or no screening or support. The Cultural Au Pair Association of Australia (sub. DR728) suggested that the screening of au pairs be mandatory.

There were also suggestions that some au pairs (mainly those not employed through agencies) are being exploited by families (Dial-an-Angel, sub. 135), for instance by requiring them to work excessive hours or to undertake inappropriate duties, and that there is inadequate protection for young au pairs when working conditions are not appropriate.

Jill Murray commented that the 'in-house' employment arrangements around au pairs and the kind of workers involved made it difficult to ensure appropriate working standards are maintained and that workers are not exploited (sub. DR834).

A parent who had employed an au pair considered that there was little advantage in having an au pair due to their need to be trained in basic child care, time management skills and potentially further English language training (Maria Toman, sub. DR 564).

AuPair-Assist (sub. DR670) raised the superannuation and taxation obligations of those families employing au pairs. It suggested that to simplify the arrangements, informal care provided by au pairs should be considered a 'domestic arrangement' rather than employment and apply not only to those with working rights attached to their visas, but also for those on visitor visas who would be considered 'temporary family members'.

Others considered that au pairs provided a more flexible and affordable child care option and working holiday visas were too restrictive. They called for:

- the program to be extended to other countries, such as the Philippines (Au Pair Assist, sub. 153)
- the duration of the visa to be extended beyond 12 months and/or the restrictions on the type of work that can be undertaken in order to be eligible for obtaining a second 12 month visa be relaxed, so as to include 'Au Pairing'
- the six month limit on working for any one employer be removed — this would give the family greater continuity of care and reduce disruption and any separation anxiety for children (Jane Bowd, sub. 458)
- a one month travel period be added to the visas used by au pairs if the work period is extended from 6 to 12 months with a single employer (sub. DR728)
- au pairs to be included in the special program visa (subclass 416) that provides for cultural exchange through sponsored cultural enrichment, community benefits or youth exchange programs (sub. DR728).

In contrast, the Australian Nanny Association did not support amending visa requirements to extend the six month limit on working with the one employer due to the unregulated, unqualified care provided by au pairs (sub. DR741).

There may also be merit in:

- encouraging au pairs — and families using au pairs — to use the services of an accredited agency, which would assist families in meeting any tax and superannuation requirements
- ensuring au pairs are given information (ideally before their visa application is approved), in their own language, about their rights, laws and customs and what they should expect in Australia and also a standard information pack when they arrive which includes similar information and further details about where they can get assistance, advice and emergency support.

As noted above in relation to nannies, making it easier for families to use carers from overseas not only has the potential to help address childcare accessibility, flexibility and affordability issues in Australia, but also to provide cultural exchange benefits and, for some developing countries in our region, possible economic benefits.

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.

10.7 Provider trials of alternative flexible arrangements

Innovations to better suit the needs of shift workers have been examined under the Child Care Flexibility Trials (Department of Education 2013b). Nine providers were selected to trial programs, across various locations, with participants contributing 50 per cent of the project costs (either financial or in-kind). Some initiatives that were selected for trialling included extended weekday care, overnight care, weekend care and additional flexibility in catering for shift changes.

Evidence presented to the Commission is that take up rates of these flexibility initiatives have not been high. The Police Federation of Australia noted:

> The commencement of the Child Care Flexibility Trial Pilots in 2013 across the states of New South Wales and Victoria was greeted with a positive response by police, however as the trial commenced mid-year and has only been seen as a trial, take up has not been as strong as we would have liked initially. We are confident however that as more members sign up, word of mouth will ensure it is well patronised. (sub. 94, p. 3)

Likewise, the Queensland Nurses Union stated:

> The QNU took part in these trials and worked with Family Day Care to provide extended hours of care for families in South East Queensland, Toowoomba and Townsville. The trial produced

> varying results with Townsville showing the greatest take-up. This was a new initiative involving a major shift away from traditional childcare outside standard hours. We urge the current federal government to continue with the trial and to support extended hours care for working parents across regions and sectors. The concept will take time to promote and implement, but it will ultimately provide nurses with more care options and therefore more opportunities to pursue their careers if they choose. (sub. 65, p. 10)

Goodstart Early Learning submitted that their initiatives under the Flexibility Trials did not experience high take up rates:

> … the initial results of the trial of extended hours in six centres demonstrated that there was low take up and insufficient demand to make the extended hours viable. This is consistent with the feedback from other long day care providers about extended hours of this type of care. (sub. 395, p. 66)

Goodstart further commented that usage of these extended hours 'are not financially or operationally sustainable. They do not support an extension of the trial to a possible permanent operating model' (p. 70).

In June 2014, it was announced that 244 families had taken part in the Flexibility Trials — roughly half of the number anticipated (Ley 2014d). The Flexibility Trials have since concluded.

It is perhaps not surprising that the takeup of some of the options under the Flexibility Trials was low. Many parents would have other long term care arrangements already in place and would be hesitant to move away from these in favour of a trial (and therefore potentially temporary) arrangement.

The Commission notes that a systemic evaluation of the Childcare Flexibility Trials is currently being undertaken, with a reporting date in November 2014. This review should offer more comprehensive insights into the take up rates of the Flexibility Trials and provide a better evidence base to determine if there are particular innovations that are both successful and scalable to the ECEC sector as a whole.

10.8 Summing up

Most families in Australia have access to, and do access, ECEC services. Many families have some degree of choice about what care types and services they use, and many families can receive care on the days and for the hours that suit their needs. However, many families report difficulty accessing ECEC services. Difficulties in accessing ECEC can be present across all care types, although they appear particularly pronounced for younger children (aged 0-2 years) and for OSHC for school-aged children.

Families in regional and remote areas are likely to have fewer services available to choose from and may have to travel further to reach services, but also appear to have less difficulty accessing a place in a service than do families in urban areas. The provision of before school care is particularly limited in non-urban areas. Accessibility problems can also be experienced in major cities, and the Commission has heard about a lack of childcare places in the CBD of capital cities. Even in areas where there is a high density of ECEC providers, families can still experience difficulties in obtaining appropriate care and pockets of unmet demand exist.

A number of submissions have highlighted the inflexibility of ECEC in meeting non-standard work hours, noting that many in the workforce do not work 'nine to five' jobs or have irregular work patterns. Take up rates of the Childcare Flexibility Trials have not been high. Instead, the Commission has heard that many families value the flexibility provided by home-based care undertaken by nannies or au pairs.

An ECEC system that is not sufficiently accessible and flexible enough to meet the requirements of families restricts the extent to which parents can participate in paid employment. By removing caps on occasional care, promoting OSHC, removing regulatory restrictions on operating hours, by extending subsidies to nannies who satisfy suitably tailored NQF requirements and extending family placement duration limits for au pairs, the Commission believes that a more accessible and flexible ECEC system will be promoted that will better meet the needs of families.

11 Affordability

Key points

- For the vast majority (around 95 per cent) of children in care, at least 50 per cent of their ECEC fees are met by government subsidies. Nearly 16 per cent of children have at least 85 per cent of their ECEC fees covered by government subsidies.
- Many factors influence how much families pay for ECEC:
  - families who use long day care, family day care and nanny care tend to pay more than users of other care types
  - out-of-pocket costs generally increase as family income increases
  - those who use long hours of ECEC across a week also face comparatively high out-of-pocket costs.
- Only about 5 per cent of children in ECEC reached the Child Care Rebate cap of $7500 in 2013-14 with this number expected to rise in future years. Children in households who reach this cap tend to be receiving ECEC in a long day care setting on a full time basis for over 45 weeks a year.
- While current subsidy arrangements do make ECEC more affordable for families, there are a number of issues with the way they are delivered:
  - the existing system is complex and families can have difficulty understanding their entitlements under the Child Care Benefit and the Child Care Rebate
  - there is not sufficient evidence to suggest that the Jobs, Education and Training Child Care Fee Assistance program is meeting policy goals
  - subsidies under the Registered Child Care Benefit program are so small they do not materially affect the affordability of ECEC and are onerous for families to claim and government to administer.
- Out-of-pocket costs of ECEC services in Australia are above the OECD average. However, Australia spends more on social assistance to families than other OECD countries.
- The Australian Government is expected to spend around $8 billion on ECEC assistance in 2014-15. Governments also support families through Paid Parental Leave and Family Tax Benefit Payments. In 2012-13, Australian Government assistance to families was estimated at $35 billion.
- In the absence of further policy interventions, it can be expected that ECEC prices will continue to increase in forthcoming years, and consequently so will government outlays. There is a need to ensure government funding of ECEC is affordable and sustainable for taxpayers as well as parents.

Affordability for families is a key government objective of an ECEC system. If families cannot afford to use ECEC services, it is unlikely that government goals for child development or workforce participation would be adequately met through ECEC. This chapter reviews the evidence on families' current expenditure on ECEC, and how this has changed over time.

Affordability can be viewed across a number of dimensions. At its most simple level, affordable ECEC implies that a family has sufficient financial resources to pay for some basic level of ECEC — that is, families can afford to use ECEC for at least a few hours a week. Given that the majority of Australian children attend some form of ECEC over their lives, it is clear that for most, but not all, families some level of ECEC is affordable under the current system of subsidies.

Notions about what constitutes affordable ECEC are value judgements, and invariably vary between person to person. Therefore, the Commission has avoided defining what constitutes a 'fair' or 'reasonable' cost for ECEC, but rather focused on the capacity of families to pay for ECEC, given current ECEC prices, family characteristics and the patterns of ECEC use.

The three main programs that deliver assistance directly to families to meet ECEC costs are the Child Care Benefit (CCB), the Child Care Rebate (CCR) and the Jobs, Education, Training Childcare Fee Assistance (JETCCFA). Chapter 4 and appendix B outline the details of these payments, including payment rates and eligibility requirements. This chapter focuses on affordability after subsidies have been deducted — that is, net childcare costs.

11.1 How much do families pay for ECEC?

Before evaluating current government support for families to deliver affordable childcare, it is important to first determine how much parents currently pay for childcare services.[1] The amount of out-of-pocket expenses families face for childcare and ECEC services depends on the specific features of their use, including:

- what types of care families use;
- family income, which has implications for means testing and provides insights into the work decisions of families;
- how many children in the family receive care;
- how many hours children are in care;

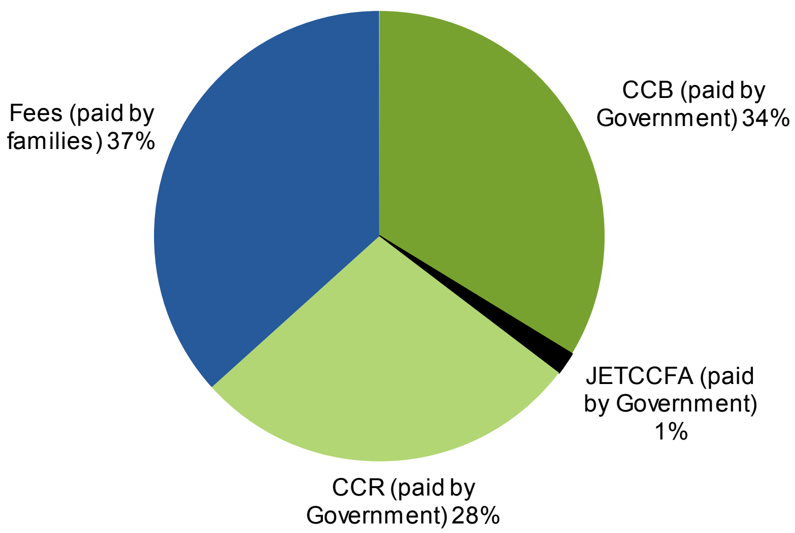
[1] This section will predominately draw on administrative data because it represents a census of all approved childcare users. The administrative data utilised for this analysis is for the 2011–12 financial year. While this is relatively recent, it is likely that current fees are slightly higher than what is represented in this data. Across all care types, fees have increased by around 7 per cent between June 2012 and June 2013 (Department of Education 2014b).

- geographic location; and
- subsidy rates, eligibility criteria and caps on subsidies payable.

The following sections explore these features.

In any discussion about the affordability of ECEC services, it is important to recognise that ECEC is heavily subsidised by the Australian Government, most significantly through CCB and CCR. This means that the out-of-pocket costs of families are usually considerably lower than the actual fee charged by providers. In aggregate, taxpayers contribute more to the costs of ECEC than families do (figure 11.1). For the vast majority of children in care (95 per cent), at least 50 per cent of ECEC fees are met by government subsidies. For around 45 per cent of children, at least 70 per cent of their fees are paid by government, and for around 16 per cent of children, at least 85 per cent of the fees are covered by subsidies (table 11.1 and figure 11.2).

Figure 11.1 **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.

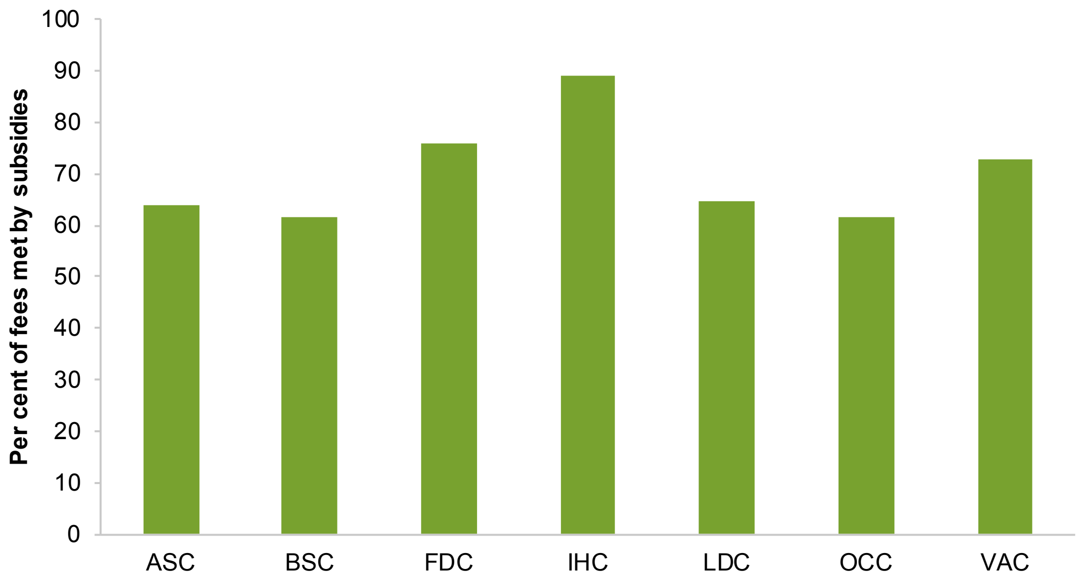
Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

Table 11.1 **Proportion of fees covered by government subsidies**
2011–12

Proportion of ECEC fees met by government subsidies	*Per cent of children in care*
Less than 50 per cent	5
Between 50 – 60 per cent	34
Between 60 – 70 per cent	17
Between 70 – 80 per cent	19
Between 80 – 85 per cent	10
Greater than 85 per cent	16

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

Figure 11.2 **Fees covered by CCB, CCR and JETCCFA, by care type[a,b]**



a Calculated by aggregating CCB, estimated CCR and JETCCFA entitlements across all users of that care type then dividing by all fees. **b** ASC = After School Care; BSC = Before School Care; FDC = Family Day Care; IHC = In-Home Care; LDC = Long Day Care; OCC = Occasional Childcare; VAC = Vacation Care.

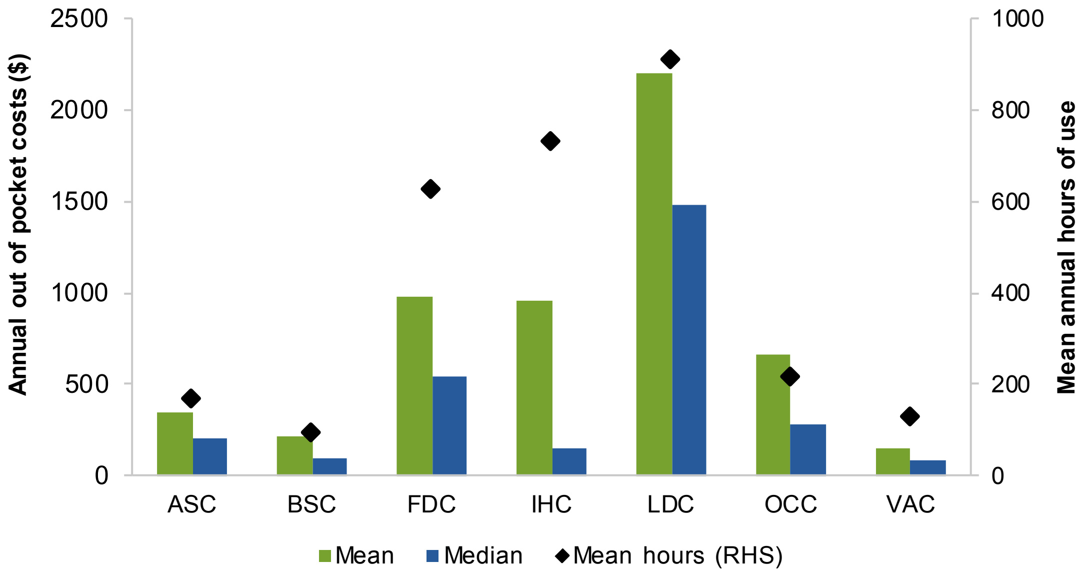
Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

How does affordability vary by care type?

Approved ECEC

Out-of-pocket costs of ECEC vary markedly by the type of care used (figure 11.3). Annual out-of-pocket costs for LDC care are substantially higher than for other care types, particularly outside school hours and vacation care. This is largely reflective of different care intensities — that is, the number of hours used in different kinds of care. On average, children in long day care used 910 hours per year, while the average usage of after school care (167 hours), before school care (91 hours) and vacation care (127 hours) is substantially lower. Figure 11.3 also shows that across all care types, the median cost of care is well below average levels. This implies that while most families face out-of-pocket costs below the annual average, there are some families who pay well above the median out-of-pocket cost of care.

Figure 11.3 **Annual ECEC fees per child by care type**

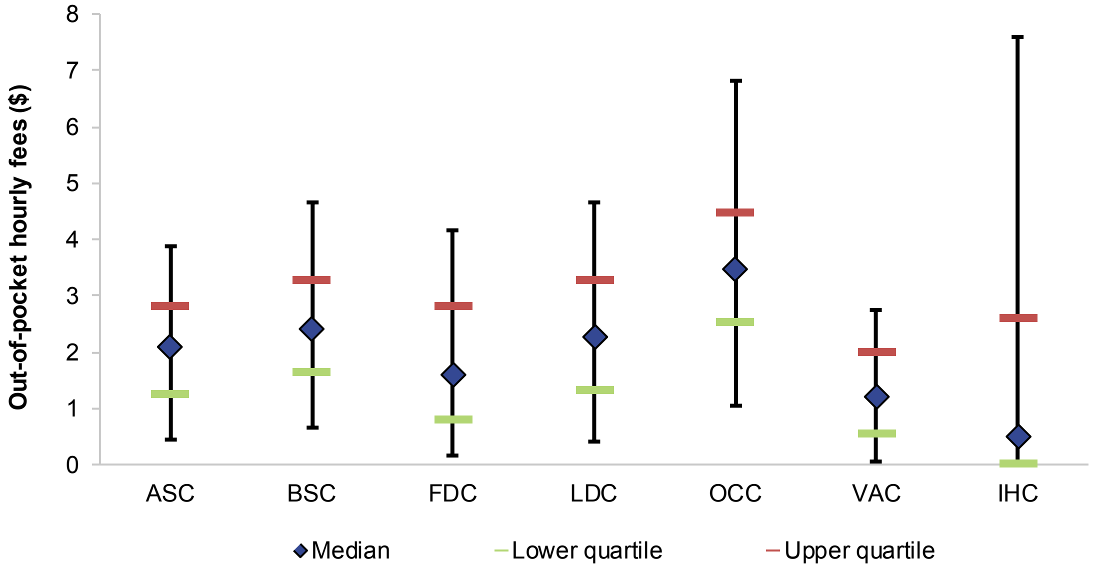


Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

On an hourly basis, out-of-pocket fees are highest for occasional care, although this care type also showed the second greatest dispersion in hourly fees (behind in–home care). Median out-of-pocket costs per hour were lowest for in–home care, with higher hourly CCB rates applicable for less than full–time standard hours and for non–standard hours, and many (about one–third) of children using this care type receiving free care under the Special Child Care Benefit (SCCB). Median hourly out-of-pocket costs for LDC were slightly higher than for family day care, which is generally considered to be its closest substitute (figure 11.4).

Figure 11.4 **Out-of-pocket costs by care type**

Lower and upper bounds of the lines represents the 5th and 95th percentile respectively.



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

The preceding figures suggest that the type of care has potentially significant implications for the affordability of childcare. Generally speaking, those who use before and after school care and vacation care are much less likely to experience affordability problems, owing to the low intensity (in terms of hours used) of these care types.

Given that average annual hours of care is substantially higher for long day care, affordability issues are more likely to be prevalent in families who use this care type.

Budget Based Funded Services

As with all ECEC services, Budget Based Funded (BBF) services have discretion around fees charged to users. There is very little information on fees charged by BBF services however the Final Report of the Review of the Budget Based Funded Programme noted that users of BBF services may have out-of-pocket fees ranging from a minimal daily amount to market rates (Department of Education 2014m). Families who use BBF services are typically ineligible to receive assistance through the CCB and CCR.

Nannies and au pairs

There is very little collected information on the hourly or weekly price of nanny services, but the Commission has received indicative information from both the Australian Nanny Association (sub. 254) and Dial-an-Angel (sub. 135) that the prices for nanny services generally range from $20 to $35 dollars per hour. The absence of subsidies makes nannies a relatively expensive form of care despite the effective hourly price depending on the number of children the nanny looks after. Unless eligible for approved in–home care, families using nannies are not eligible for CCB or CCR. Some families who use nanny care may be eligible for CCB subsidies if the nanny is a registered carer for CCB purposes, but the subsidy is so small ($0.66 per hour) that it does not materially reduce the out-of-pocket cost of nanny care.

Many participants commented on the out-of-pocket costs of nannies being prohibitive:

> … the private nanny option is very expensive and is simply not an option for many families. (Melissa Jones, sub. 335, p. 3)
>
> I would prefer to use a nanny and have them care for my toddler and also do before/after school care for my older children but such an arrangement is inaccessible financially. (Bronwyn Batten, sub. 63, p. 1)
>
> For families with more than 1 child, a nanny is an excellent and convenient option, particularly given the scarcity of childcare places in larger centres. However, as there is no rebate available the cost is prohibitive. This option should be actively supported and subsidised. (Comment no. 261, from an ECEC user)

One of the reasons why nannies are relatively more expensive is that they offer additional flexibility and typically higher ratios of adult to children. The effective hourly price of nannies and au pairs depends on the number of children cared for. Larger families may find nannies a more cost–effective option than some forms of approved care. Nannies would need to look after three or four children before hourly out-of-pocket costs are roughly equivalent to that of LDCs. However, other families value the flexibility of nannies, or prefer to have all their children looked after by the same carer, and therefore are prepared to pay a premium for nanny care.

How does family income affect affordability?

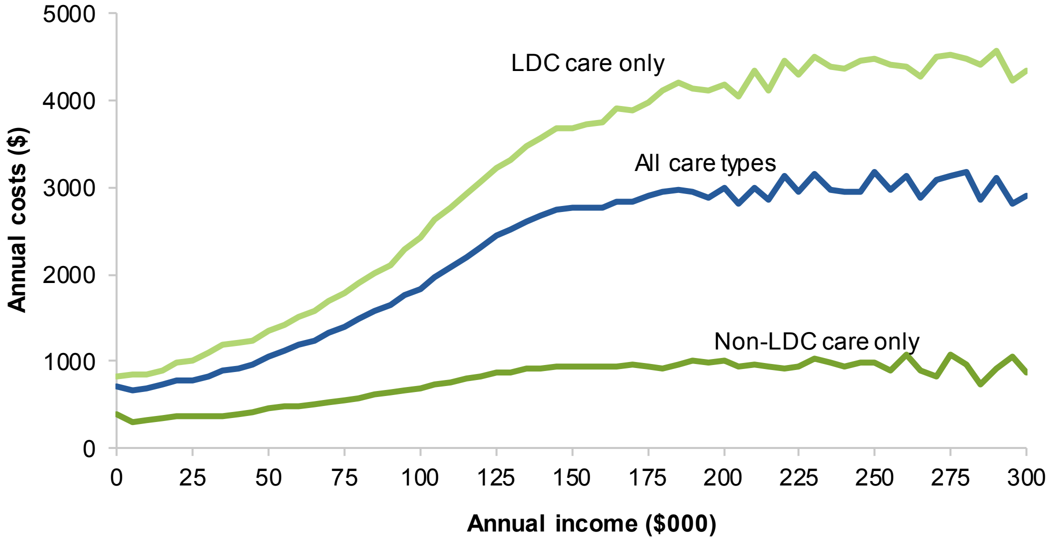
It is reasonable to expect that out-of-pocket ECEC fees increase as family income rises. This is because:

- The CCB subsidy is means tested on family income.
- As family income increases, so does the probability that the family has two income earners, with a greater need for ECEC.

This is borne out in figure 11.5, which shows annual out-of-pocket expenses for families by gross family income. It shows a distinct upward trend in out-of-pocket fees as income increases. Average annual out-of-pocket fees were approximately three times higher for the highest income family than for the lowest income family across all care types and approximately four times higher for LDC users only. For any given income level, there is considerable variation in the out-of-pocket costs families pay for LDC and this variation increases with income (figure 11.6).

Figure 11.5 **Annual out-of-pocket costs by family income**

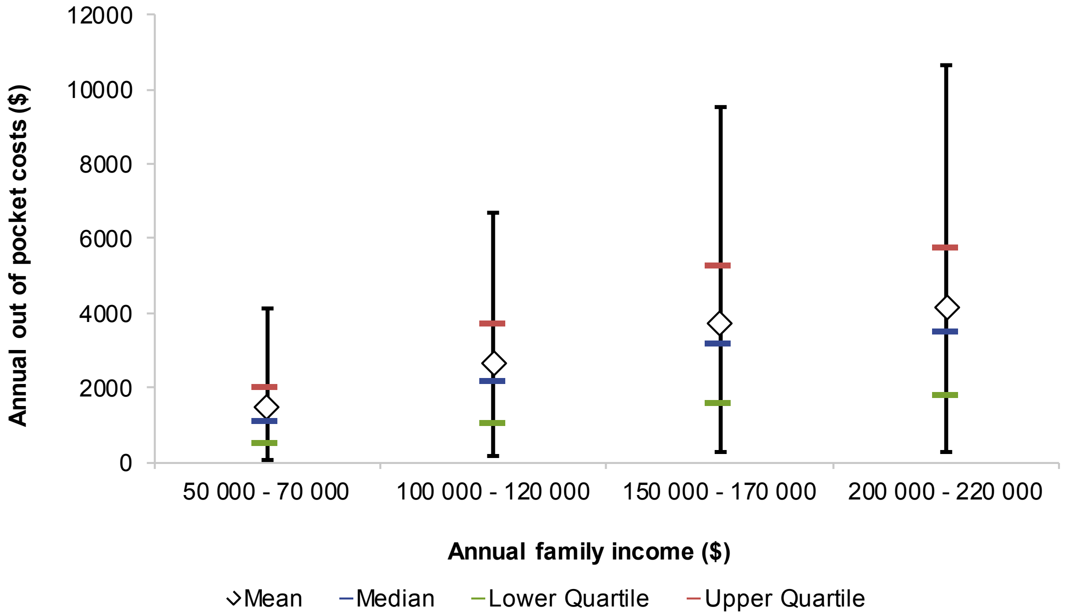
Average annual amount per child



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

Figure 11.6 **Distribution of out-of-pocket costs paid per child, LDC users only**

Lower and upper bounds of the lines represents the 5th and 95th percentile respectively.



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

The positive relationship between out-of-pocket childcare costs and income was also found by NATSEM, which reported that families whose income is in the fifth quintile spend roughly three times as much on childcare as families in the second quintile (table 11.2). However, the relationship between income and the proportion of disposable income spent on childcare is less clear. A survey undertaken by Mission Australia suggests that childcare is perceived to be less affordable by low income households. Only 27 per cent of families in the most disadvantaged SEIFA (Socio–Economic Indexes for Areas) quintile considered childcare to be currently affordable, in contrast to over half in the most advantaged quintile.

Table 11.2 **Average out-of-pocket costs and subsidies by income quintile**[a]

Income quintile		*Quintile 2*	*Quintile 3*	*Quintile 4*	*Quintile 5*	*All families*
Average annual income	($)	52 327	70 193	97 631	175 242	103 139
Average annual out-of-pocket cost	($)	2 296	2 660	4 581	6 507	4 352
Costs as a proportion of disposable income	($)	4.4	3.8	4.7	3.7	4.2
Average CCB payment	($ per week)	76.88	57.67	30.97	6.55	ne[b]
Average CCR payment	($ per week)	36.17	38.89	67.04	74.84	ne
Average subsidy payment	($ per week)	113.05	96.56	98.02	81.39	ne

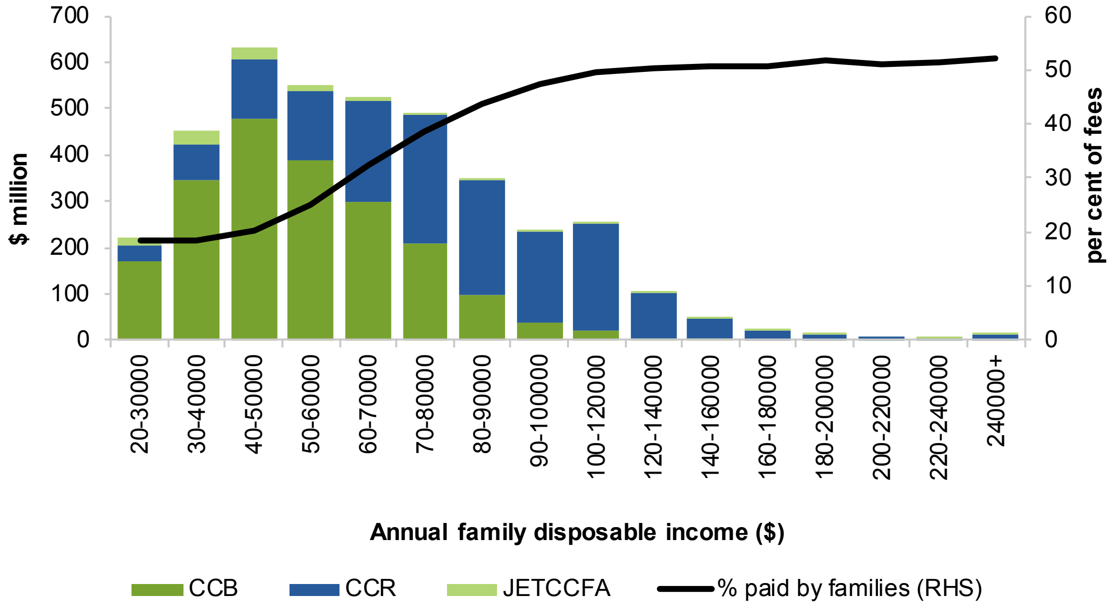
[a] Quintile 1 is not reported due to its low sample size [b] ne = not estimated

Source: AMP.NATSEM (2014).

The proportion of fees that families pay for childcare increases with income. One reason for this is that assistance is targeted at lower income groups. Apart from some special cases (children identified as being at risk, JETCCFA recipients and those eligible for Grandparent Child Care Benefit who receive higher subsidies), the vast majority of families received subsidies of between 50 and 90 per cent of their childcare fees in 2011-12, with low income families eligible for the maximum rate of CCB receiving the highest subsidy levels (figure 11.7). Figures from NATSEM confirm that average subsidies decrease as income increases, but also that higher income families also tend to rely on CCR rather than CCB as their main subsidy source (table 11.2).

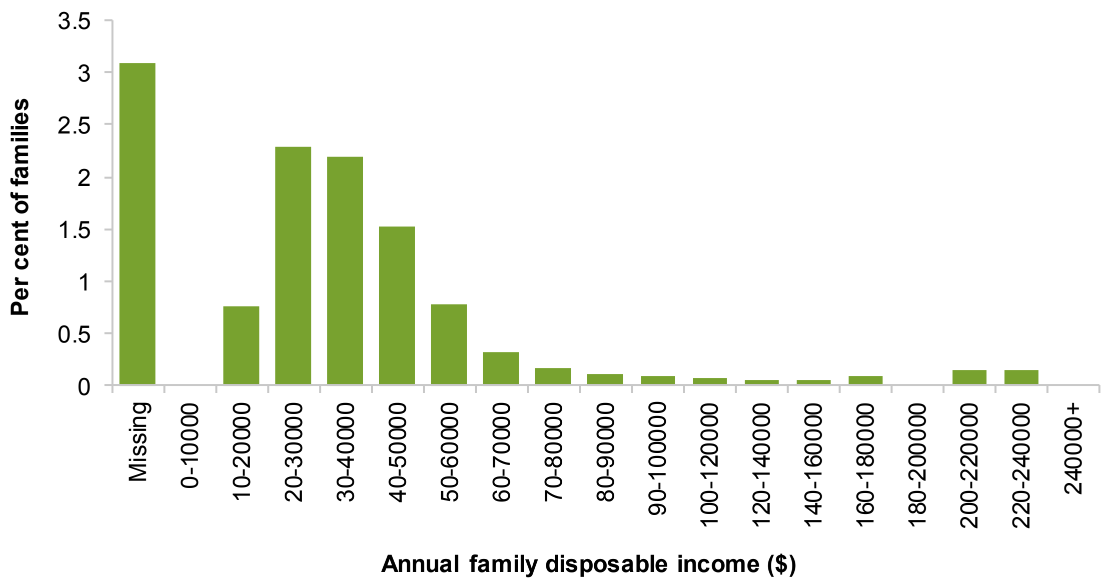
Around two per cent of families with disposable incomes (net of tax, but including welfare payments) lower than $40 000 do not face any out-of-pocket costs for their approved childcare, however, the incidence of free care falls away sharply for higher disposable income groups (figure 11.8) That said, isolated cases of families receiving free care do occur at very high income ranges — these are likely to be families eligible for subsidisation under the Special Child Care Benefit or the Grandparent Child Care Benefit.

Figure 11.7 **Subsidy amounts by income**



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

Figure 11.8 **Families getting free approved care by income[a]**
Per cent of all families in approved care



[a] Does not include Budget Based Funded services or preschools not in a long day care setting.

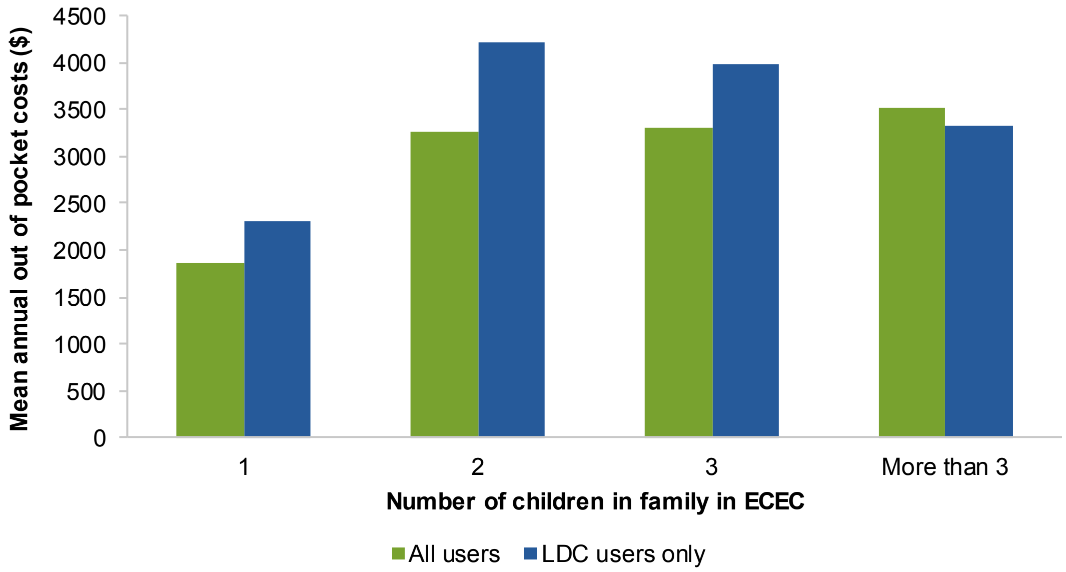
Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

How does the number of children in care affect affordability

Across all care types, mean annual out-of-pocket fees increase as more children from a family are in ECEC. However, the increase in mean fees between families having two children in ECEC and families having four children in ECEC is negligible (figure 11.9).

For LDC users, the relationship is less clear — families with more than three children in care, on average, face lower out-of-pocket costs than families with two or three children. While this runs counter to what might be expected, it can be explained — at least in part — by a greater proportion of larger families being eligible for CCB. About 98 per cent of families with more than three children in LDC in 2011-12 were eligible for CCB, in contrast to around 75 per cent of families with three or fewer children in LDC being eligible.

Figure 11.9 **Mean annual out-of-pocket costs by number of children in family in ECEC**

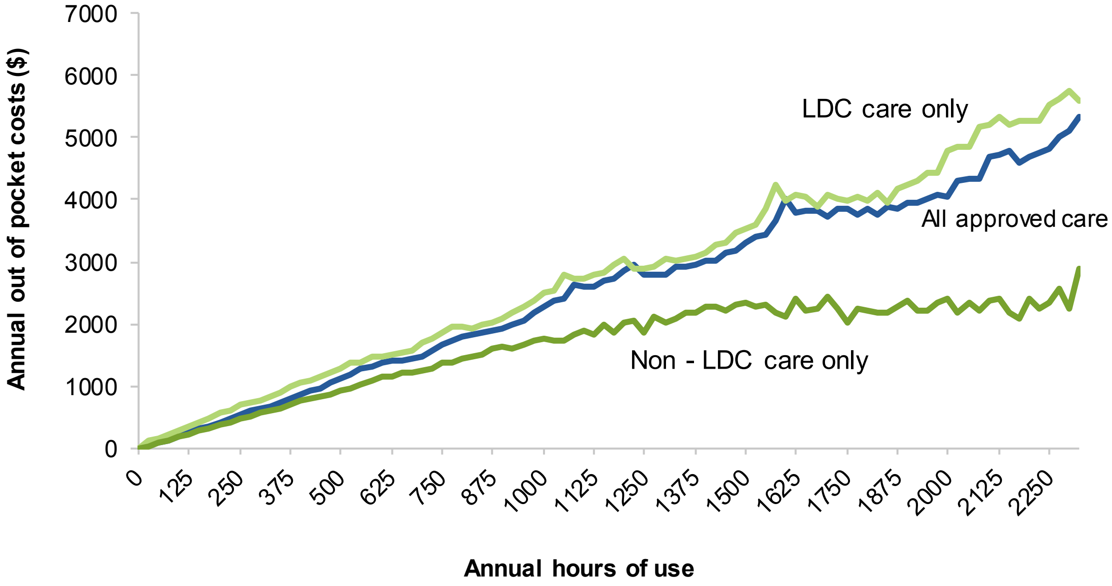


Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

How does hours of care per child affect affordability?

A clear positive relationship can be seen between the hours of care and out-of-pocket fees (figure 11.10). This is unsurprising — it is expected that families who use more ECEC services will face higher out-of-pocket costs for these services. The profile of out-of-pocket fees for those only using LDC is similar.

Figure 11.10 **Annual out-of-pocket costs by hours of care charged, per child**



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

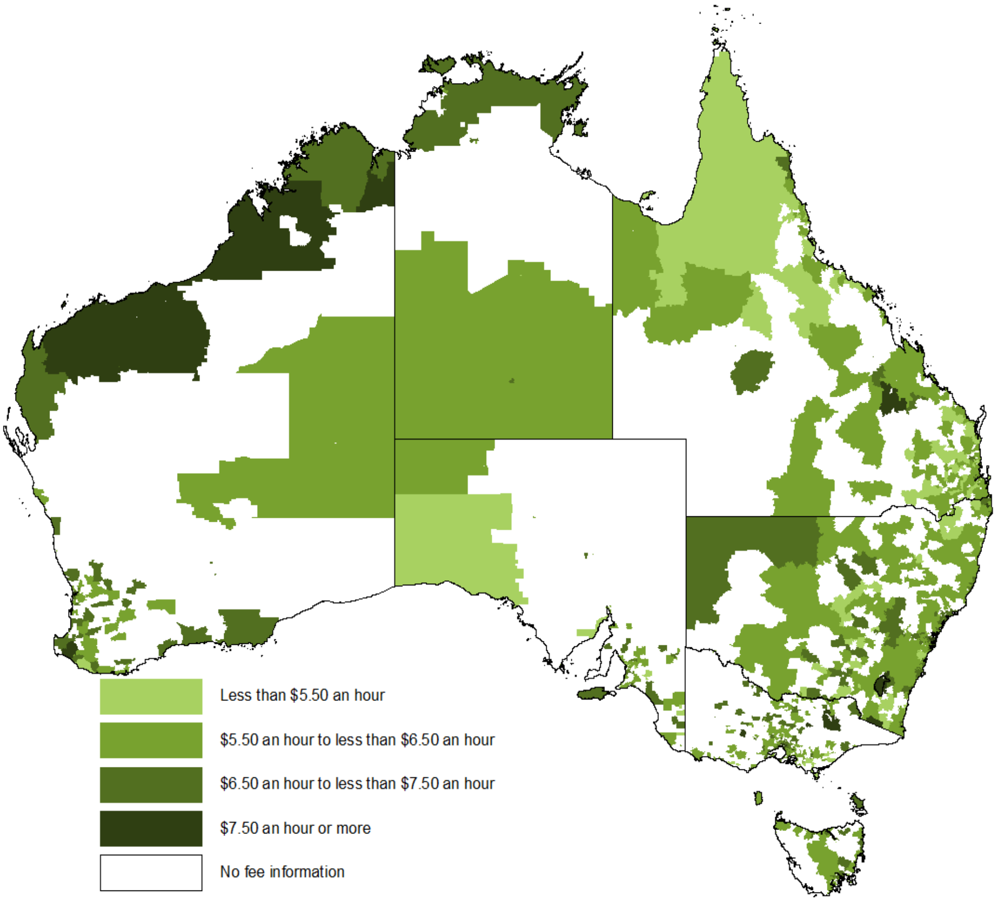
The above graph (figure 11.10) is based on hours for which families are *charged*. In most care types, families are charged in full day (or half–day) blocks regardless of whether a family uses care as long as for that. Hours *used* is often substantially lower — for example, using ABS data for hours of LDC *used*, median use is 16 hours per week (chapter 3), while using Department of Education administration data on hours *charged*, median use is 24 hours per week.

How does location affect affordability?

Fees — both before and after subsidies — vary by location with average fees higher in capital cities and areas near large mining operations (figure 11.11).

Figure 11.11 **Fees for approved care**

Average, by postcode



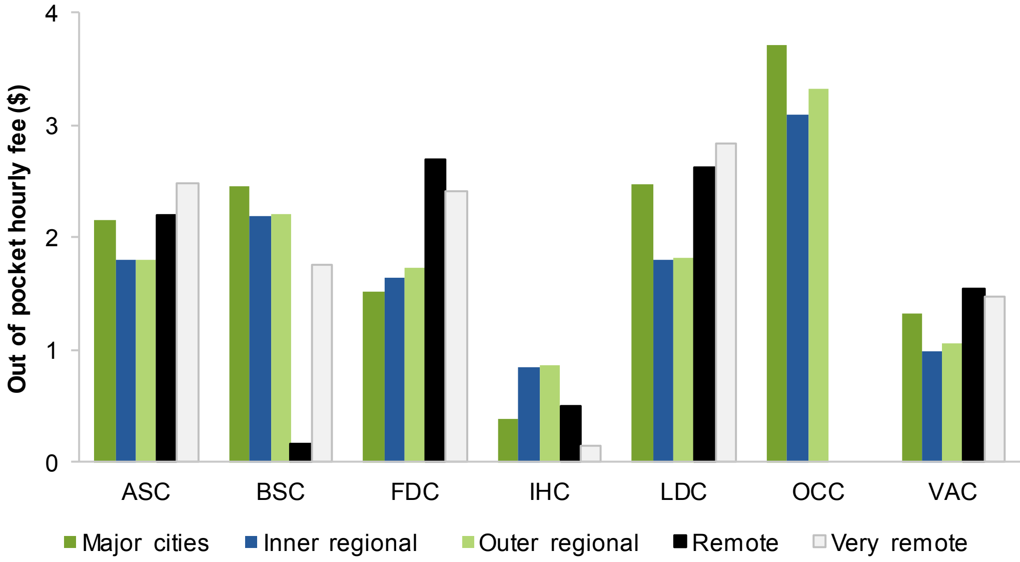
Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

Hourly out-of-pocket costs also vary substantially by location. One common pattern across most approved care types, was that hourly out-of-pocket costs were higher in rural and remote locations compared to city and regional areas (figure 11.12).

However, once account is made for the lower total hours of LDC care used by remote and very remote families over the course of a year, the annual out-of-pocket costs for LDC use by remote and very remote families are lower, on average, than those in major cities (but remain more than those in regional areas). For FDC, families in remote locations pay more than those in cities (figure 11.13).

Figure 11.12 **Out-of-pocket hourly costs by ARIA**[a]

Median, by care type

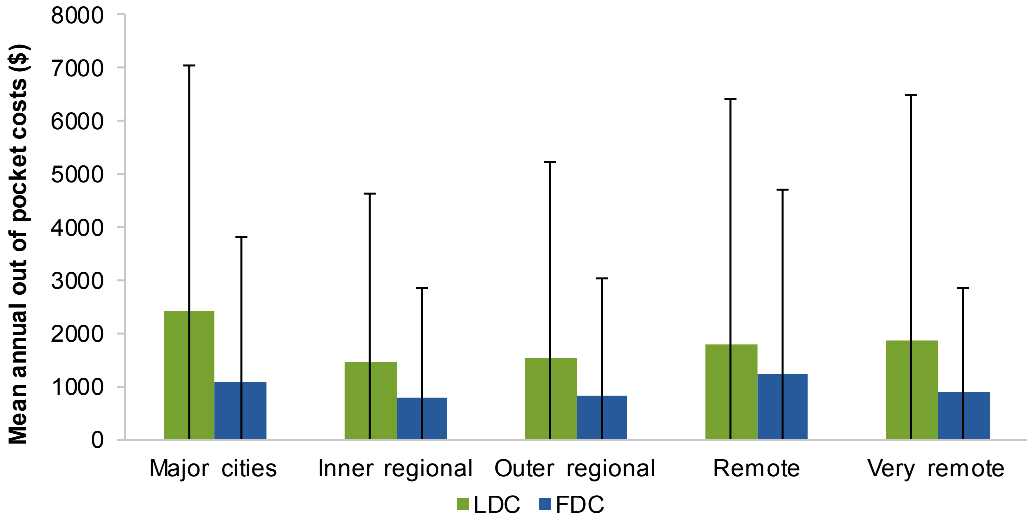


[a] ARIA stands for Accessibility/Remoteness Index of Australia. It is an index used by the Australian Bureau of Statistics. It is based on road distances from a point to major population centres (Australian Population and Migration Research Centre 2014).

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

Figure 11.13 **Annual out-of-pocket costs by ARIA**

LDC and FDC only. Bars represent the 95th percentile



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

Microsimulation modelling undertaken by NATSEM also highlights how affordability may vary by region. Areas where families spend the highest proportion of their disposable income on ECEC tend to be in capital cities or in regions with high levels of mining activity. Areas where families spend the lowest proportion of their disposable income on ECEC tend to be rural or regional areas (table 11.3).[2] This analysis assumes that people live and work in the same areas, however, this is not always the case, particular in major cities, where families may live in outer suburbs but commute into the CBD for work.

Mining areas and certain capital cities were also identified by inquiry participants as being areas where childcare is less affordable.

> … if you live in a mining remote location the cost of childcare is prohibitive and at times places are limited. (Leonie Arnold, sub. DR573, p. 1)

> … families have told the department that finding child care can be particularly difficult in some areas, such as inner–city suburbs and mining towns, where the cost of entry and operation for service providers outweighs the communities' and parents' capacity to pay, even after subsidies and other assistance from governments. (Commonwealth Department of Education, sub. 147, p. 20)

> Where you live greatly impacts on how expensive and available child care is. In my case, we live in Canberra where waitlists can be in excess of 2 years and costs are very high (over $100 per day). (comment no. 30, ECEC user)

Australian Government subsidies paid to families do not vary depending on where they live, but funding — primarily that under the BBF Programme — for eligible providers makes ECEC more affordable and accessible in regional, rural and remote areas. As noted earlier, out-of-pocket costs of BBF services are typically lower than for approved care services.

The Northern Territory Government also pays LDC, FDC and 'three year old kindy' an additional subsidy to 'assist operators of approved education and care services contain the care for parents/guardians and maintain fee charges at an acceptable level'. As of 1 July 2014, the subsidy is $30 per week for children under two, and $22 per week for children aged two to five (Northern Territory Department of Education 2014). Some states and territories also distribute funding under the National Partnership Agreement on Early Childhood Education on a per capita basis (chapter 4).

2 In doing this analysis, NATSEM have assumed a family with two children — one who is aged 2 and is in LDC for 24 hours a week and one who is aged 7 and is in OSHC for 18 hours a week. The family is assumed to have an income equal to the median income for families with children in the region that they live. The father is assumed to earn two–thirds and the mother is assumed to earn one–third of income. The median prices for LDC and OSHC within a region are assumed.

Table 11.3 Proportion of disposable income spent on childcare — highest and lowest regions by state, 2013

	Highest	Lowest	
New South Wales			
North Sydney – Mosman	9.3	Fairfield	4.2
Queanbeyan	8.6	Inverell –Tenterfield	4.3
Sydney Inner City	8.3	Moree – Narrabri	4.3
Manly	8.3	Campbelltown	4.5
Goulburn – Yass	8.3	Kempsey – Nambucca	4.7
Victoria			
Darebin – South	9.0	Warrambool – Otway Ranges	4.2
Stonnington West	8.6	Campaspe	4.7
Kingston	8.6	Wangaratta – Benalla	4.8
Whitehorse – West	8.4	Creswick – Daylesford – Ballan	4.9
Melbourne City	8.3	Wellington	4.9
Queensland			
Outback – South	7.8	Charters Towers – Ayr – Ingham	3.7
Mackay	7.4	Far North	3.8
Central Highlands	7.1	Burnett	3.9
Brisbane Inner	7.1	Darling Downs (West) – Maranoa	4.1
Chermside	6.9	Granite Belt	4.2
South Australia			
Norwood – Payneham – St Peters	7.2	Mid North	4.3
Holdfast Bay	7.1	Eyre Peninsula and South West	4.6
Mitcham	7.1	Playford	4.7
Prospect – Walkerville	6.9	Limestone Coast	4.9
Lower North	6.9	Port Adelaide – West	5.2
Western Australia			
Kimberly	11.4	Manjimup	4.7
Stirling	9.3	Albany	5.1
Pilbara	9.3	Wheat Belt – North	5.6
Cockburn	9.2	Augusta – Margaret River – Busselton	5.7
Mandurah	9.1	Kwinana	6.2
Tasmania			
Hobart – North East	8.2	North East	4.9
Hobart Inner	8.1	Burnie – Ulverstone	5.2
Hobart – North West	7.8	Hobart – South and West	6.5
Northern Territory (only four areas analysed)			
Palmerston	7.5	Alice Springs	6.0
Darwin Suburbs	7.2	Darwin City	7.0
Australian Capital Territory			
Gungahlin	8.9	South Canberra	6.9
Weston Creek	8.4	Woden	7.5
Belconnen	8.3	North Canberra	7.7
Tuggeranong	8.3		

Source: AMP.NATSEM (2014).

Affordability for Special Child Care Benefit and Grandparent Child Care Benefit recipients

While most families receive assistance under the standard CCB and CCR, a small number of families receive assistance under a more targeted form of CCB:

- The Grandparent Child Care Benefit (GCCB) assists grandparents who are the primary carer of a child and receive an income support payment.
- The Special Child Care Benefit (SCCB), where eligibility is dependent on a child being deemed 'at risk', or a family is deemed to be facing 'short term financial hardship'.

Additional detail on these programs can be found in appendix B. Between April 2013 and June 2013 (the most recent quarter data that is available), slightly over 3000 families received GCCB and slightly over 8000 families received SCCB.

Families who are in receipt of the GCCB are eligible for free ECEC for up to 50 hours a week (and longer in some circumstances). Families in receipt of the SCCB also typically face no out-of-pocket costs even though care may be used in excess of 50 hours per week. (Chapter 13 discusses the effectiveness of SCCB and financial assistance available to families who have children with additional needs.)

11.2 How does the CCR cap affect affordability?

For many Australian families, the only form of childcare subsidies for which they are eligible is CCR. The main affordability concerns raised about the operation of the CCR relate to the annual cap on subsidies per child — particularly that the maximum threshold for the cap has been frozen in nominal terms since 2011-12.

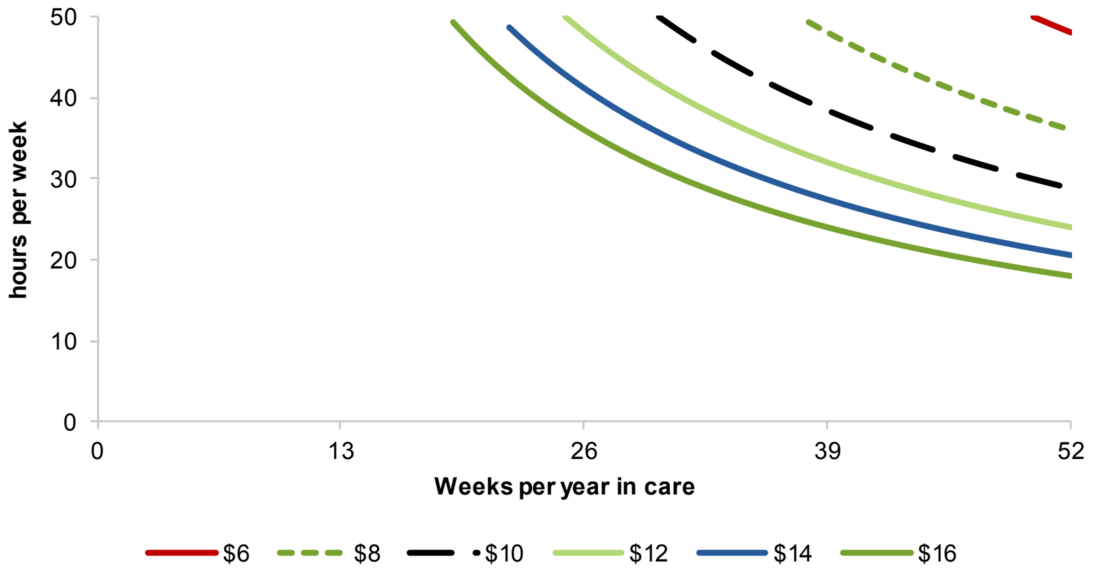
Based on administrative data for 2011-12, as many as 22 000 children may have reached the $7500 limit on out-of-pocket expenses.[3] This is slightly less than 2 per cent of all children who used approved ECEC services in 2011-12 with 1 in 59 children reaching the cap. Analysis undertaken by the Department of Education suggest that 5.4 per cent of families using approved care reached the $7500 cap in the 2013-14 financial year (Department of Education 2014l).

3 There is uncertainty over the number reaching the CCR cap because some people also receive CCB and because some information may have been mis–entered by ECEC services. The most likely people who may be incorrectly identified as reaching the CCR cap are those who may be eligible for some CCB, but who have chosen to have CCB paid as a lump sum in arrears, people who have overestimated their incomes (and could be entitled to more CCB than currently indicated) and where a very large fee had been accidently entered by a ECEC service into the Child Care Management System.

The CCR cap — hours of use, weeks per year and fee rates

As outlined in chapter 4, parents are entitled to receive a payment of up to half of their annual out-of-pocket costs for approved ECEC services for each child, but up to a $7500 limit per financial year. In order for the CCR cap to be reached, the annual ECEC fees for a child (after CCB or JETCCFA subsidies) need to exceed $15 000. There are numerous combinations of weeks in care, hours of care per week and hourly fees that will result in annual ECEC fees reaching or exceeding $15 000. Figure 11.14 highlights the combinations of hours and weeks in care and hourly out-of-pocket fees that are required to exactly reach the CCR cap — the cap would also be reached with any combination of higher hours, higher weeks in care or higher fees.

Figure 11.14 **Combinations of out-of-pocket fees, hours and weeks of care per year that reach the CCR cap**



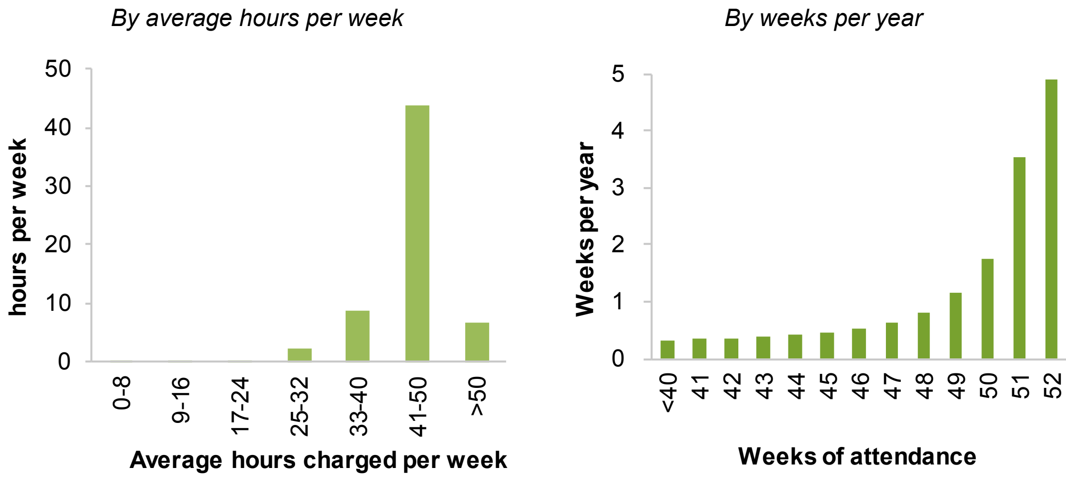
Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

For example, if the out-of-pocket fee was $10 an hour and a child was in care for 38 weeks in the year, then a child would need to be charged for close to 40 hours of care per week to reach the CCR cap during the year.

Probably the biggest single determinant as to whether or not a family reaches the CCR cap is the number of hours of care used a week — the more hours a week children are in care, the greater the chance that the cap will be reached (figure 11.15). While the per cent of children reaching the CCR cap falls substantially for children with more than 50 hours of ECEC a week, this is a very small group with a higher probability of being eligible for CCB or SCCB subsidies. There is also a clear relationship between weeks of ECEC for which a family is charged over the year and probability of reaching the CCR cap (figure 11.15) — with the probability increasing with each additional week of attendance. However, it should be noted that only 5 per cent of children who attended an ECEC service every week of the year reached the CCR cap in 2011-12.

Figure 11.15 **Per cent of children reaching CCR cap by average use charged[a]**

Per cent of children who reach CCR cap, 2011–12



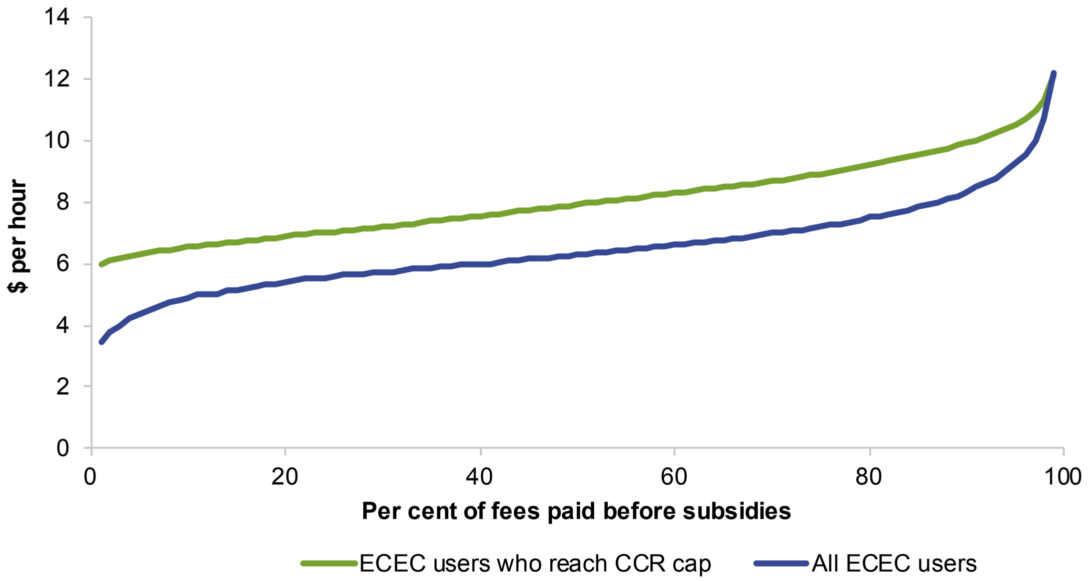
[a] Some forms of ECEC charge based on the length of session, and the actual hours of attendance can be significantly less than the hours charged for.

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

It is also clear that the hourly fees before subsidies for children who reach the CCR cap are on average higher than for all ECEC users (figure 11.16).

Figure 11.16 **Hourly ECEC fees of all families and families who reach the ECEC cap**

ECEC fees before subsidies, 2011–12



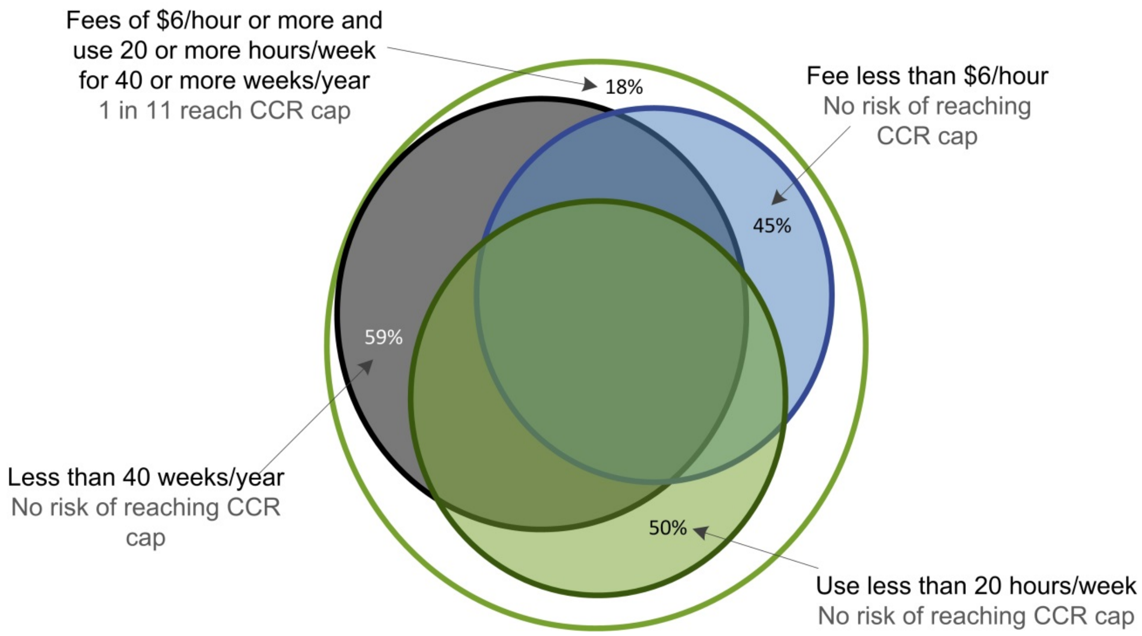
Source: Productivity Commission calculations based on Department of Education administrative data (2011-12).

The information on weeks attended, hourly fees and hours charged per week provides better information on who is not going to reach the CCR cap than those who will. For example, any family charged an hourly fee (before subsidies) for ECEC services that falls within the lowest 40 per cent of approved childcare fees paid in 2011-12 is highly unlikely to reach the CCR cap — regardless of use. In addition, children who attend care for less than 40 weeks per year or less than 20 hours per week have very little prospect of reaching the CCR cap (and there is significant overlap between these two groups). In fact, 82 per cent (or slightly over 1 million) of the children who used approved care in 2011-12 had these characteristics (figure 11.17).

That leaves a population of over 263 000 children (or 18 per cent of children in approved care) in 2011-12 who had usage patterns associated with a higher probability of reaching the CCR cap, yet less than 9 per cent of those children actually reached the CCR cap.

Figure 11.17 **Risk of hitting CCR cap under different patterns of ECEC use**

Percentages refer to the proportion of children in each group in 2011–12



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

What else do we know about those currently hitting the CCR cap?

The main type of care used by children who reached the CCR cap in 2011-12 was LDC services — both in absolute terms and relative to the total number of children using each service type (table 11.4). That said, only about 1 in 39 children attending LDC actually reach the cap.

The odds of reaching the cap are even lower for children using other forms of ECEC, with children who only used FDC or IHC being very unlikely to reach the cap in 2011-12. Even among children who reached the cap by using a combination of services, 98 per cent of those children used LDC in their mix of services over the year. In contrast, no child who only used outside school hours care services reached the CCR cap in 2011-12.

Table 11.4 **Types of approved ECEC used by children reaching CCR cap**
2011–12

Care type	*Number*	*Per cent of children reaching cap*	*Odds of children reaching cap by type of ECEC service*
Long day care only	20 706	94	1 in 39
Family day care only	300	1	1 in 1 531
In-home care only	104	<1	1 in 81
Occasional care only	6	<1	1 in 2 014
Outside school hours care only	0	0	0
Combination of care types	938	4	na
Total	22 054	100	na

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

Given the ubiquitous role that LDC (which often features relatively high usage and pre-subsidy cost) plays in the care mix of children who reach the CCR cap, it is unsurprising that very few school aged children reach the CCR cap (table 11.5). The odds of children aged between 1 and 3 reaching the cap are similar. The lower likelihood of 4 year old children reaching the cap is probably linked to the use of dedicated preschool in the year before school, often in a standalone setting and therefore not supported through CCB and CCR.

Table 11.5 **Age of children reaching CCR cap**
2011–12

Age of child in years (as at 1 January 2012)	*Number*	*Per cent of children reaching cap*	*Odds of reaching cap by age of child*
Under 1	293	1	1 in 229
1	4 715	21	1 in 29
2	7 011	32	1 in 26
3	6 449	29	1 in 30
4	3 486	16	1 in 52
5 and over	100	<1	1 in 5 342

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

Those children who live in the ACT are most likely to reach the cap, followed by those living in remote Western Australia (table 11.6). In contrast, those living in Tasmania — and particularly the outer regional parts of that state — are some of the least likely to reach the CCR cap.

Table 11.6 **Odds of reaching CCR cap by geographic categorisation**

By jurisdiction and ARIA category, 2011–12

	Major Cities	*Inner Regional*	*Outer Regional*	*Remote*	*Very Remote*	*Jurisdiction total*
ACT	1 in 6	1 in 6	na	na	na	1 in 6
NSW	1 in 15	1 in 82	1 in 202	0	1 in 44	1 in 19
NT	na	na	1 in 14	1 in 36	1 in 20	1 in 16
Qld	1 in 37	1 in 95	1 in 50	1 in 55	0	1 in 43
SA	1 in 71	1 in 172	1 in 666	0	0	1 in 81
Tas	na	1 in 128	1 in 745	0	0	1 in 162
Vic	1 in 19	1 in 99	1 in 169	na	na	1 in 23
WA	1 in 26	1 in 98	1 in 49	1 in 8	1 in 25	1 in 26
By ARIA nationally	1 in 21	1 in 95	1 in 53	1 in 18	1 in 55	

na not applicable

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

While some children in ECEC did appear to hit the CCR cap while receiving CCB or JETCCFA in the same year, these numbers were small — less than 1 per cent of CCB recipients and less than 0.02 per cent of JETCCFA recipients reached the CCR cap in 2011-12.

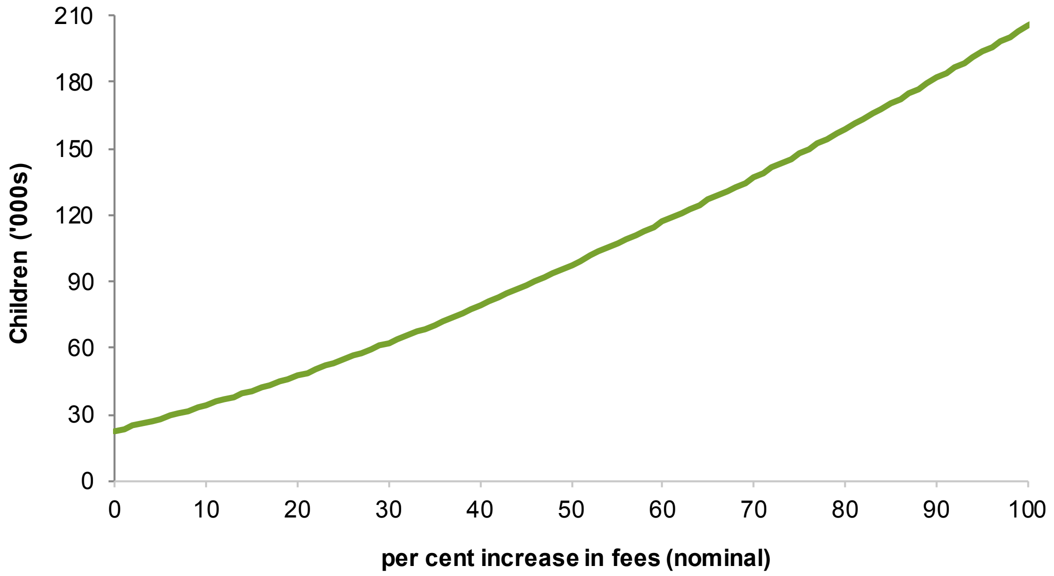
How many more people may hit the CCR cap in the future?

The CCR cap has been specified as a nominal dollar amount. This amount has not been changed since 2011-12, when it was decreased from $7941. As a result of the CCR being kept constant in nominal terms, more families are likely to reach the cap in the future — particularly when associated with fee increases by ECEC services and increases in family income levels that reduce the amount of CCB received.

For example, if childcare fees in nominal terms were 20 per cent higher than those charged in 2011-12, the number of children who would have reached the CCR cap would have doubled (figure 11.18). Given that some families would change their behaviour if faced with higher fees, the relationship between nominal fee increases and the number of children expected to hit the cap should be considered as a general indicator of the magnitude of change and an upper bound.

Figure 11.18 **Number of children who would reach CCR cap if ECEC fees increase**

Based on care use and fees in 2011–12



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

In terms of families, assuming the CCR cap remained at $7500, the Department of Education estimates that 74 000 families would reach the CCR cap in 2014-15. This estimate increases to around 93 000 families in 2015-16, and 114 000 families in 2016-17 (Department of Education 2014l).

Evidence of behavioural change to avoid hitting the CCR cap

Many families pre–emptively manage their pattern of care use to avoid hitting the CCR cap (box 11.1). For most families, this involves using three days of care per week over the course of a year. This suggests many families are factoring in the effects of the CCR cap in their decisions about their work and care patterns over the course of a year.

Insights can also be gained from examining changes in the care use by families who reach, or are very close to reaching, the CCR cap. To do this, the Commission has extracted from the administration data, children in LDC whose CCR subsidy over the course of the 2011-12 financial year exceeded $6000, and explored their ECEC use over each quarter of the year.

Box 11.1 Comments on avoiding the CCR cap

Comment no. 68, ECEC user:

> Substantial government investment is made to subsidise 50% of childcare costs, however the current cap of $7500 … 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. 345, ECEC user:

> The rebate is good, but because it is capped, it is only worth my while to go back to work 2 days per week.

Comment no. 126, ECEC user:

> Thankfully we receive the child care rebate, but it is not worthwhile for me to work any more than three days per week as we would then exceed the rebate limit and it would be less financially viable for us.

Across this population, there was no discernable change in use across quarters. Average weekly hours for this group was between 41–42 hours per week across all four quarters. About 8 per cent of children were in care for at least 10 per cent fewer hours (on average) between the third and fourth quarter of the financial year, however this proportion was the same between the third and the second quarter.

These data, coupled with what the Commission has heard during the inquiry, suggests that while some families do change their care patterns as a result of reaching the CCR cap, it is more common for families to pre-emptively choose a care pattern that avoids hitting the cap, rather than adjust their care pattern after the cap is reached (or almost reached).

11.3 Is childcare becoming more or less affordable?

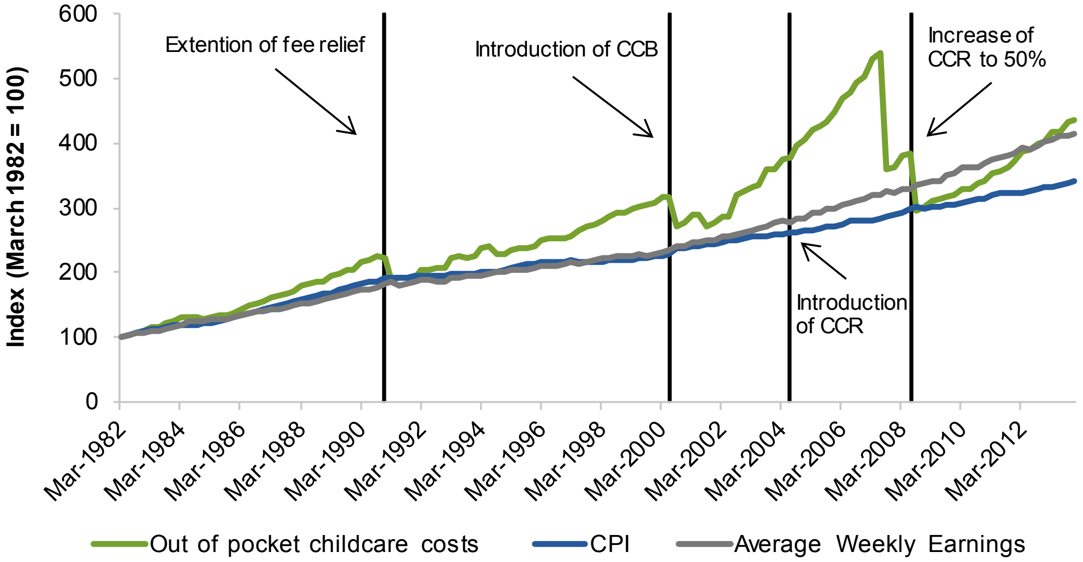
Are families finding it harder to meet ECEC costs?

Out-of-pocket childcare costs are growing faster than inflation (figure 11.19). Major policy initiatives to make childcare more affordable have only been successful in alleviating out-of-pocket cost increases in the very short term — once the immediate effects of these policy changes have abated, out-of-pocket costs continue to grow much faster than CPI. That said, these policy interventions have been somewhat successful in curtailing sustained increases in ECEC out-of-pocket costs. For example, in the two years prior to the introduction of the Child Care Rebate in June 2004, fees were growing by about an average of 10 per cent per annum. If this rate of growth was to continue, childcare would be more than double than what they were in December 2013.

However, this ignores the likelihood that prices may have been higher because of the subsidies available (chapter 9).

Figure 11.19 **Growth in out-of-pocket childcare costs compared with general prices**[a,b]

Quarterly index of childcare sub group of CPI, weighted average of eight capital cities



[a] The ABS did not include the CCTR/CCR in the Childcare CPI estimate until 2007. This is the reason why there is a sharp drop in childcare prices at this time [b] The CCR was initially a tax rebate that allowed families with a tax rebate to offset 30 per cent of their childcare expenses and was known as the Child Care Tax Rebate (CCTR). It was renamed the CCR in 2009.

Source: ABS (2014b).

The CCB is indexed to the rate of inflation. Hence, as fees are rising faster than inflation, the proportion of fees covered by this subsidy falls. Likewise, freezing the cap on fees reimbursable to families through the CCR means that an increasing number of families are reaching this limit, in part as a result of rising prices. Generally speaking, average weekly earnings have grown at a slower rate than ECEC costs, which suggests that ECEC is likely to be taking up a larger share of family budgets.

Respondents to the HILDA survey also perceive that childcare is becoming less affordable. The proportion of respondents who reported they had difficulty meeting childcare costs was substantially higher in wave 2012 than a decade earlier (table 11.7).

Table 11.7 **Proportion of HILDA respondent households who have difficulty with the cost of childcare[a]**

Year	*Per cent of households*
2012	54.3
2010	47.2
2008	51.3
2006	50.2
2004	45.9
2002	41.6

a The population for this analysis is households use or thought about using childcare. Households were asked to indicate the level of difficulty they experienced with the cost of childcare on a scale of 0 to 10 — with 0 being ‘not a problem at all’ and 10 being ‘very much a problem’· Households with responses of 5 or more were assumed to have a problem with affordability.

Source: Productivity Commission calculations based on HILDA release 12, waves 2–12.

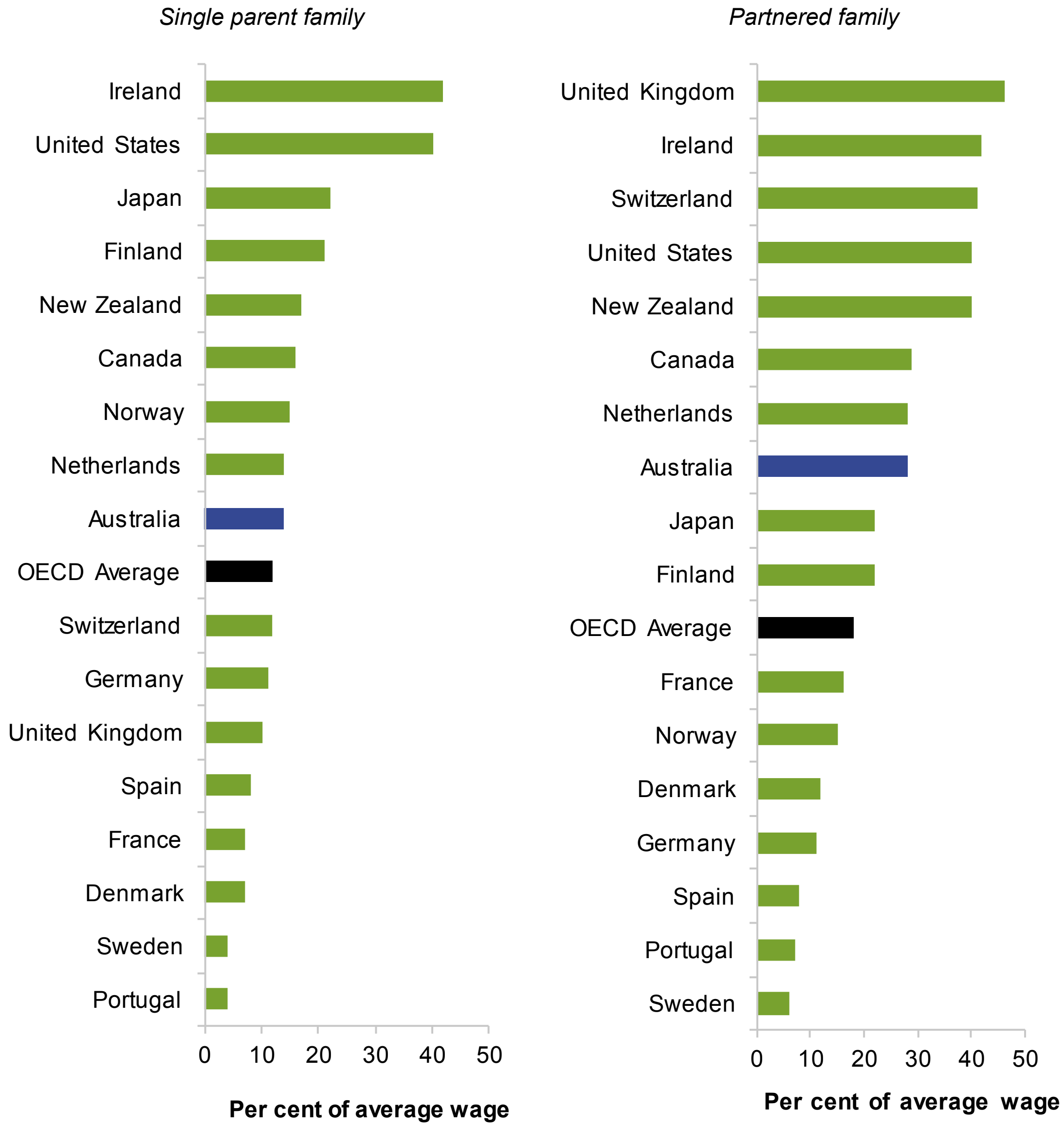
There is some evidence from the HILDA survey that ECEC costs and the proportion of disposable income spent on childcare have risen. In 2002, households with a 0–4 year old child spent a mean of 6.2 per cent of their disposable income on childcare. By 2012, this had risen to 8.5 per cent.[4] Whether this increase is due to people using more childcare or paying more for the childcare they use is not known.

Is childcare more expensive in Australia than in other countries?

OECD data suggests that out-of-pocket childcare costs as a per cent of average earnings are slightly higher in Australia than the OECD average (figure 11.20). When compared against other English speaking countries, fees as a per cent of the average wage are higher in Australia than the United Kingdom, but lower than Canada, New Zealand, the United States and Ireland for a lone parent family. For partnered families, Australia has the lowest fees as a per cent of average wages of all these countries. Additional information on the ECEC systems of different countries is contained in appendix G.

4 These calculations are based on households with one child aged between 0–4, who face an out-of-pocket childcare cost. Sample sizes ranged from 277 to 394 households. Data has been weighted.

Figure 11.20 **Out-of-pocket costs as a per cent of average wage, 2012**



[a] Assumes the parent is earning 100 per cent of the average wage. Assumes two children: one aged two and one aged three. The out–of–pocket cost of centre-based childcare (or net cost of childcare) is calculated as the difference in 'family net income' of a family who uses centre-based childcare and an otherwise identical family who does not use such childcare. 'Family net income' is the sum of gross earnings plus cash benefits minus taxes and social contributions. This methodology takes into account childcare specific supports designed to reduce the cost faced by parents as well as the interaction between childcare specific policies and other tax and benefit policies. All fee reductions, including free pre–school or childcare for certain age-groups, are shown as rebates where possible. In–work incomes do not include any time limited benefits paid on taking up employment.

Source: OECD (2014).

11.4 The design of current assistance arrangements for families

The design and delivery of government subsidies to families and providers can have a significant impact on the extent to which they improve affordability. This inquiry has heard that — while current arrangements do contribute to making childcare more affordable for families — there are a number of issues that reduce their effectiveness in achieving this objective and warrant closer attention. Differences between jurisdictions in the treatment of preschool subsidies are discussed in chapter 12. Issues that relate to Special Child Care Benefit and assistance to non–mainstream providers are discussed in chapter 13.

The calculation of, and the interaction between payment types, is complex for families to understand

Many submitters and commenters to this inquiry described the current subsidy arrangements paid to families as being complex (box 11.2).

Box 11.2 Some comments on the complexity of current ECEC subsidies

Gowrie NSW (sub. 306):

> Gowrie NSW supports a review of funding for the education and care sector. The present fragmentation of funding streams for early childhood services is complex and confusing to families. For example: CCR and CCB as two separate payment system. (p. 3)

The City of Sydney (sub. 126):

> The current model of funding parents through Child Care Benefit and Child Care Rebate are confusing to families (especially on entry or where a family is contemplating entry to an early education and care service) and complex to administer. (p. 18)

The Crèche and Kindergarten Association (sub. 272):

> The current CCB and CCR payment systems are confusing and it is difficult for families to compare their out-of-pocket expenses for different ECEC types. (p. 9)

Comment no. 144, ECEC user:

> The system for financial assistance is unwieldy and confusing for both parents and child care centres.

Comment no. 152, ECEC user:

> Accessing the ‘Child Care Rebate’ and ‘Child Care Benefit’ is excessively complex and the application process is mindboggling. Why is applying for these payments so difficult and confusing? Streamline the payments and make the application process simple.

Comment no. 127, ECEC user:

> I think the CCB and rebate are quite complex to understand at first – I wonder if they could be amalgamated into one payment (means tested) which is deducted from childcare fees.

The Henry Tax Review also pointed to the complexity of the current assistance arrangements:

> Current arrangements for child care assistance can be complex for parents, providers and administrators. The calculation of CCB is particularly complicated as the standard hourly rate can differ based on type of care, whether the care is part– time or full–time, the number and ages of children a family has in care and whether the care is work–related. While tailoring assistance to particular groups is important, it comes at the cost of additional complexity. This can make it difficult for parents and providers to interact with the system and may deter them from doing so.
>
> The existence of two child care payments and the way they interact can also add to complexity (Henry Tax Review 2009, p. 589).

The implication of this complexity is that many parents find it difficult to ascertain before they use care how much ECEC services will cost them, since families are not easily able to estimate the amount of a subsidy to which they are entitled. Families may base ECEC decisions around the types and quantum of childcare they access on gross fees (the advertised price of the provider) rather than net (post–subsidy) fees. Depending on how parents elect their subsidies to be paid, there may also be a long lag between fees paid by parents and subsidies paid by governments, leading parents to potentially underestimate the value of the assistance provided by government.

Compared with an arrangement where assistance is provided through a single funding instrument, current arrangements are expensive to administer both for service providers — which provide advice for families and usually represent the interface through which families claim their subsidises — and government — whose role is to assess entitlements, pay entitlements to families and to reconcile the amount families actually receive against the amount to which they are entitled once their realised income is known.

The way ECEC assistance interacts with other government payments, and the implications this has on the work decisions of families is also complex and is explored in more detail in chapter 6 and appendix E.

While the option of claiming CCB and CCR entitlements in the form of a fee reduction or a lump sum payment gives families a choice around when they receive assistance, this adds an additional layer of complexity to current funding arrangements. Further, the Commission has heard that some families who elect to receive their payment as a lump sum may not pay (or pay fully) their ECEC fees, yet still receive their full CCB and CCR entitlement. Families may intentionally set out to defraud the system by claiming CCB and CCR through one provider, not paying owed fees, then moving to another provider while still claiming CCB and CCR.

Simplifying subsidy arrangements and reducing scope for fraudulent behaviour in the sector should be an objective of a reformed ECEC system.

Variations in CCB subsidy rates improve the affordability of some care types more than others and add to complexity

The subsidy rates applicable under CCB vary with: type of service, the number of children in a family; total hours used in a week and whether use is at a 'standard' or 'non–standard' time of the day (appendix B).

These variations are enshrined in CCB and its underlying legislation. Full time LDC and FDC are, for example, subsidised at a lower rate than:

- part–time LDC where the rate varies by number of hours used, but is as high as 110 per cent of the standard hourly rate
- part–time FDC where the rate also varies by number of hours used, but is as high as 133 per cent of the standard hourly rate
- FDC used in non–standard hours where 133 per cent of the standard rate applies.

The policy rationale for these differentials in payment rates is not clear. The different rates of subsidisation adds complexity to the overall funding system and may create incentives for families to favour one type of care over another.

Subsidies for registered care do not improve affordability

Registered care represents another distinction in subsidisation rates. Under registered care, families receive a relatively low rate of subsidisation ($0.66 per hour) if care is provided by an individual registered with the Department of Human Services. Subsidies for registered care cannot be claimed in conjunction with subsidies for approved care.

Most registered carers cared for five children or less in 2012-13. That said, nearly 30 per cent of registered carers in 2012-13 cared for more than eleven children throughout the year. This suggests that many registered carers are operating in centre–based arrangements (including preschools) that are not 'approved' for CCB. Many of these will be services that do not meet operating requirements for CCB as they open for too few hours a day and/or too few days a week. Some of these services likely offer occasional care or before or after preschool care.

Approximately 40 000 families and about 47 000 children received government assistance under registered care in 2012-13. In 2010-11, total expenditure by government on registered care was $13 million. As of March 2012, there were slightly over 30 000 registered carers considered by the Department of Human Services to be active.

The requirements to claim registered care are onerous. Unlike approved CCB (where the subsidy may be paid in the form of a fee reduction) claimants using registered care require original receipts of their payments to a registered carer in order to receive the subsidy, and are required to lodge the claim either by mail, or in person at one of the Department of Human Services service centres.

The very low subsidy rate — \$0.66 per hour or \$33 per week — means that for many families eligible for registered care subsidies, it may not be worth going through this process.

The onerous procedures required to process applications for registered care subsidies also impose sizable administration costs on the responsible department (the Department of Human Services).

Further, the current subsidies paid for registered care do not have regard to the qualifications of the registered carer (beyond a working with children check) or the quality of the care being provided (as registered care is not within the scope of the NQF). In the Commission's view, this weakens the case that registered care should be subsidised, as it cannot be ensured that registered care delivers stimulating or educationally rich environments for children.

The Commission considers that the benefits of subsidising care provided by registered carers do not outweigh the costs.

Families who use carers that are currently registered and who satisfy the appropriate National Quality Framework requirements for centre- or home-based care may be eligible for government support at an increased rate under the Commission's recommended funding arrangements outlined in chapter 15.

RECOMMENDATION 11.1

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

JETCCFA improves affordability but distorts incentives

One of the objectives of JETCCFA is to 'reduce barriers for parents who are receiving certain income support payments to participate in activities that will enable them to make the transition to work' (DHS 2014f). Depending on individual circumstances, and subject to limits on hours, JETCCFA can be claimed while parents are looking for work, while they are studying or training, or in the initial 26 weeks after starting a new job. To be eligible for JETCCFA, parents must be in receipt of an eligible income support payment from the Australian Government, such as the Newstart Allowance or the Parenting Payment.

JETCCFA beneficiaries pay no more than \$0.50 an hour for ECEC services after the JETCCFA, CCB and CCR subsidies have been deducted. This represents a very high rate of subsidisation. Given that the majority of JETCCFA recipients have low incomes, this very high subsidy rate likely encourages eligible families to use ECEC services.

That said, the potential for large disparities between out-of-pocket costs for families eligible for JETCCFA and families that are not eligible for JETCCFA may create incentives for families to remain eligible for that program. To illustrate:

- A family with one child who is eligible for JETCCFA who uses approved childcare for 24 hours a week will be charged $180 per week (assuming an hourly price of $7.50). After the deduction of JETCCFA, this price reduces to $24 per week and after CCR is deducted, this price falls to $12 per week.
- A family with one child and an income of $40 000 who is not eligible for JETCCFA who uses approved childcare for 24 hours a week, will be charged $180 a week (assuming an hourly price of $7.50). After CCB and CCR is deducted, this results in a final out-of-pocket cost of $42 per week.

The Commission notes that there is very little information on the extent that JETCCFA is facilitating transitions to work for parents. This makes it difficult to assess whether JETCCFA is meeting its objectives. During this inquiry, the Commission has heard that some parents remain on JETCCFA for many years undertaking higher levels of education and training, and only move into employment once their children have entered school.

Data provided by the Department of Human Services has suggested that over half of the people on JETCCFA in June 2013 had been approved for the program at least twice (indicating that they were eligible up to 24 months) and about 7 per cent had been approved at least five times (indicating eligibility for up to 60 months).

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:

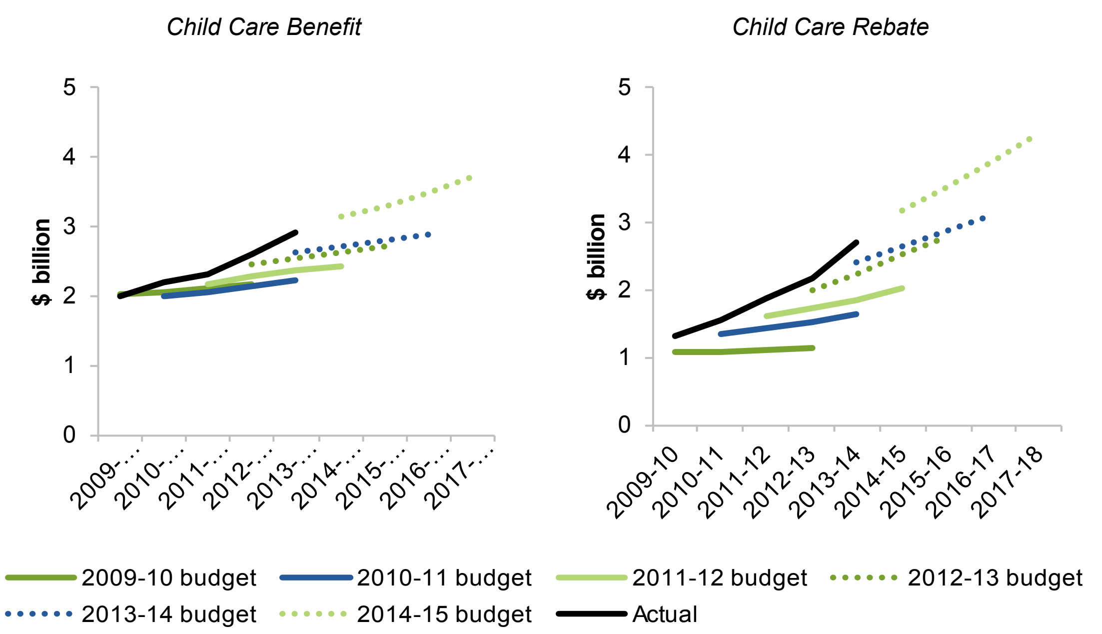
- the existing system is complex and some families have difficulty understanding their entitlements under the Child Care Benefit and the Child Care Rebate
- the design of these measures is resulting in a declining proportion of assistance to lower income families who are least able to afford ECEC services
- 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.

11.5 Sustainability for taxpayers

As taxpayers contribute more to the payment of ECEC fees than do families using services, the affordability of current arrangements for taxpayers is a critical consideration. Given the quantum of government support for ECEC services, there is a need to ensure that this spending is sustainable — that is, increasing at a sufficiently low rate to avoid accumulating outlays that put fiscal pressure on governments in the future. ECEC subsidies paid to families and assistance paid to service providers represent a large government outlay.

For 2014-15, the Australian and state and territory governments are expected to spend around $8 billion on ECEC. Most of this expenditure is from the Australian Government in the form of CCB, CCR and JETCCFA, which combined represent an expected contribution of around $6.4 billon. Since 2009-10, actual Australian Government expenditure on childcare assistance on both CCB and CCR has consistently exceeded Department of Finance budgetary estimates – in some years by over 30 per cent (figure 11.21). Given the demand driven nature of these assistance programs, expenditure can be difficult to predict and government tends to underestimate their cost.

Figure 11.21 **Budgeted and actual cost of childcare assistance**[a]



[a] For 2013-14, ‘actual’ is the estimates published in the 2014-15 Portfolio Budget Statement

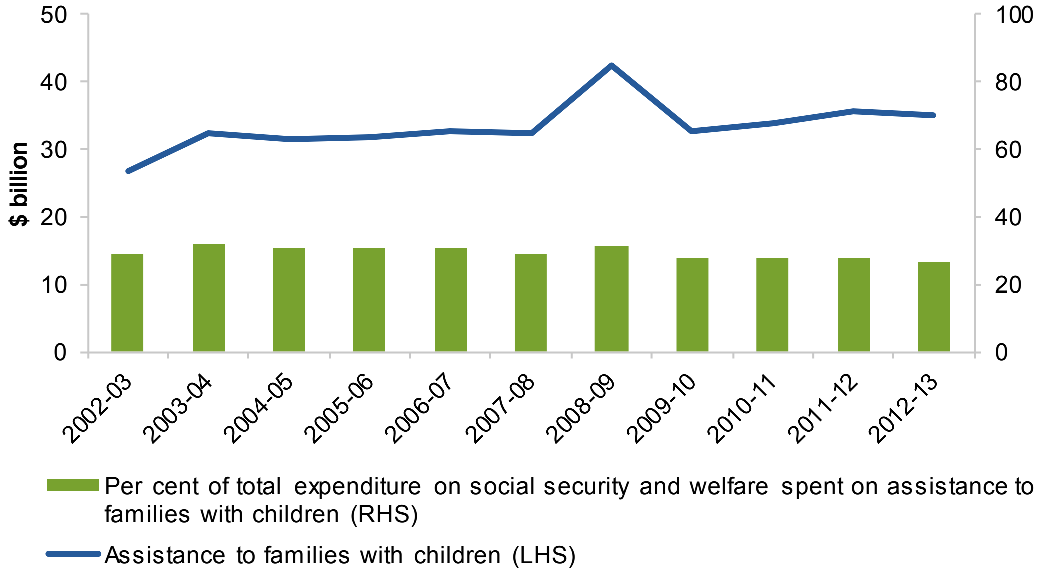
Source: Portfolio Budget Statements available from Department of Education (2014k).

ECEC assistance is only one form of transfer paid to families from governments. Families who meet eligibility requirements receive additional support through the Family Tax Benefits stream to assist with the cost of raising children. The combined value of Family

Tax Benefits Parts A and B was $19 billion in 2012-13 (Parliamentary Budget Office 2013). An additional $1.4 billion was paid to families in the form of Paid Parental Leave in 2012-13 (FAHCSIA 2014) with government expenditure on this program to increase significantly if currently proposed policy changes are implemented.

The Parliamentary Budget Office estimated that total assistance to families with children was $35.1 billion in 2012-13 which includes Family Tax Benefits, Parenting Payments and childcare assistance programs, representing over one–quarter of all expenditure on social security and welfare and expenditure continues to grow in real terms (figure 11.22). Overall, Australia spends slightly more on assistance to families than the OECD average (figure 11.23).

Figure 11.22 **Australian Government assistance to families with children**[a]
2012-13 dollars

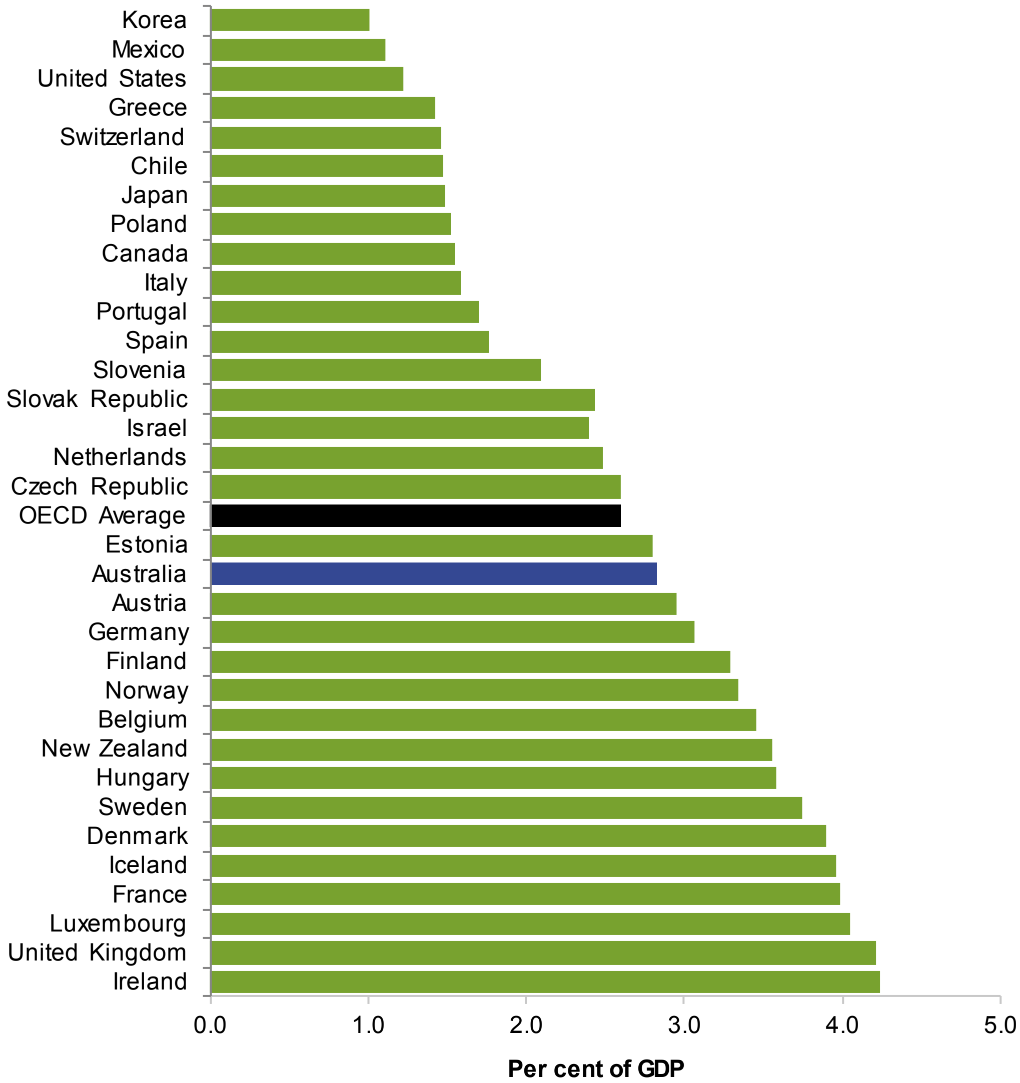


[a] The large spike in expenditure in 2008-09 is attributable to increased fiscal expenditure as a result of the Australian Government's response to the global financial crisis. Part of the response included $20.5 billion of one off expenditure on social security and welfare, although a breakdown on how much was spent directly on families is not available.

Source: Adapted from Parliamentary Budget Office (2013), appendix D.

Figure 11.23 **Public expenditure on families, 2009**

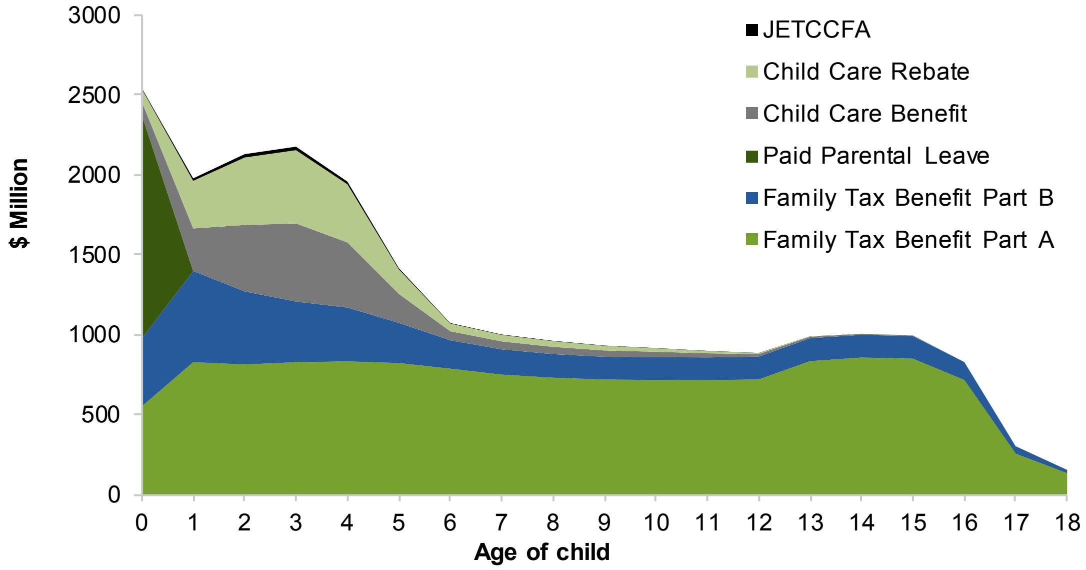
Includes tax breaks towards families, services and cash transfers



Source: OECD (2012b).

While most of this expenditure is directed at families with younger children through Paid Parental Leave, higher rates of Family Tax Benefit, CCB and CCR, many families still receive assistance while their children are in their late teens through the Family Tax Benefit stream (figure 11.24).

Figure 11.24 **Government expenditure**[a,b]



[a] The FTBA expenditure has been distributed per child within a family depending on the rate of FTB paid due to that child. The Supplements expenditure amount has been distributed evenly between children of a family. [b] Under current policy, Paid Parental Leave is payable for 18 weeks.

Source: Department of Human Services administrative data, Australian Government (2014b).

It has already been established in this chapter that out-of-pocket ECEC costs are growing faster than inflation, and that major policy interventions have only had very short term impacts on the growth of out-of-pocket childcare costs.

In the absence of further policy interventions, the Commission expects that ECEC fees and consequently, overall costs to taxpayers will continue to rise. Many of the regulatory changes for ECEC worker qualifications and ratios which are currently being implemented will impose additional costs on providers, which can be expected (at least in part) to be passed onto ECEC users in the form of higher fees. The ECEC sector also has an equal remuneration case before the Fair Work Commission (lodged on 15 July 2013) on which a judgment has not yet been passed. Given that wage and salary costs are the most substantial cost component of operating an ECEC services, significant changes to the pay rates of ECEC workers will have cost implications for the sector, and, subsequently, price implications for ECEC users and budgetary outlays for governments (the cost structures of ECEC services are explored in chapter 9 and appendix H).

Governments always need to have regard to which programs deliver the greatest net benefit to the community. The current programs where governments have the most control over their spending — the supply side subsidies funded through budget appropriation — are generally aimed to deliver services that are targeted at particular groups or localities (chapter 4).

The Australia Government also has some control over CCB expenditures through means testing, a capped hourly payment rate, capped weekly hours and caps on the number of approved in–home care and occasional care places. CCB expenditure has been growing more slowly than CCR expenditure.

In contrast, given its near universal eligibility, it is much more difficult for the Australian Government to control CCR expenditure. Expenditure on the CCR is particularly sensitive to fee increases because of its universal nature and because relatively few childcare users currently reach the $7500 annual cap. Given that CCR is the least targeted of all the programs that aim to make ECEC more affordable for users, and given that CCR will soon outstrip CCB in terms of dollars spent by government, it is here that the Government has the greatest scope to ensure that payments are sustainable in the future.

The Commission considers that there is considerable scope to improve the funding of Australia's ECEC system, which makes ECEC assistance more targeted for families and more affordable and sustainable for taxpayers more generally. The Commission's recommended funding system is outlined in detail in chapter 15.

12 Preschool

Key points

- The delivery of preschool is complex — services are delivered in a variety of settings by a range of providers. Of the more than 8600 preschools in Australia, half are dedicated preschools provided by governments or non-government groups, and half are long day care centres with preschool programs.
- States and territories are primarily responsible for preschool funding. Collectively, they spent over $1.1 billion on preschool services in 2012-13, including funding provided by the Australian Government through National Partnership Agreements for access to preschool.
- The Australian Government also provides funding to eligible preschool programs in LDC and some preschool settings through fee subsidies (the CCB and CCR).
- Current preschool funding arrangements and variations in the delivery methods of preschool between jurisdictions have resulted in disparities in Australian Government preschool funding between the states and territories.
  – The Australian Government is contributing significantly more per child to preschool funding in jurisdictions that have a large proportion of children attending preschool programs in LDC centres (Victoria, New South Wales and Queensland) than in states where the majority of children attend government preschools (South Australia, Western Australia, Tasmania, ACT and Northern Territory).
  – For example, in 2012-13 Queensland received $4000 per child in Australian Government funding compared with $1600 per child in Western Australia.
- Hourly fees charged (before CCB and CCR fee subsidies) are often significantly higher in LDC preschool programs than government preschools.
- Access to preschool is beneficial to all children in the year before school, and particularly to disadvantaged children, to promote a successful transition to formal schooling and to enable the early identification of any additional learning needs.
- The majority of Australian children, aged four to five years, attend preschool. Queensland, Western Australia and Tasmania have met the agreed target of access to preschool for at least 95 per cent of their children; Victoria, South Australia, the ACT and the Northern Territory are close to meeting the target while New South Wales has fallen well short.
- It is not clear that the current 15 hours per week target is the optimal amount of preschool hours from a development perspective.
- To increase the preschool attendance rates of disadvantaged children, receipt of a portion of the Family Tax Benefit part A to the parent/carer should be linked to minimal attendance at preschool, where a preschool is available.
- Dedicated preschool services in the absence of OSHC are not conducive to workforce participation. The continuity of care provision throughout the day is likely to be at least part of the reason why parents have turned to preschool programs in LDC centres.

‘Preschool’ in Australia is the generic term used (by some states and territories and by the Commission in this inquiry report — others use the term kindergarten) to describe the structured early learning program provided to children by a degree qualified early childhood teacher in the year before formal schooling commences. In some states and territories, preschool is provided to children for more than one year prior to the start of schooling.

This chapter discusses the provision of preschool services across Australia, attendance patterns and issues raised by parents and providers in relation to preschools. The various models for funding of preschool programs adopted by states and territories is outlined, with some conclusions drawn on the implications of the alternative funding approaches that have been adopted.

12.1 Current methods of preschool delivery

The current system for delivering preschool is complex — services are delivered in a variety of settings by a range of providers and each state and territory has a different service delivery profile.

Providers of preschool services

In Australia there are three main service delivery models for preschool services — government, non-government and long day care (LDC) programs.

- Government managed preschools include state and local government managed services which may operate within a variety of settings depending on the jurisdiction, funding models and licensing regulations. Many are dedicated facilities funded similarly to schools and are often physically located on or adjacent to school grounds. Typically, government preschools provide sessional programs for 10 to 20 hours per week over the (40 week) school year.
- Non-government managed preschools may be subsidised by state or local governments and include:
  - community managed services (not-for-profit services provided or managed by parents, charity organisations, churches or co-operatives) which generally provide sessional half and full day preschool programs
  - private-for-profit services and employer sponsored services (managed by a company or private individual) which provide a mix of programs (depending on the provider) such as sessional preschool programs and preschool programs combined with LDC services.
  - Independent and catholic schools which operate preschool programs during the school year.

- LDC centres with preschool programs typically operate 5 days per week for at least 48 weeks per year.

In 2013 there were 8654 preschool services in Australia. Half of these were dedicated preschools (government preschools accounted for just over 21 per cent of all preschools, around 28 per cent were non-government preschools) and half were LDC centres with a preschool program.

The dominance of each of these different forms of preschool varies markedly between the states and territories. New South Wales and Queensland have predominantly preschool programs in LDC centres whereas in Western Australia, Tasmania, South Australia and the Northern Territory, the government is the largest direct provider of preschool services, usually in dedicated facilities. In Victoria, and the ACT there is a fairly even split between the number of dedicated preschools and preschool services in LDC centres. However, the majority of dedicated preschools are community owned in Victoria and government owned in the ACT (table 12.1 and figure 12.1).

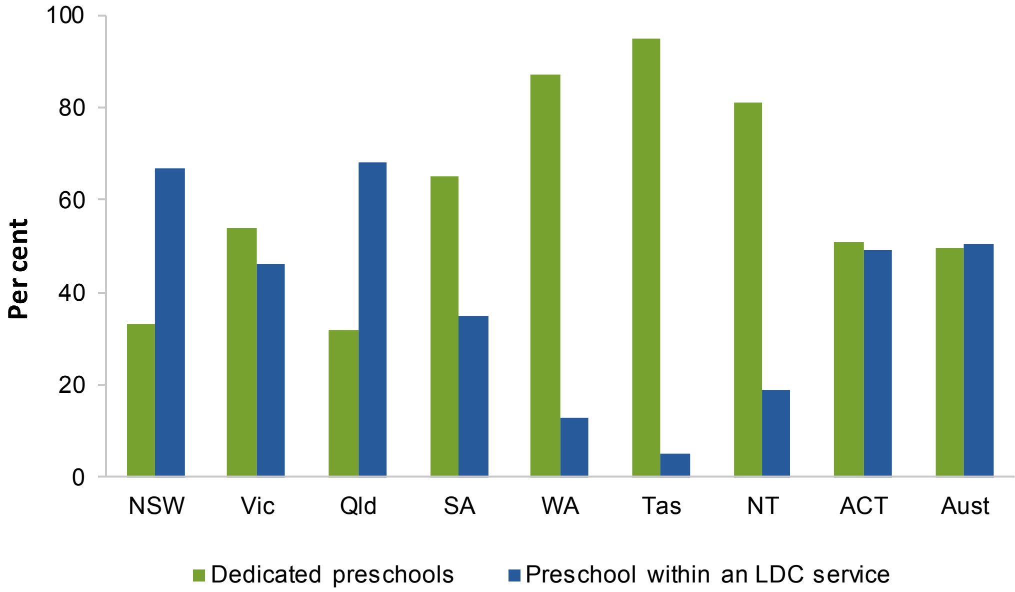
Table 12.1 **Preschools establishments in Australia by type of provider**
2013

	NSW	*Vic*	*Qld*	*SA*	*WA*	*Tas*	*NT*	*ACT*	*Aust*
Government	156	227	120	343	641	158	134	78	1 857
Non-government									
Community	677	838	421	3	-	-	-	-	1 939
Private for profit	3	9	5	-	-	-	-	-	17
Independent schools	18	87	15	18	114	27	5	5	289
Catholic schools	5	-	4	8	129	31	4	-	181
Total non-government	*703*	*934*	*445*	*29*	*243*	*58*	*9*	*5*	*2 426*
Total dedicated preschools	**859**	**1 161**	**565**	**372**	**884**	**216**	**143**	**83**	**4 283**
LDC with preschool	1 728	983	1 203	203	130	12	33	79	4 371
Total number of preschools	**2 587**	**2 144**	**1 768**	**575**	**1 014**	**228**	**176**	**162**	**8 654**

Source: ABS (2014j).

Figure 12.1 **Proportion of dedicated and LDC based preschools by jurisdiction**

2013



Source: ABS (2014j).

Participation in preschool services

Most children commence preschool in the year in which they turn 4 years old (table 12.2). The first year of formal schooling, referred to by various titles across jurisdictions, commences in the year the child turns 5 years old. In some jurisdictions 'Kindergarten' refers to the first year of formal schooling while in others, 'Kindergarten' refers to the year immediately prior to formal schooling (table 12.2).

Ideally, preschool starting ages should be standardised across Australia. Until they are standardised, there is considerable variation between jurisdictions around the 'cut-off date' as to when children turning four or five years of age can commence preschool and school.

This has implications for the age of children at the start of preschool and school. At the start of preschool in New South Wales, half the children are likely to still be three years old and half are likely to have already turned four years. In contrast, children in Tasmania and the Northern Territory are required to have already turned four years old before starting preschool in the year prior to school. The ACT and other states all fall in between these extremes. New South Wales has the highest proportion of three year olds in their total preschool enrolments (35 per cent); Tasmania has the highest proportion (46 per cent) of five year olds in their total preschool enrolments (ROGS 2014).

Table 12.2 **Preschool year and first year of formal schooling and age of commencement by state and territory[a]**

	Preschool year and age in the year of commencement	*First year of formal schooling and age in the year of commencement*
NSW	Preschool (age 4 by July 31)	Kindergarten (age 5 by 31 July)
Vic	Kindergarten (age 4 by 30 April)	Preparatory (age 5 by 30 April)
Qld	Kindergarten (age 4 by 30 June)	Preparatory (age 5 by 30 June)
SA	Kindergarten (age 4 by 1 May)	Reception (age 5 by 1 May)
WA	Kindergarten (age 4 by 30 June)	Pre-primary (age 5 by 30 June)
Tas	Kindergarten (age 4 by 1 January)	Preparatory (age 5 by 1 January)
NT	Preschool (entry after 4th birthday)	Transition (age 5 by 30 June)
ACT	Preschool (age 4 by 30 April)	Kindergarten (age 5 by 30 April)

a Most jurisdictions provide for early entry to preschool, usually at age 3, for Indigenous children and children considered to be at risk or developmentally vulnerable.

Source: Dowling and O'Malley (2009); SCRGSP (2013).

Across Australia, preschool enrolment is optional. However, the vast majority of children aged four to five years attend preschool. In 2012, just prior to the introduction of universal access to preschool, 89 per cent of Australian children attended preschool (not necessarily for 15 hours) in the year before school (Department of Education, sub. 147) and in 2013 most jurisdictions had over 90 per cent of preschool age children attending preschool in the year before school. Western Australia and Tasmania (the two states with preschools most integrated into schools), have the highest proportion (97 per cent) of preschool age children enrolled in a 15 hour per week preschool program with a qualified teacher (Deloitte Access Economics Forthcoming).

Preschool enrolments in every state and territory have increased in recent years with government commitments to universal access for 600 hours per year with a qualified teacher (see section 12.3 for a discussion of universal access). Nevertheless, it is still the case that not all children have access to a preschool program in the year prior to starting school. New South Wales (59 per cent) has, by far amongst the states and territories, the lowest proportion of preschool age children enrolled in a 15 hour per week preschool program with a qualified teacher (figure 12.2).

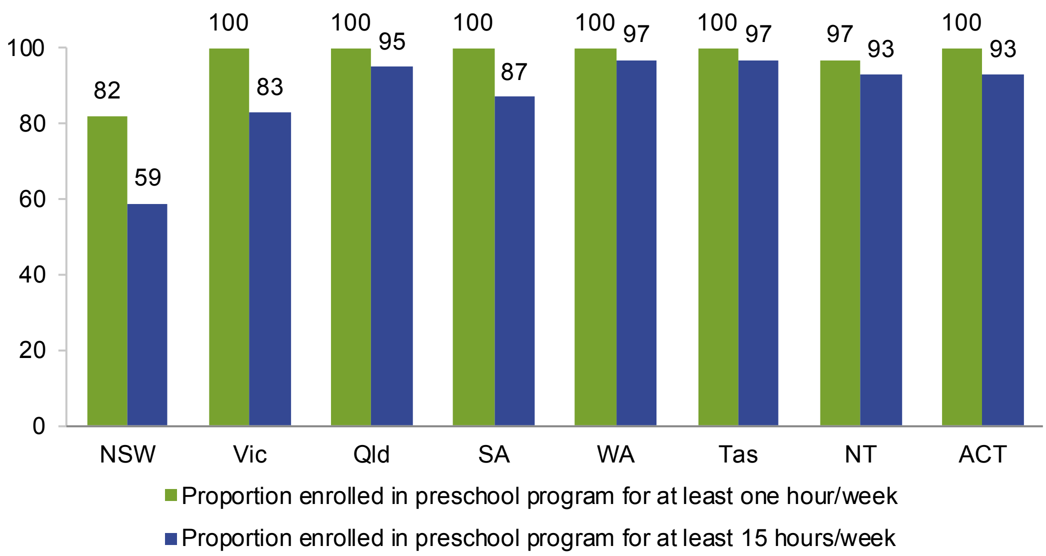
Attendance data suggests that children in rural and remote areas have the same participation rates in preschool as their urban counterparts (SCRGSP 2014). There are various strategies for delivering preschool services in rural and remote areas. New South Wales, for example, fund and regulate 45 Mobile Preschools, although several are jointly funded by the Australian Government's Budget Based Funded Programme (National Association of Mobile Services, sub 902). The Queensland Government provides an eKindy program, although the Isolated Children's Parents Association (sub. DR549) argues that it is not reaching all children.

The majority of preschool children attend a dedicated preschool service (55 per cent) with a large proportion also attending a LDC program (42 per cent). Only a small proportion of children (particularly in the ACT and Northern Territory) are enrolled in both types of programs (table 12.3 and figure 12. 3).

Dedicated preschools and preschool programs in LDC centres are largely substitutes. Parents who do not participate in the workforce and parents with flexible work or childcare arrangements (such as nannies, family day care and grandparents who can drop off and pick up children from preschool programs during the day and care for them during preschool vacation periods) have a tendency to choose a dedicated preschool. Parents with less flexibility in work arrangements are more likely to choose a LDC setting for preschool services.

Figure 12.2 **Enrolments in preschool program by jurisdiction**

% of children in year prior to school, 2013



Source: Deloitte Access Economics (Forthcoming).

Table 12.3 **Children enrolled in preschool education, by provider type**

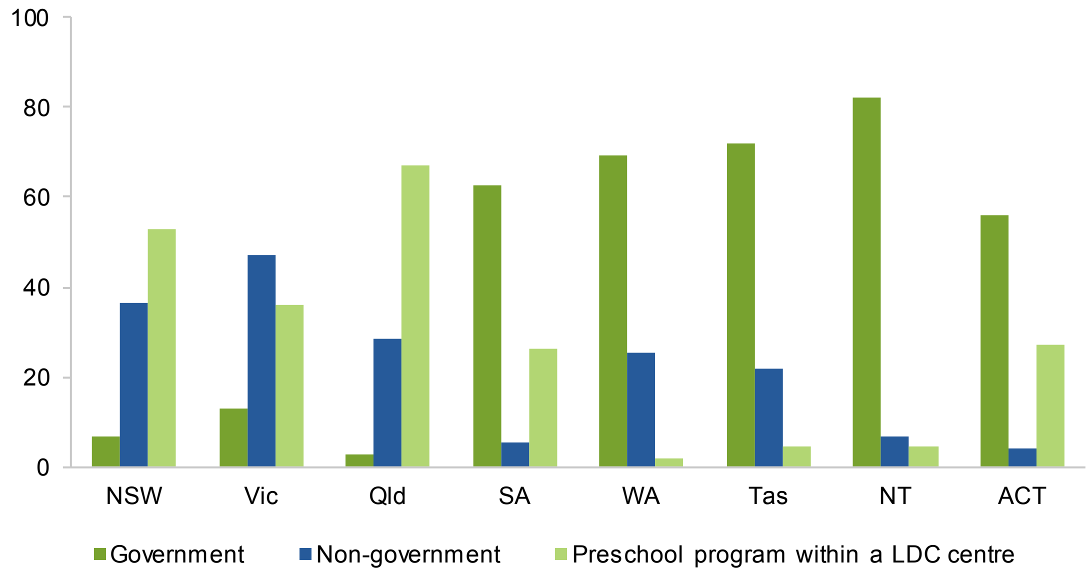
2013

	Number of children	*% of children enrolled*
Dedicated preschools	158 523	55
Preschool program in LDC	120 092	42
Children attending more than one type of preschool	9 434	3
Total children enrolled in a preschool program	**288 052**	**100**

Source: ABS (2014j).

Figure 12.3 **Children enrolled in preschool by provider type[a]**

Per cent of enrolments by state, 2013



[a] Excludes children at multiple preschools.

Source: ABS (2014j).

12.2 Funding for preschool services

The responsibility for funding preschool services has shifted between the Australian Government and state and territory governments over time. Prior to the 1970s, state and territory governments were primarily responsible for providing and funding preschool services. In the 1970s, in recognition of the educational benefits of preschool and that high preschool fees were excluding many children, the Australian Government began to fund preschool. By the mid 1970s, the Australian Government was providing the lion's share of preschool funding.

In the 1980s, increased demand for childcare places to support women's workforce participation, resulted in the Australian Government shifting its ECEC funding focus towards LDC centres which accommodated typical work hours, rather than preschools offering part-time programs. In 1985 Australian Government preschool funding was rolled into the Financial Assistance Grants to States thereby removing direct funding of preschools by the Australian Government (Elliot 2006).

It was not until 2008 when a national commitment to universal access to preschool was agreed (box 12.1) that the Australian Government again began to provide a significant contribution to the direct government funding of preschools.

Box 12.1 National Partnership Agreements for preschool access

In February 2009, under the auspices of the Council of Australian Governments, the ***National Partnership Agreement (NPA) on Early Childhood Education*** came into effect. This agreement was implemented from beginning of 2009 until June 2013 to pursue the outputs of:

- children having universal access to a preschool program for 15 hours per week, 40 weeks a year delivered by a four year degree qualified early childhood teacher
- universal access to a preschool program being delivered across a range of settings at a cost which is not a barrier to access
- disadvantaged children having universal access to a preschool program
- Indigenous children — including those in remote Indigenous communities — being enrolled in and attending a preschool program.

The NPA on Early Childhood Education expired in June 2013, and was superseded by the ***NPA on Universal Access to Early Childhood Education***. The new agreement aimed to maintain funding for universal access to the end of 2014, with a focus on improving participation by vulnerable and disadvantaged children. The new agreement allowed preschool providers more flexibility in delivery of programs by expressing the hours requirement as 600 hours in the year before full-time school. It also brought teacher qualification requirements into line with the NQF.

The Australian Government allocated $955 million for states and territories under the NPA on Early Childhood Education and a further $656 million under the NPA on Universal Access to Early Childhood Education. In September 2014, the Australian Government announced that it would commit a further $406 million to ensure continued access to 15 hours of preschool per week in 2015.

Australian Government payments to states and territories from 2009 to 2012 (inclusive) under the first NPA were set at a level designed to assist those jurisdictions further behind in delivery of preschool services to catch up. Under the second NPA, payments were calculated based on the proportion of the 4 year old population in each state or territory.

Under each of these NPAs, the Australian Government agreed to make payments to the states and territories if satisfied that they had achieved the agreed milestones and performance benchmarks. Agreed performance indicators under the NPA on Universal Access to Early Childhood Education related to teacher qualifications, access to quality programs, availability of programs and attendance in preschool.

Within the requirements under the Partnership, state and territory governments have considerable discretion about the direction of funding and the models of preschool they support in their jurisdiction. This has resulted in some jurisdictions — Queensland, Victoria and South Australia — providing funding under the NPA to preschool programs undertaken in LDC settings, while other jurisdictions — New South Wales, Western Australia, Tasmania, the Northern Territory and the Australian Capital Territory — do not.

Source: COAG (2008, 2013).

Under the National Partnership Agreement (NPA) on Universal Access to Early Childhood Education, endorsed by the Council of Australian Governments, the Australian Government and the state and territory governments agreed to provide (by 2013) 15 hours of preschool a week with a qualified early childhood teacher to all children in the year before they commence full-time schooling. Despite this agreement, which level of government has ultimate responsibility for preschool funding, in all venues, remains contentious.

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.

Summary of the funding sources for preschool

Preschool services in Australia are funded from four key sources — Australian Government funding through the NPA on Universal Access to Early Childhood Education, fee subsidies provided by the Australian Government (CCB and CCR), state and territory government funding and parent fees for preschool services). In 2012-13 over $1.7 billion was provided in funding from these sources (table 12.4). In addition, in some jurisdictions local governments provide a contribution to preschool funding through the direct delivery of programs, provision of facilities or peppercorn rent (chapter 4).

Table 12.4 **Estimated recurrent preschool funding**[a]

$'000, 2012-13

	NPA on Universal Access[a]	*State/territory recurrent funding*[b]	*Fee subsidies (CCB and CCR)*[c]	*Parent fees*[c]	***Total***
New South Wales	137 898	61 991	112 200	161 100	**473 189**
Victoria	109 534	131 641	80 800	118 800	**440 775**
Queensland	97 597	1 561	108 300	95 500	**302 958**
South Australia	30 927	105 755	8 700	8 100	**153 482**
Western Australia	47 602	211 066	3 800	19 300	**281 768**
Tasmania	10 415	29 334	900	3 100	**43 749**
Northern Territory	5 947	32 225	400	300	**38 872**
ACT	7 080	20 761	4 200	6 800	**38 841**
Total	**447 000**	**594 334**	**319 300**	**413 000**	**1 773 634**

[a] NPA estimates are sourced from SCRGSP (2014) and are similar to estimates from the Department of Education. However, funding allocated under the NPA may not have been fully expended during the financial year. [b] State and territory funding estimates are sourced from SCRGSP (2014), calculated as total recurrent expenditure less Australian Government funding under the NPA on Universal Access. [c] Fee subsidies and parent fees are sourced from Deloitte Access Economics (Forthcoming).

The proportion of funding from each funding source varies by jurisdiction, according to each state and territory's preschool service delivery profile.

- In South Australia, Western Australia, Tasmania, the ACT and the Northern Territory (where preschools are primarily owned and operated by state and territory governments) preschool funding is sourced primarily from state and territory governments and Australian Government universal access funding.
- In Victoria, New South Wales and Queensland (where the majority of preschool enrolments are in LDC centres and non-government preschools) funding for preschools is sourced more evenly across the four sources.

Figure 12.4 shows that in the Northern Territory, Western Australia, Tasmania, South Australia and the ACT state and territory governments are providing significantly higher rates of funding per child to preschools than in Victoria, New South Wales and Queensland. For example, in 2012-13 the Northern Territory Government provided funding of $10 000 per child attending preschool and contributed over 80 per cent of total NT preschool funding) compared with the New South Wales and Queensland governments which provided funding of less than $1000 per child in preschool.

It is also evident from figure 12.4 that current preschool funding arrangements and variations in the delivery methods of preschool between jurisdictions have resulted in disparities in Australian Government preschool funding between the states and territories. The Australian Government is contributing significantly more per child to preschool funding in jurisdictions that have a large proportion of children attending preschool programs in LDC centres (Victoria, New South Wales and Queensland) than in states where the majority of children attend government preschools (South Australia, Western Australia, Tasmania, ACT and Northern Territory). For example:

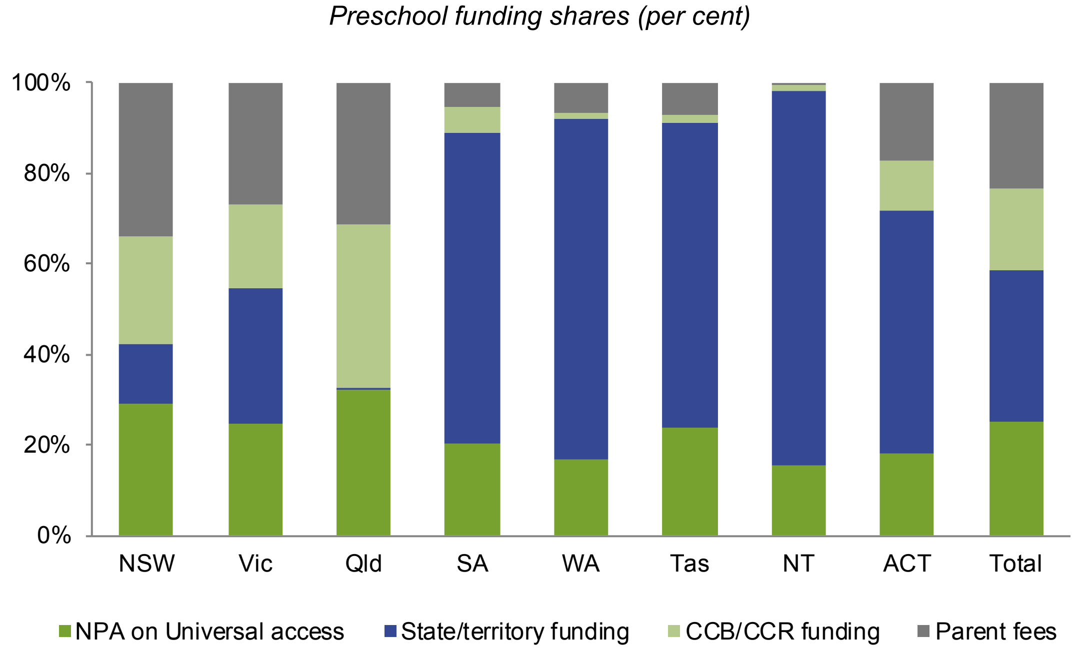
- in Queensland (in 2012-13) the Australian Government provided funding of about $4000 per child in preschool ($1900 through the NPA on universal access and $2100 through fee subsidies for parents) or 68 per cent of total preschool funding.
- in Western Australia (in 2012-13) the Australian Government provided funding of about $1600 per child attending preschool ($1480 through the NPA on universal access and $120 through fee subsidies for parents) or 18 per cent of total preschool funding (figure 12.4).

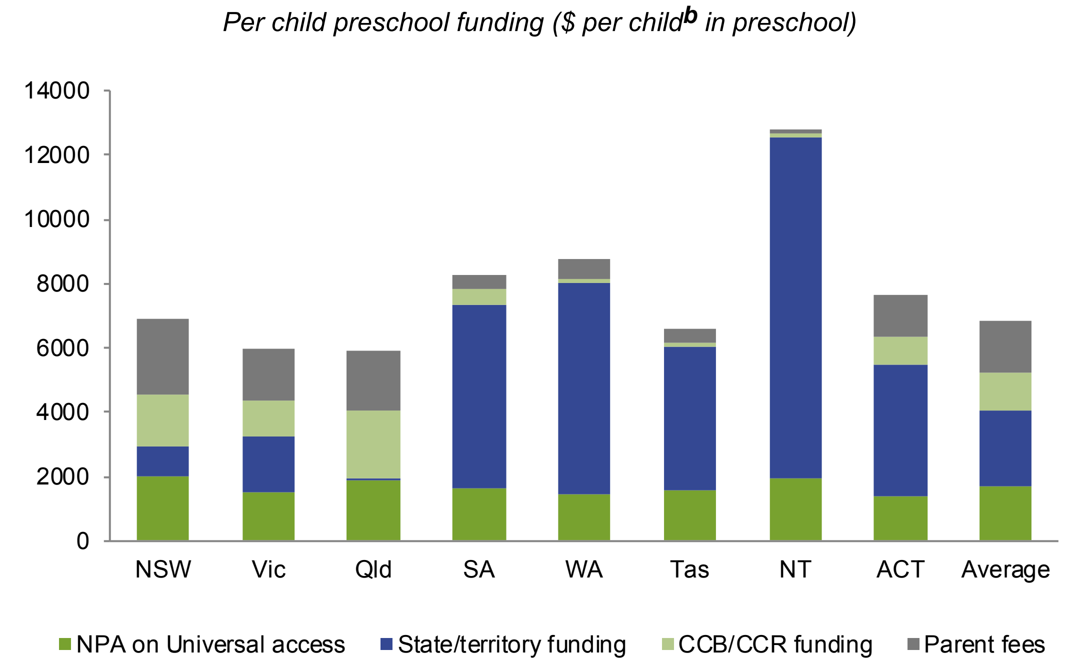
Furthermore, regardless of the Australian Government's funding contribution, the parent contribution (through fees) is highest in those states and territories where the state or territory contributes the least to preschool.

Given the strong evidence that school readiness is enhanced with participation in preschool or a preschool program in a LDC the year before a child starts school (chapter 5), the Commission considers that ongoing funding to ensure universal access to a preschool service at low cost (or ideally, fee free) should be a high priority for all governments. However, the major differences in government contributions between the states and territories needs to be resolved. The recommended long term preschool funding model and transitional arrangements are discussed in chapters 15.

Figure 12.4 **Preschool funding sources[a]**

2012-13





a NPA estimates are sourced from SCRGSP (2014) and are similar to estimates from the Department of Education. However, funding allocated under the National Partnership Agreement may not have been fully expended during the financial year. State/territory funding estimates are sourced from SCRGSP (2014), calculated as total recurrent expenditure less Australian Government funding under the NPA on Universal Access. Fee subsidies and parent fees are sourced from Deloitte Access Economics (Forthcoming). **b** Number of children aged 4 and 5 years attending a preschool program sourced from SCRGSP (2014).

Funding mechanisms in the states and territories

The Commission's Report on Government Services 2014 (ROGS) estimated that in 2012-13 state and territory governments spent $1041 million on preschool services in Australia (not including funding for fee subsidies to parents, discussed later), of which $447 million or 43 per cent was funded by the Australian Government under the National Partnership Agreement on Universal Access to Early Childhood Education (chapter 4).

Different funding arrangements apply in each state and territory, depending on how preschool services are delivered. In Victoria the majority of preschool expenditure is through the kindergarten per capita grant (table 12.5). ECEC providers in Victoria can apply to receive a grant for each eligible child who is enrolled and attending a funded kindergarten program in the year before school. The grant rate may vary depending on the service setting and where the service is located. Other types of preschool expenditure in Victoria include Kindergarten Cluster Management (a contribution to the costs of management and the coordination of services across a cluster) and inclusion support (Victorian Department of Education and Early Childhood Development 2014).

Similarly, in Queensland preschool funding is distributed to providers of approved kindergarten programs through the Queensland Kindergarten Funding Scheme to offset the costs of implementing and operating a kindergarten program (Queensland Department of Education, Training and Employment, sub. 405). The Queensland Government also provides extra assistance for children in remote areas or with additional needs, through a range of programs such as a Specialised Equipment and Resource program, Disability Support Funding Program (jointly funded by the Queensland and Australian Governments), Pre-Kindergarten Grants Program (to increase the capacity of services to address challenges to kindergarten access and participation of Indigenous and CALD families) and eKindy (Queensland Department of Education, Training and Employment, sub. 405).

In New South Wales, the state government provides grants to over 750 community based preschools (including preschools operated by local governments). Of the $200 million preschool expenditure in 2012-13, the majority was directed to community preschools and associated projects (such as programs to provide support for children with disabilities) and the remainder was allocated to the 100 government preschools operating within public schools. From 2014, under a new preschool funding model, grants of $150 million will be available to community preschools (information provided by the NSW Government). The New South Wales Government also funds and regulates 45 mobile preschools, although several are jointly funded under the Budget Based Funded Programme (National Association of Mobile Services, sub. 902). The New South Wales preschool funding model targets funding through a base (with rates determined by the level of need in the local government area where the preschool is located) and loadings to support Aboriginal children, those from low income households and children with English language needs. The New South Wales Government also provides extra funding to services in remote areas, in recognition of additional operating costs (NSW Government, sub. 435).

In contrast to these states which predominantly distribute funding to private and community preschool providers, in Western Australia, South Australia, Tasmania the Northern Territory and the ACT, preschool expenditure primarily relates to the funding of government operated preschools.

- In Western Australia, kindergarten is integrated with school provision and like all other years of schooling it is free of compulsory charges in public schools. The Western Australian Government also provides 75 per cent of the cost of providing kindergarten services in non-government schools (sub. 416).
- In 2012-13, 80 per cent of preschool expenditure in South Australia was for ongoing staff costs (table 12.5). The South Australian Government commented:

  > Twelve hours of preschool education has been a universal program funded by the South Australian Government which has increased to 15 hours per week in partnership with the Australian Government through the National Partnership on Universal Access to Early Childhood Education. Through our preschools, DECD [Department for Education and Child Development] has a provided a range of programs and services for remote, disadvantaged, Aboriginal and Torres Strait Islander children, Culturally and Linguistically Diverse (CALD) children and children with a disability to ensure their access and participation in preschool education. (sub. DR908, p. 21)

- In Tasmania, the Department of Premier and Cabinet stated, the:

  > State bears the full costs for the statewide provision of kindergarten infrastructure, staffing and programs (including delivery of the 10 hours). Under the NP on Universal Access Commonwealth funding currently enables the delivery of five additional hours on top of the 10 hours already funded by the State. Other than this no Commonwealth funding is paid in respect of the kindergarten year in Tasmania. … (Department of Premier and Cabinet Tasmania, sub. 390, p. 8)

- Nearly half of the $38 million expenditure on preschools in the Northern Territory in 2012-13 was directed to public schools to provide preschool services. Preschool expenditure in the Northern Territory also includes funding for multiple programs including mobile preschools, National Partnerships, Indigenous Education Agreements and child development programs (table 12.5).
- In the ACT, the majority of preschool expenditure is for the ongoing cost of publicly provided preschools and capital works in new areas (table 12.5).

Table 12.5 **State and territory expenditure on preschool[a]**
2012-13

Program	*$'000*
Victoria	
Kindergarten Per Capita Grant & Kindergarten Fee Subsidy	211 800
Inclusion Support[b]	19 600
Kindergarten Cluster Management	7 000
Other recurrent expenditure	2 900
Capital expenditure[c]	44 000
Total	**285 200**
South Australia	
Direct staff cost (preschool staff and support staff for children with additional needs)	111 952
Capital costs (projects addressing capacity, safety and quality of existing facilities)	11 347
Operating costs (including ICT and professional development programs for staff)	6 517
Support services (early intervention and children with disabilities and additional needs)	10 400
Total	**140 217**
Northern Territory	
Funding to Schools for Preschool Education	17 938
NPA Universal Access to Early Childhood Education	5 926
Other NPAs	2 442
Infrastructure costs associated with preschools	2 151
Mobile Preschools	1 413
Support programs	1 371
Indigenous Education Agreements	964
Children Services unit	942
Access for Immigration Detainee Children	162
Community Development Employment Projects	159
Early Childhood Programs	112
Quality Education & Care NT Policy	56
Principals as Literacy Leaders	8
Corporate Expenditure	1 681
Assets and Depreciation	2 236
Information Technology - including collection of student data	612
Total	**38 173**
ACT	
Publicly Provided Preschools	26 086
Other Services - Early Intervention Programs	1 754
New Facility (Franklin Early Childhood School) which includes maternal and child health clinics, a LDC centre, preschool and school for kindergarten to grade 2 students.	17 726
Universal Access to Preschool – Stage 1 Expansion Works	3 017
Total	**48 583**

[a] New South Wales, Queensland, Western Australia and Tasmania were unable to provide information on preschool expenditure at a disaggregated level. NPA: National Partnership Agreement. [b] Includes kindergarten, inclusion support for Koorie children and children with disabilities or additional needs. [c] Includes early childhood capital grants and kindergarten information system.

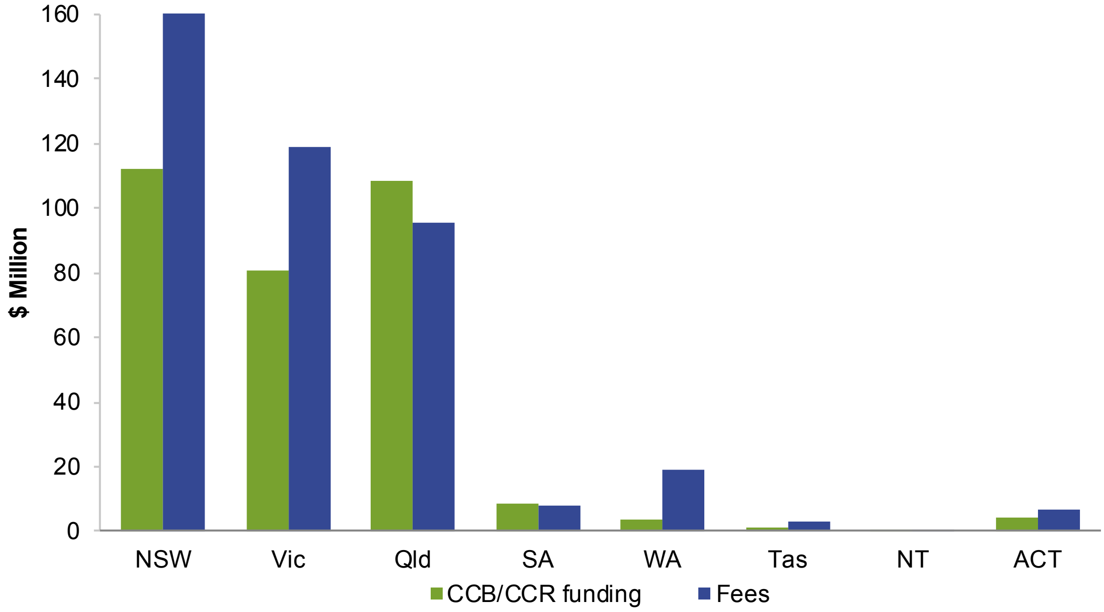
Source: Victoria, South Australia, ACT and Northern Territory Governments.

Preschool funding through parent fees and CCB/CCR subsidies

Generally, in non-government preschools and preschool programs in LDC services, fees are set by the individual service and charged to parents (the affordability of preschool is discussed later in this chapter). However, fees for preschool services for children who attend government preschools are typically either very low, relative to LDC services, or no fees are charged (although some government preschools may request a voluntary parent contribution).

Deloitte Access Economics (forthcoming) estimated that in 2012-13 preschool services collected over $400 million in revenue from fees. Over 90 per cent of this revenue was collected by preschools in Victoria, New South Wales and Queensland where the majority of preschool enrolments are in LDC centres (figure 12.5).

Figure 12.5 **Preschool parent fees and CCB/CCR fee subsidies**
2012-13



Source: Deloitte Access Economics (Forthcoming).

The Australian Government provides funding to eligible preschool programs in LDC settings through fee subsidies to parents (CCB and CCR). Deloitte Access Economics (forthcoming) estimated that in 2012-13 over $300 million was provided in CCB and CCR funding for preschool services in LDC centres. The majority of this funding was provided to Victoria, New South Wales and Queensland (figure 12.5). Together, South Australia, Western Australia, Tasmania, the ACT and Northern Territory (where preschool services are mostly government owned and operated) accounted for only 6 per cent ($18 million) of

CCB and CCR fee subsidies for Australian preschools in 2012-13 (Deloitte Access Economics Forthcoming).

12.3 Key issues in the delivery of preschool services

Universal preschool has raised access but not universally

A 2014 review of the NPA on Universal Access to Early Childhood Education indicated that 4 of the 8 states and territories met the target for universal access of 95 per cent enrolment of children in a 15 hour preschool program (Deloitte Access Economics Forthcoming).

However, inconsistency in the implementation of funding, under the NPA on universal access, across jurisdictions has meant that the accessibility of different preschool options (specifically, programs in LDC centres or in dedicated preschools) varies significantly between jurisdictions.

Several submissions to the Commission conveyed frustration at this variation. Goodstart submitted:

> Despite benefits for working families and children, New South Wales, Tasmania, Western Australia, and the Australian Capital Territory do not fund UA [universal access]-preschool programs in long day care settings. Western Australia, the Australian Capital Territory and Tasmania deliver a UA-preschool service as part of the school system, and New South Wales delivers preschool through an existing network of stand-alone preschool providers. This reduces options for working families, results in some children missing out on the high-quality UA-preschool service that is delivered elsewhere, and their parents are facing higher out-of-pocket expenses. (sub. 395, p. 76)

This issue was also borne out by the Australian Childcare Alliance:

> Despite clear requirements of the NP ECE, more than one State and Territory government (NSW, ACT, NT, WA and Tasmania) have chosen to exclude funding under the National Partnership on Early Childhood Education (otherwise known as Universal Access) from long day care services.
>
> Given the requirements of the NP ECE a significant number of children attending long day care have been excluded with jurisdictions failing to meet the needs of parents in a diversity of settings. (sub. 310, p. 57)

While Child Care New South Wales commented:

> Child Care New South Wales remains extremely frustrated and deeply disappointed by the NSW Government's continued failure to provide Universal Access funding to private long day care services in NSW. (sub. 333, p. 16)

However, it is also apparent that in those states and territories that direct a proportion of universal access funding to LDC services the providers also receive child based assistance under CCB and CCR. That is, they are effectively double dipping on Australian Government assistance.

The Commission is of the view that the benefits of preschool programs for child development and transition to school are sufficiently well grounded that their access should be supported regardless of their setting. For many families, a preschool program delivered by a LDC service represents the most suitable environment for children to undertake preschool. This might be when, for example, care is required outside of preschool hours, or when siblings who are not yet of preschool age are being cared for in the same centre.

The Commission is recommending a revision to preschool funding arrangements in an attempt to ensure that preschool access is not made more difficult for families through state and territory governments choosing to fund some types of preschools and not others. This is discussed in chapter 15.

Should universal access to preschool be extended to younger children?

Some participants called for universal access to preschool under the NPA to be expanded in the future to include all three year olds. The Victorian Government (sub. 418) noted that the recently introduced preschool arrangements provided the opportunity to move towards an Australian Government funded system to have all three year olds participate in the program. Similarly, the Victorian Children's Council (sub. 437) suggested that in the longer term the participation of 3 year olds in ECEC should be universal.

In contrast, there was a concern that formalised learning was being 'pushed down' on to younger children at the expense of play. Not all children at age four or five years may be ready to engage in formal learning and the inability to complete a required task around basic literacy at this age could result in some children developing mindsets and beliefs that inhibit future learning (Maggie Dent, sub. 3).

The strongest evidence to extend universal access to preschool to younger children comes from the EPPE study conducted in the United Kingdom. It found that an early start at preschool (aged between two and three years) was linked to better cognitive outcomes on entering primary school and an improved ability to socialise with others. It also found that it was not possible to draw firm conclusions as to the optimal starting age for individual children in preschool from the EPPE research (Sammons et al. 2002; Sylva et al. 2004).

There may be a case to extend universal access to preschool to three year olds in the future. Some jurisdictions currently provide preschool for specific populations of three year olds, such as developmentally vulnerable and at risk children. However, any decision to extend the universal access arrangements to younger children should be based on an analysis of the effectiveness of the existing arrangements in improving development outcomes and from evidence drawn from relevant research undertaken in Australia and overseas. At this stage there is no strong evidence that having the wider population of Australian children commence preschool at age three, or younger, would significantly improve developmental outcomes in the long term. The Commission's view is that future funding for universal access to preschool for four to five year olds must first be resolved before consideration is given to extending preschool funding to three year olds (chapter 15).

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.

Improving preschool attendance for disadvantaged children

As the benefits from attending preschool are likely to be greatest for children from disadvantaged backgrounds, a key issue is how to ensure that these children attend. One approach would be to make preschool a compulsory requirement under the NPA. Such an approach would make attendance at preschool equivalent to school attendance.

As noted earlier, there are already high participation rates in preschool in most states and territories. For children from disadvantaged backgrounds[1] across Australia, there were lower rates of attendance in preschool. In 2013, only 78 per cent of children from a disadvantaged background attended a preschool program (derived from ABS 2014j, unpublished). These children are also underrepresented in national preschool enrolments relative to their share of the national preschool age population (chapter 13).

In examining the impact of preschool on NAPLAN results and the background of children who did not attend preschool, Warren and Haisken-DeNew found that:

> … children who did not attend any type of preschool program more commonly lived in low income and lone parent households, and children whose parents did not complete high school were less likely to have attended preschool. (2013, pp. 17–18)

Similarly, Biddle and Seth-Purdie (2013) found that the most vulnerable children were less likely to attend preschool.

[1] This is defined as those children residing in an area ranked in the lowest quintile on the ABS's Index of Relative Social Disadvantage.

There are also differences in preschool attendance rates between Indigenous children and the general population. Although enrolment rates in preschool for Indigenous children, are only slightly lower than enrolment rates for the general population, just under 70 per cent attended preschool in the year before school in 2013. There was some variation between those in major cities, regional areas and remote areas. In major cities around 65 per cent of Indigenous children attended preschool, 71 per cent in inner/outer regional areas and 75 per cent in remote areas (SCRGSP Forthcoming).

As universal access to preschool is relatively recent, it is not yet clear if participation rates for those from disadvantaged backgrounds will increase over time.

To increase participation in preschool for those children currently not attending, attendance at preschool could be linked to receipt of some portion of the Family Tax Benefit Part A. Such an approach would act as an incentive for the parents and carers of those children who currently have lower preschool participation rates and who would receive the greatest benefit from preschool.

However, as outcomes from a recent attendance program in the Northern Territory revealed, for a program like this to be successful the Australian Government must deliver a strong, credible threat of enforcement. The School Enrolment and Attendance through Welfare Reform Measure (SEAM) was implemented in 2009 to increase school attendance rates among Indigenous children in the Northern Territory. Initially there were increases in participation rates (based on participation in standardised tests), but as the measures threatened under SEAM were never carried out the gains in participation dissipated. The researchers noted that once the threat proved hollow most of the initial gains were lost. The findings demonstrated that a credible threat to link welfare payments to school attendance can be highly effective in the short run, but also demonstrate the difficulty in actually following through on such threats (Justman and Peyton 2014).

A similar approach has been used to encourage immunisation among children whereby a supplement to the Family Tax Benefit Part A of (currently) up to $726.35 per year can be withheld where children do not meet the immunisation requirements at various ages. Similarly, the supplement can be withheld for those receiving an income support payment if their child does not receive a health check prior to commencing school (DHS 2014h).

In New Zealand, parents with dependent children receiving income support are required to take all reasonable steps to have their child enrolled in and attending early childhood education or another approved parenting and early childhood education program from 3 years until they commence school. Continued failure to meet these obligations results in a reduction in benefits until the obligation is met (appendix G).

While the benefits are greatest for children from disadvantaged backgrounds, there is more to meeting the development needs of these children than just attending preschool. These children may have additional learning needs and/or require additional support, which may not be met by a preschool program alone. However, having these children attend preschool enables early identification of any additional learning needs and enable screening for health and other interventions if required. Such an approach provides for the universal preschool program to identify the need for more targeted interventions.

Improving preschool attendance will not address the development needs of those children below preschool age from disadvantaged backgrounds who may be developmentally vulnerable. Identification of such children prior to their commencing preschool or school is a major difficulty (chapter 13).

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.

How many hours should children attend preschool?

It is unclear if 15 hours per week of preschool attendance is the optimal amount for children's development. For example, prior to the NPA the New South Wales Government provided up to 30 hours per week of preschool in public preschools in New South Wales. In New Zealand, 20 hours per week of early childhood education is subsidised by the government for all three and four year olds (New Zealand children start school on or shortly after their fifth birthday) (Ministry of Education (NZ) 2014). In 2008, UNICEF established a benchmark to have a minimum of 15 hours per week of preschool for children aged four to five (box 12.2).

Box 12.2 **UNICEF's benchmark for preschool**

In 2008, UNICEF developed a number of internationally applicable minimum standards in the form of benchmarks to protect the rights of young children as the transition to increased use of childcare continued in developed countries. The benchmarks were based on input from government officials and academic experts from OECD countries, with additional input from UNICEF and the World Bank.

The benchmark for preschool was for 80 per cent of children aged four to five to be enrolled in a publicly subsidised and accredited preschool for a minimum of 15 hours per week. It was also noted that at this age the benefits from preschool were not in doubt and that parents were generally supportive of their children being in some form of regular group learning activity.

UNICEF suggested that ideally, this enrolment should be virtually 100 per cent as an 80 per cent minimum may disguise or sanction the fact that the other 20 per cent who are not enrolled were likely to be children from disadvantaged backgrounds. An inadequacy of the standard recognised by UNICEF was the hours per day availability of preschool did not reflect the hours worked by parents in full-time employment. As such it suggested that this benchmark, 'should be read as a signpost rather than a destination' (p. 23).

Source: UNICEF (2008); Early Learning Association (sub. 271).

There is little research on the optimal number of preschool hours and how they are delivered over a school year. The EPPE study conducted in the United Kingdom found there was a significant link between the duration of months in preschool and progress in cognitive process, but there was no evidence that full-time provision of 10 sessions per week resulted in better outcomes than part-time provision of 5 sessions per week. The findings of the EPPE study suggest that extended periods of preschool provision on a part-time basis is likely to provide more advantages than a shorter time period in full-time provision (Sylva et al. 2004).

Lack of continuity in care for children in some dedicated preschools

The Commission also heard about difficulties in obtaining appropriate before and after preschool care (box 12.3). ACECQA administrative data suggests that OSHC for preschool is not widely accessible — only a very small number of preschools indicated that they offer care services outside school hours. Preschool hours, which are often sessional on a part-day basis for a few days a week do not facilitate the workforce participation of families, and problems accessing suitable care before and after preschool exacerbate this problem.

Box 12.3 What the Commission heard about outside school hours care for preschool age children

Comment no. 65, ECEC user:

> It seems that there is a gap in childcare for this (preschool) age group as most schools don't offer before/after school or vacation care until kindergarten age. As a result, I have had to reduce my work hours this year and will use all my rec leave to cover the holidays.

Comment no. 162, ECEC user:

> Pre-school was the most disorganised for childcare. There were no options for childcare that extended care on the pre-school days. In two stages I had one child in pre-school and the other in before pre-school or primary school. So care for one, but the other meant a short day. Different locations just meant a bit of time driving around and the short day for pre-school meant it was out of kilter with the childcare and primary school care.

Comment no. 183, ECEC user:

> Also the hours of preschools do not fit with a lot of working parents as there is no before or after preschool care or during school holidays because they are too young. This then prohibits working parents from sending their kids to preschool and benefiting from this program as a transition to school.

Comment no. 203, ECEC user:

> For those of us using the public school system to send our 4 year olds to preschool, after school care is a problem. Our 4 year olds are not yet of school age therefore do not qualify for/cannot be catered for by school-based after school care programs.

Current regulations under family assistance law restrict the extent to which outside school hours care services can include preschool children into their services. In particular:

- approved OSHC services must ensure *most of the children to be provided with care are attending school*. This may make it difficult for an OSHC service to operate as an approved service for only preschool children.
- as a general rule, when an OSHC service fills vacant places, it must give school children priority over children that have not yet started school (Department of Education 2012).

Improving access to OSHC for preschool aged children can be expected to have a positive effect on the ability of parents to participate in the labour market. In the longer term, the Commission envisages that greater access could be achieved by co-locating and better integrating preschools with the wider school system (chapter 12), thereby allowing parents of preschool aged children to utilise the OSHC services present within these schools.

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.

The affordability of preschool

Australia-wide, approximately 27 per cent of children who attended a preschool service (in 2013) received free ECEC while the majority (60 per cent) paid a fee of less than $4 an hour. However, the proportion of children receiving free preschool and the average hourly fee charged varies considerably between jurisdictions, reflecting differences in preschool service delivery profiles and funding arrangements.

For children who attend government preschools, hourly fees are typically free or low. In 2013:

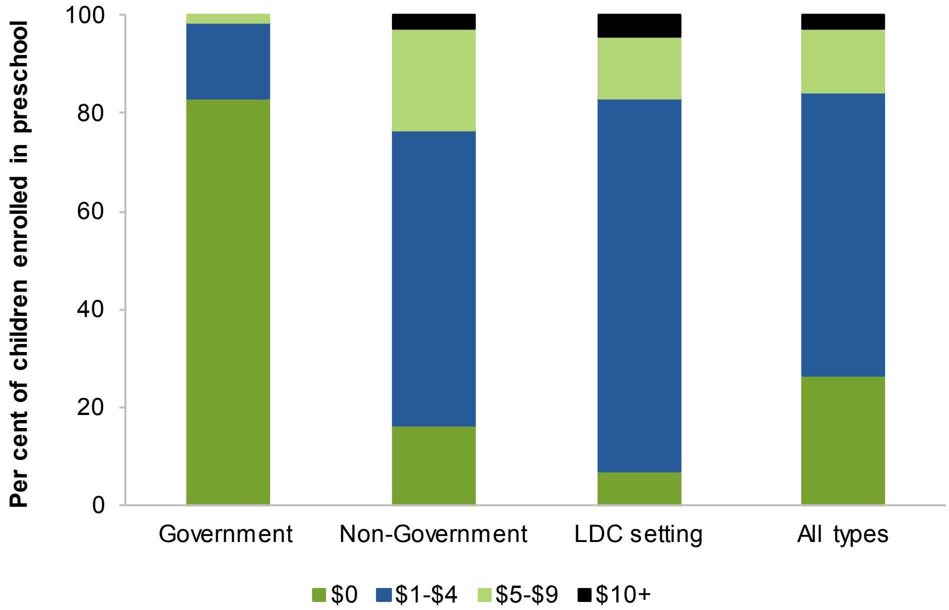
- over 80 per cent of children enrolled in a government preschool received free ECEC (although some collected a small, fixed amount, voluntary parent contribution).
- the vast majority of those who paid a fee (for a government preschool service), paid an average hourly fee of less than $4 per hour (figure 12.6).

In contrast, for non-government preschools and preschool programs undertaken within a LDC service, most families are charged fees. However (unlike government preschools) fees for preschool programs in LDC services do not generally represent preschool out-of-pocket costs for parents as the Australian Government also provides at least partial fee subsidies, for preschool services in approved LDC settings, through the CCB and CCR. These subsidies effectively reduce parents' out-of-pocket costs for the preschool elements of the program.

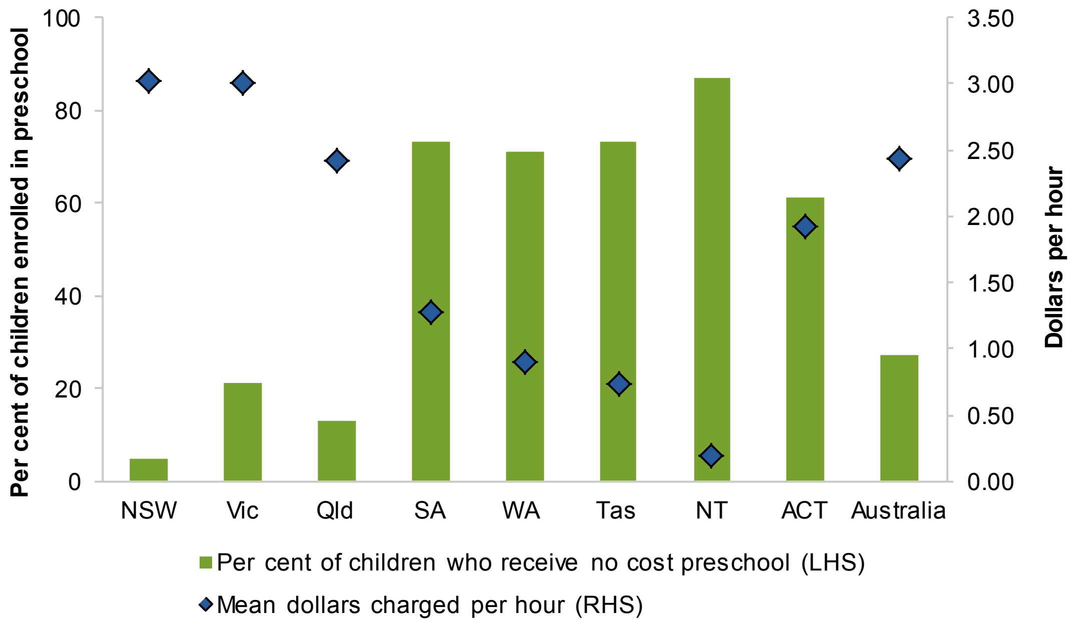
Figure 12.6 **Hourly fees charged, children enrolled in preschool**

2013

Hourly fee charged by preschool type[a]



Hourly fee charged for preschool by jurisdiction[b]



[a] Some government preschools request a voluntary contribution. [b] The mean fee charged includes preschools which do not charge fees (zero values).

Source: ABS (2013i).

For those in non-government preschools and preschool programs undertaken within a LDC service in 2013:

- over 75 per cent of children enrolled in a preschool in a LDC setting and 60 per cent of children enrolled in a community preschool paid an average hourly fee (before fee subsidies, CCB and CCR, were paid) of between $1 and $4 an hour
- 7 per cent of children enrolled in a preschool in a LDC setting and 17 per cent of children enrolled in a community preschool received free ECEC (figure 12.6).

Accordingly, in those jurisdictions where a high proportion of children attend a government preschool — South Australia, Western Australia, Tasmania, the ACT and the Northern Territory — average fees are comparatively low. In Victoria, New South Wales and Queensland, where most children attend a LDC preschool program or a community preschool average fees are comparatively high. For example, in New South Wales and Victoria preschool fees average $3 per hour compared with less than $1 per hour in Western Australia, Tasmania and the Northern Territory (figure 12.6).

Differences in the hourly cost of preschool between jurisdictions and preschool settings relate to differences in funding arrangements (discussed earlier).

- State and territory governments in the Northern Territory, Western Australia, Tasmania, South Australia and ACT (where a large proportion of preschool programs are free) are providing significantly higher rates of funding per child to preschools than governments in Victoria, New South Wales and Queensland.
- Governments in Victoria, New South Wales and Queensland (where a large proportion of children attend preschool programs in LDC centres) are effectively double dipping, at least in part, by drawing on two key sources of Australian Government funding for preschools — the NPA on universal access and fee subsidies (CCB and CCR). In these states, fees (before CCB and CCR subsidies are paid) are significantly higher when compared with other jurisdictions (figure 12.6).
- Under the *NPA on Universal Access to Early Childhood Education*, state and territory governments have considerable discretion about how funding is allocated between the models of preschool that they support in their jurisdiction. Generally, state and territory governments direct NPA funding towards government and community provided preschools rather than preschool programs in LDC services.

Overall, data presented in figure 12.6 suggests affordability issues for government preschools are likely to be rare, given the very low fees that families face when accessing these services. For non-government preschools, hourly rates for most users are roughly similar to LDC. This means affordability issues are likely to be more prevalent for non-government preschool users. Families who use preschools in LDC settings are also charged a relatively high fee for this service when compared with dedicated government preschools. However, these families may also receive fee relief through the CCB and/or CCR.

13 Children with additional needs in ECEC

Key points

- Some children do not follow typical patterns of development and have additional needs at various times in their childhood. These children often benefit from specific considerations or changes in an ECEC care environment to facilitate inclusion.
- Because of the diverse circumstances that lead to a child having additional needs and the differing nature of each ECEC care environment, the actual support required for inclusion is highly individual and context specific. Possible support includes educational and programing advice, increased staff to child ratios, staff training, translation and cultural support, additional equipment and fee relief.
- Children with additional needs often face barriers to accessing and/or participating in mainstream ECEC including generally low expectations for these children, discrimination, lack of training for educators, insufficient funding leading to limited hours of ECEC, difficult application processes for funding and affordability issues.
- The adequacy of the existing programs targeted at children with additional needs varies, however, all programs have elements that can be improved.
- Having short-term assistance that enables access to ECEC for children at risk of serious abuse or neglect is an essential element of a wider solution to protect these children. However, there are tensions between the short-term nature of Special Child Care Benefit (SCCB) assistance and the long-term desire to support and address the complex needs of these children. There is also a potential for 'mission creep' in the role of ECEC into the area of child protection — the latter is a state and territory government responsibility.
- Full ECEC fee relief for financial hardship (via SCCB for financial hardship) is extremely generous assistance but difficult to justify on equity grounds. It is more appropriate for families to adjust their annual income estimate for Child Care Benefit (CCB) eligibility to reflect the changed circumstances. This treats families equally on their ability to pay.
- The Inclusion and Professional Support Program (IPSP) is a broad program. The inclusion support elements, particularly the consultative role of the Inclusion Support Agencies, play an important role in fostering inclusion of all children in ECEC. The Inclusion Support Subsidy — funding to assist ECEC services to employ an additional worker to support inclusion — underfunds the hourly wage rate wage and the total number of hours that a worker is required.
- There is scope to improve the current Budget Based Funded (BBF) Programme. Pathways should be established to transition BBF services, where feasible, to mainstream ECEC funding to ensure those communities most in need receive the funding.
- Governments should consider greater use of integrated ECEC and childhood services in disadvantaged communities.

Children's experiences in their early years can have profound impacts on their development and their life outcomes. For reasons often varied and specific to each child, some children do not follow typical patterns of development and have additional needs at various times in their childhood.

The strongest predictors of a child's development are family characteristics, such as family income and a mother's education level. For some children, their home environment damages their development as they are exposed to violence and harm or are neglected (chapter 5). For other children, their developmental pattern is shaped by the nature of a disability or by a range of factors that may delay development — over the short term or persistently.

'Children with additional needs' is a term that includes children with a range of conditions and/or in a range of circumstances that can result in these children requiring extra support (Owens 2009), including:

- children with a disability or developmental delay or undergoing assessment for a disability
- children from culturally and linguistically diverse (CALD) backgrounds with limited English spoken at home
- children from a refugee or humanitarian intervention background
- Indigenous children
- children at risk of serious abuse or neglect.

ECEC can play an important role in assisting children with additional needs to fulfil their potential. A child's development gap can be reduced through:

- children attending preschool in the year prior to starting school
- younger children attending quality ECEC (chapter 5).

There are a number of advantages of including children who have additional needs in ECEC. Firstly, children with additional needs can benefit by having opportunities to extend their skills. Using ECEC can free up time for families to engage in study or work or provide a break from caring for a child with additional needs. For children, families and ECEC workers, including children with additional needs in mainstream services can help increase understanding, raise awareness and appreciation of diversity in society (Owens 2009).

As noted by KU at public hearings, 'inclusion' requires more than allowing children with additional needs to attend an ECEC service:

> So inclusion is not just being able to enrol your child at a service, it's about enabling that child to actively participate in all the educational programs offered by the service with their typically developing peers. (trans., p. 76, Sydney, 14 August 2014)

Noah's Ark state that for these children to actively participate in ECEC they may require extra support:

> Just offering the same access as other children may not be adequate. Some children require additional support in order to participate at an equitable level and gain the same or similar outcomes as other children. (sub. 344, p. 5)

Given the current skills and attributes of carers and educators, the nature of the other children attending and the physical environment, ECEC services may need assistance to identify ways to include children with additional needs in their service. The assistance provided includes educational and programing advice and may include increased staff to child ratios to support the delivery of an ECEC program for all children, extra training for staff to build capacity, specialist help to bridge a language gap and/or to build cultural awareness, additional equipment and investment in facilities. Hence, the actual support required for inclusion is highly individual and context specific.

However, children with additional needs often face barriers to accessing and/or participating in mainstream ECEC — a concern reflected in quite a number of submissions and comments to this inquiry. In their submission to this inquiry, the Commonwealth Department of Education acknowledged this issue:

> Anecdotal evidence provided to the department suggests that some services may be reticent about providing information to families regarding the inclusion of children with additional needs due to uncertainty or lack of experience about how to include these children or due to concern there may be additional associated costs. (sub. 147, p. 21)

This chapter outlines which children are considered to have additional needs and the nature of the support required in an ECEC setting, the current extent of their participation in ECEC services, the adequacy of ECEC programs for children with additional needs, and the size and nature of the unmet demand for ECEC for these children.

13.1 Children with a disability

Children with a disability make up a small but material proportion of children. In 2012, around 53 300 children aged 0-4 (3.8 per cent) and 195 800 children aged 5–12 (8.8 per cent) had a disability which restricts everyday activities and had lasted or is likely to last for at least six months (table 13.1). Of these children with a disability, around 85 per cent have specific limitations or restrictions and about two-thirds require assistance with day to day activities (Noah's Ark, sub. 344).

Younger children reported lower rates of disability in part because it takes time for conditions to be identified and for children to have the ability to sit and concentrate for some assessments (ABS 2012a). Many participants highlighted that obtaining a formal diagnosis can be complex and time-consuming – sometimes taking years (for example, Social Research Policy Centre sub. DR811). In addition, some disabilities are acquired during childhood. Consequently, the types of disability that affect children vary with age.

Of young children aged 0–4 years old who had a disability, almost 60 per cent had a sensory (e.g. sight and hearing) or speech disability. In contrast, older children are more likely than younger children to have a diagnosed intellectual disability (table 13.1)

Table 13.1 **Children with a disability, by disability group**
2012

	0-4 years		5-12 years		0-12 years	
	no.	%	no.	%	no.	%
Sensory & speech	31 600	59	76 800	39	108 400	44
Intellectual	13 600	26	118 000	60	131 600	53
Physical restriction	20 300	38	43 500	22	63 800	26
Psychological	6 100	11	45 800	23	51 900	21
Head injury[a]	4 300	8	4 800	2	9 100	4
other	12 700	24	41 000	2	53 700	22
Total[b]	**53 300**	**100**	**195 800**	**100**	**249 100**	**100**
per cent of children		3.6		8.8		6.7

[a] High standard errors and should be used with caution. [b] Children could be counted more than once if they had multiple disabilities which belonged to more than one disability group. As a result, the sum of the components of data from the disability groups does not add to the total children with disabilities.

Source: ABS (2014o).

Some children have delayed development in one or more areas (such as gross motor skills or cognitive development) compared to other children in the same age group. The term developmental delay is often used until the exact nature and cause of the delay is known or the child is at a more appropriate age to be assessed for a disability (such as school age) (box 13.1). It is likely that children with developmental delay will not be counted in the ABS statistics on disability and not all children with a developmental delay have disability (or undiagnosed disability). As part of the data collected for the Australian Early Development Index (AEDI) in 2009, teachers identified about 10 per cent of children in their first year of schooling as requiring future assessment (Centre for Community Child Health and Telethon Institute for Child Health Research 2009)

Box 13.1 **Developmental delay in children**

Developmental delay is a term used when a young child's development is delayed in one or more areas compared to other children. These different areas of development may include:

- gross motor development: how children move
- fine motor development: how children manipulate objects and use their hands
- speech and language development: how children communicate, understand and use language
- cognitive/intellectual development: how children understand, think and learn
- social and emotional development: how children relate with others and develop increasing independence.

Like other children, children with developmental delay continue to learn, but they take longer to acquire new skills and may learn in slightly different ways. For example, most children can learn skills quickly and by example whereas, children with developmental delay may need to be shown skills in smaller, simpler steps and have more opportunities to practise.

Some children have a transient delay in their development. For example, some extremely premature babies (born at less than 28 weeks gestation) may show a delay in the area of sitting, crawling and walking but then progress at a normal rate. For other children, their delay in development persists and increases over their lifetime and they are often diagnosed with a disability when they are of school age. The most common cause of persistent developmental delay is an intellectual disability.

Under the National Disability Insurance Scheme, a child under the age of 6 years old is considered to have developmental delay if the:

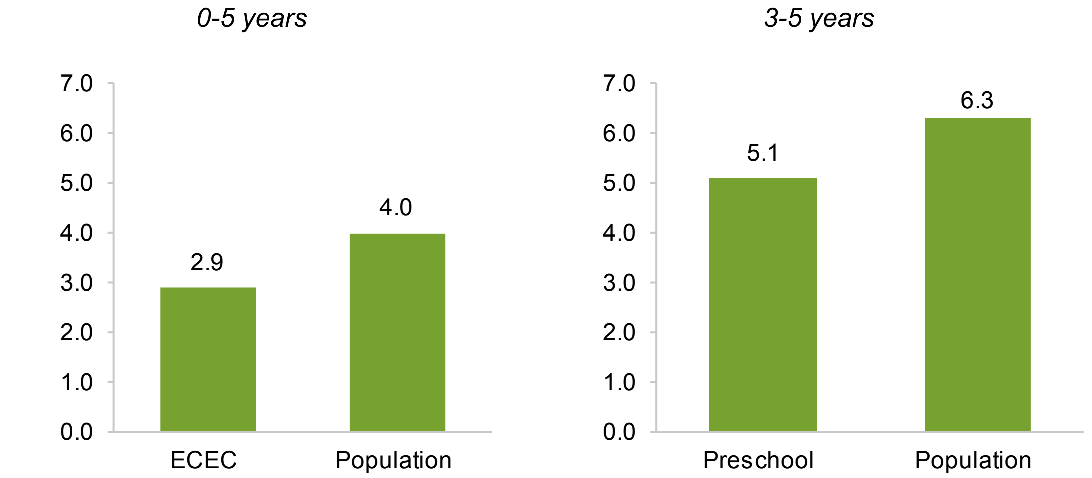
- child has a delay that is attributable to a mental or physical impairment or a combination
- delay results in substantially reduced functional capacity in one of the following areas:
  - self-care
  - receptive and expressive language
  - cognitive development
  - motor development
- delay results in the need for a combination and sequence of special interdisciplinary or generic care, treatment or other services that are of extended duration and are individually planned and coordinated.

Source: The Royal Children's Hospital (2009); National Disability Insurance Agency (2014b).

Children with a disability and enrolment in ECEC

Children with a disability tend to be under represented in preschool and ECEC relative to their share in the general population. Around 2.9 per cent of children aged 0–5 years with a disability are enrolled in ECEC while they represent about 4 per cent of the population for that age group. The gap is similar for the 3–5 year old age group and preschool enrolment (figure 13.1). A further 8000 ECEC places (3000 preschool places) would be needed if children with a disability enrolled in ECEC (preschool) at a rate similar to their representation in the general population (Productivity Commission estimates).

Figure 13.1 **Children with a disability: ECEC and preschool enrolment[a]**
Per cent



[a] Population data for 2009. Children aged 0-5 data for 2013. Children aged 3-5 data for 2012.
Source: SCRGSP (2014).

Participants have suggested a range of reasons for low representation in ECEC including lack of funding, lack of training for educators and generally low expectations for children with a disability. Noah's Ark states that many challenges to inclusion are 'caused by a lack of knowledge or confidence on the part of educators' (sub. 344, p. 4). Children with Disability Australia (CDA) believe that many families find accessing mainstream ECEC for children with a disability 'difficult or impossible' because of the 'inadequate resourcing and entrenched culture of low expectations of children with disability' (sub. 424 p. 2).

Research commissioned by Inclusive Directions — an Inclusion Support Agency in South Australia and Western Victoria — list factors such as the cost of care, lack of information about government funding, staff factors (training, ratios, attitudes to and understanding of children with additional needs), and individual family values as reasons why parents of children with a disability were not accessing ECEC. From this research, many parents thought it was essential that their child received 'one-to-one care' and that they were concerned about their child's safety and wellbeing in formal ECEC settings (sub. 142, p. 4).

Some children face discrimination because of their disability which can be overt or more obscure with 'plausible' reasons given for exclusion. Some examples include:

> I have a child with an extremely rare condition. I tried to enrol him in kindergarten at a government school. The principal refused to accept his enrolment because he had a disability.

> He advised me that his school was for high achievers not children with a disability. (CDA, sub. 424, p. 5)
>
> Children with disability may be excluded from childcare services (as they are from schools). This can happen through active discouragement upon enrolment e.g. 'We may not have the resource to meet your child's needs' or through using 'waiting list' excuses to deny service to children with disability. There are anecdotal reports from families and agencies that this is occurring, even though this is clearly unlawful. (Queensland Parents for People with a Disability, sub. 207, p. 3)
>
> We have experienced that exclusion of a child with a disability may sometimes be justified on grounds of the safety of staff and other children; even in instances when the risk is very low. In such instances the ECEC will misuse, either deliberately or through a lack of understanding, existing centre policies. (Association for Children with Disability Tasmania sub. 187, p. 1)

Extra support required to assist inclusion for children with a disability

Some ECEC services are able to accommodate the needs of some children with a disability or development delay into an early learning program with their peers. For other children, ECEC services may need extra support to assist inclusion. Despite the introduction of the National Disability Insurance Scheme, the ECEC sector will still have a significant role in including children with a disability or development delay in an education and care environment (box 13.2).

Box 13.2 **National Disability Insurance Scheme and ECEC**

The National Disability Insurance Scheme is a new way of providing community linking and individualised support for people with permanent and significant disability, their families and carers. The Scheme will fund early intervention supports that improve a child's functional capacity, or prevent deterioration of functioning. This includes:

- early interventions, allied health or other therapies, such as speech therapy or physiotherapy.
- individualised supports to enable a child to attend an early learning service. This is only in situations where a child has very significant and complex care needs that are beyond a reasonable expectation for early learning services to provide. For example, a child requiring ventilation which must be supervised by a trained carer or nurse.

The ECEC system has responsibility for the education and care needs of children, including children with disability or developmental delay. This includes:

- providing 'inclusion supports' that enable an early learning service to meet a child's needs through increased staff to child ratios and enabling staff to attend disability-specific training
- adapting their educational program to the needs of children with disability
- making reasonable adjustments to buildings, such as ramps, and fixed or non-transportable equipment such as hoists
- transporting children while they are in an early learning service such as for an excursion.

Source: National Disability Insurance Agency (2014a).

ECEC services may need advice on how to restructure their educational practices and daily routine within individual rooms and staff may need training to facilitate inclusion of all children. This may, for example, include the use of visual supports such as photos, pictures and symbols to help make communication choices and training for staff on how to use such supports. Alternatively, advice may include changing staffing practices that have children working in smaller groups. KU, for example, outlined a practice of 'one up, two down' — where two educators are available and interacting with children while one is doing routine activities (such as tidy up after lunch) — for a calmer and more settled room environment for all children (Reed et al. 2013).

Participants highlighted the importance of staff with appropriate skills to facilitate the inclusion with children with a disability. One participant noted, for example:

> I have an additional needs child. Local private childcare are very welcoming, but understanding is average and dependent upon the integrity of individual carers. … For a while he got a real early intervention program due to a brilliant educator who taught him so much, including signing and PECS [Picture Exchange Communication]. She taught small groups of additional needs children in short sessions of pre-literacy, hand over hand and other skills. She fought for inclusion and independence. She was able to sensitively encourage parents to seek assessment. … (ECEC user comment no. 186)

Some ECEC services may require extra support through an educator/carer to raise the staff to child ratio. For example, UTS Child Care Kids Camp requested funding for an additional educator to integrate a young child with Down Syndrome, Alex, into their service. The service commented:

> With the additional educator in the room we have the time to help children to focus on an experience and persist with a task until it is completed. Educators are able to spend time with Alex to help him learn how to interact with others and we have been able to teach the other children some simple sign language to encourage better communication between all the children. (Reed et al. 2013)

The nature of the care environment is pivotal to whether an additional educator/carer is needed. One environment may be able to accommodate a child with additional needs, however, another environment may need additional staff due to specific attributes of the care environment. KU provided an example of an additional needs child in a vacation care setting where the distance to the toilets meant that the child needed to be accompanied to ensure that they did not wander.

Some centres require structural work to buildings and the playgrounds or specialist equipment, such as hoists to lift children. Monash City Council outlined on example of specialist equipment required:

> A child who attends an SDS [special development school] during the school term required specialist equipment and care during the vacation care program at a mainstream school. The child required a hoist to be available in order to be moved from wheelchair to toilet. (sub. 75, p. 11)

13.2 Children from migrant and refugee families

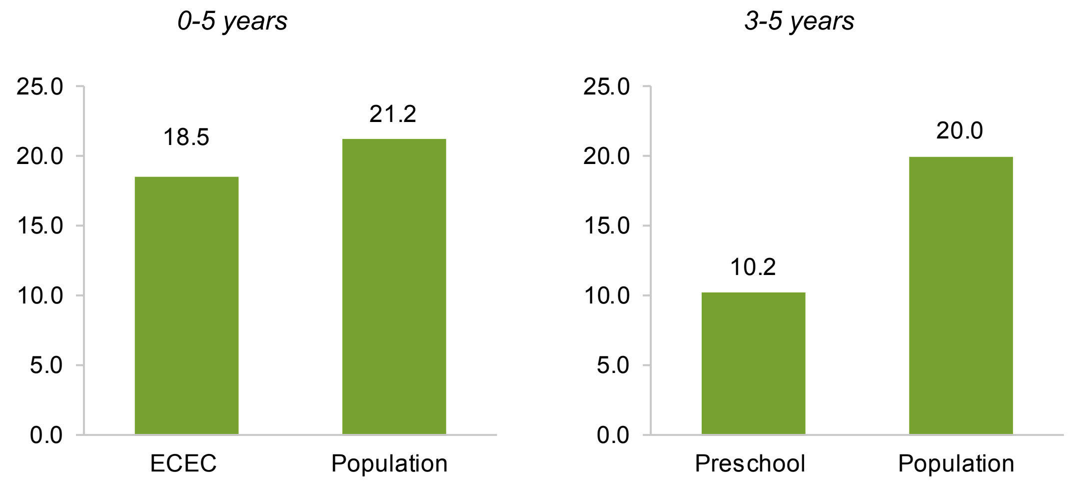
People for whom English is not their primary language, or who were born into a culture significantly different to the dominant Australian culture, are known collectively as culturally and linguistically diverse (CALD). One source of diversity comes from migrants and refugees. (Another is Indigenous culture, which is discussed below.)

Some migrants and refugees come to Australia with limited English skills. Of the children aged 0-12, around 4 per cent spoke another language and did not speak English well or at all (ABS 2013b).

Children from NESB, attendance at ECEC and extra support required

Children from non-English speaking backgrounds (NESB) tend to be under represented in preschool relative to their share in the general population[1] (Figure 13.2). In 2012, around 10 per cent of children aged 3 to 5 identify as being from NESB were enrolled in preschool while this age group represents around 20 per cent of the population. Children from NESB are also under represented in ECEC services. As a rough estimate, a further 20 000 ECEC places (24 000 preschool places) would be need if children from NESB enrolled in ECEC (preschool) at a rate similar to their representation in the general population (Productivity Commission estimates).

Figure 13.2 **Children from NESB: ECEC and preschool enrolment rates[a]**
Per cent



[a] Population data for 2011. Children aged 0-5 data for 2013. Children aged 3-5 data for 2012.
Source: SCRGSP (2014).

1 Data relating to CALD with limited English proficiency is not available.

Under representation of children from NESB in ECEC and preschool is due to a number of factors.

Some families may not see the need for ECEC given beliefs about family roles (including who should be responsible for raising young children), their attitudes towards work, and their understanding of when education starts in Australia. For example:

> They [refugee parents] are unaware of kindergarten and its role in the early education process. They commonly prefer to keep their child at their side. Many don't think of 4 years or 5 years as the beginning of their child's education. In fact they would prefer to keep their child at their side at this age. (Multicultural Development Association Inc. 2012)

Parents may also have different ways of approaching everyday tasks — sometimes finding it difficult to integrate into ECEC. For example, a childcare educator with a CALD professional background described some of the cultural challenges of everyday life for migrant parents:

> Parents (from migrant communities) also find things difficult, like understanding Australian food habits and requirements of the centres. Things like lunchboxes, water bottles and those types of things. They don't know about things like sitting at the table with other children to eat. Parents find it very difficult particularly if they are not educated. Of course there are many languages and different cultures. In our culture for example, we eat rice and with our hands. So the child needs some support to learn to use a fork if that is what they are expected to do. (Multicultural Development Association Inc. 2012, p. 5)

Migrant and refugee families may not necessarily have an understanding of the ECEC system in Australia, including the need to place children on waiting lists and how the government subsidy system operates. For example, the Commission was advised that some migrant and refugee families with little English and trouble with reading and/or writing have difficulty dealing with Centrelink forms for childcare assistance, cannot sign attendance sheets at ECEC services and do not understand the need to pay for ECEC on days booked but not used. As noted by AMES, an organisation providing settlement services, 'without this understanding of the system and often lack of wide family support it is more difficult to identify possible childcare options as part of plans to enter the workforce' (sub. 62, p. 5).

Childcare costs may also be a barrier for migrant and refugee children participating in ECEC. While the Australian government provides free childcare in conjunction with English language tuition for migrants and refugees who do not have functional English, standard ECEC costs and government benefits and rebates generally apply outside of this program (box 13.3). AMES noted that migrants and refugees who arrive with low levels of English often start work in Australia in entry level employment on low pay and in non-ongoing positions and, as such, have difficulty affording childcare (sub. 62).

Box 13.3 Adult Migrant English Program — ECEC services

The Adult Migrant English Program (AMEP) provides English language tuition for eligible adult permanent migrants and humanitarian entrants who do not have functional English.

AMEP service providers are contracted by the Department of Industry to provide English language tuition. They are also responsible for arranging, if required, free child care for clients with under school age children who are attending classroom tuition. Childcare is generally located within close proximity of the client's AMEP class. Childcare must meet relevant state and territory regulations. The type of childcare utilised include:

- accredited licensed long day care services
- registered occasional care centres
- registered Family Day Care services
- registered in-home care
- crèches and adjunct childcare.

Clients using CCB approved child care services for AMEP purposes are not eligible for CCB for that care as AMEP service providers cover 100 per cent of the costs of AMEP-related child care. In 2013-14, 8900 children attended ECEC as part of AMEP. Funding for childcare within AMEP has not been considered part of the ECEC 'budget envelope'.

Parents with school aged children who require out-of-school hours care while participating in the AMEP can access Jobs, Education and Training Child Care Fee Assistance.

Source: Department of Education (2014d); pers. comm. (Department of Industry 16 October 2014).

ECEC services including children from migrant and refugee families with limited English may require extra support to participate in ECEC including:

- language and communication support via assistance of an interpreter or bilingual staff and translated information for parents
- cultural support through staff being trained to understand and appreciate the experiences of families, including trauma and their cultures so as to better support the learning and development of children.

The Victorian Inclusion Support Managers Network noted:

> Children from a Culturally & Linguistically Diverse background can benefit from having a Bi-cultural Support to facilitate the settling in process. This support can help the children but also support the families to come to understand the concept of childcare which may not have been in their realm of experience previously. Some of these children also suffer from trauma induced challenges that can be supported across the environment. (sub. DR821, p. 5)

Box 13.4 outlines the support needed in one centre to include a group of Burmese children at short notice.

Box 13.4 **Inclusion of Burmese refugee children — support needed**

An ECEC service was given less than a day's notice that six Burmese (Karen State) children would be enrolling while their parents attended English classes at TAFE. These families spoke no English and had arrived directly from a refugee camp in Thailand as part of the refugee settlement program. The families had experienced and witnessed torture and trauma.

Due to the short notice given, the service was totally unprepared. Staff had no knowledge of the families' culture, background, language, child rearing practices, routines and past experiences. The service had very little experience, in general, in including families and children from different cultures. The service sought inclusion support via the Australian Government's Inclusion and Professional Support Program (see section 13.2).

To help settle and include the children, the ECEC service provided culturally appropriate cushions, rugs, music and dolls. The service also temporarily employed a Burmese Bicultural Support Worker to help to settle the children, model care-giving practices to other staff, share language, and teach songs and games. The support worker was also able to help the children and their families adapt to Australian customs:

> The Karen children were upset because they could not understand the language and were scared of all the new people. They did not want to eat because the food was different. They did not want to wear their underwear. I have helped to interpret for families to tell them to buy underwear, help carers understand what the families are saying about their children. I have helped the children understand what the carers are saying and telling them what the children are saying. The Karen children feel safe when they see me. I teach the carers some words and songs in the Karen language, also put writing on the walls so families can read about the ECE [early childhood education]. At first all the children just wanted to play alone, now Australian children have learned to play with Karen children even if they don't know the language. They have special friends and hold hands too. (Comments from the Bicultural support worker)

Longer term, extra staff were employed to increase the adult to child ratio (via the Inclusion Support Subsidy) which allowed staff to run activities in small groups that encouraged children to socially interact, despite the language and culture barriers.

Behind the scenes, the ECEC service sought basic information about Burma, the refugee experience and made contact with local and state agencies (such as the Migrant resource centre) to develop ongoing networks. As resources regarding the Karen State and the Karen language were very hard to obtain locally, the Inclusion Support Agency (ISA) contacted another ISA (interstate) that had worked with an ECEC service to include Karen children. With this exchange, the local ISA produced a *Welcome to Childcare* booklet in the Karen Language.

Source: National ISA Alliance.

13.3 Indigenous children

Around 4 per cent of children identify as Aboriginal, Torres Strait Islander or both (ABS 2013b). As with the general population, most Indigenous children live in major cities and regional areas. However, in remote and very remote areas there is a much greater concentration of Indigenous children. Indigenous children comprise 21 per cent of the population in remote areas and very remote areas compared to 1 per cent of all children aged 0–12 (table 13.2).

Table 13.2 **Geographic distribution of Australian children**[a]

Per cent

Accessibility Remoteness Index Australia	*Indigenous children*		*Non-Indigenous children*	
	no.	%	no.	%
Major city	57 547	34	2 289 877	71
Inner regional	40 113	23	608 792	19
Outer regional	37 943	22	287 922	9
Remote	11 612	7	41 059	1
Very remote	23 602	14	14 588	<1
Total[b]	171 212		3 245 509	

[a] Children aged 0-12 as at June 2011. [b] Total also includes children who live 'offshore' or have no usual address.

Source: ABS (2013b).

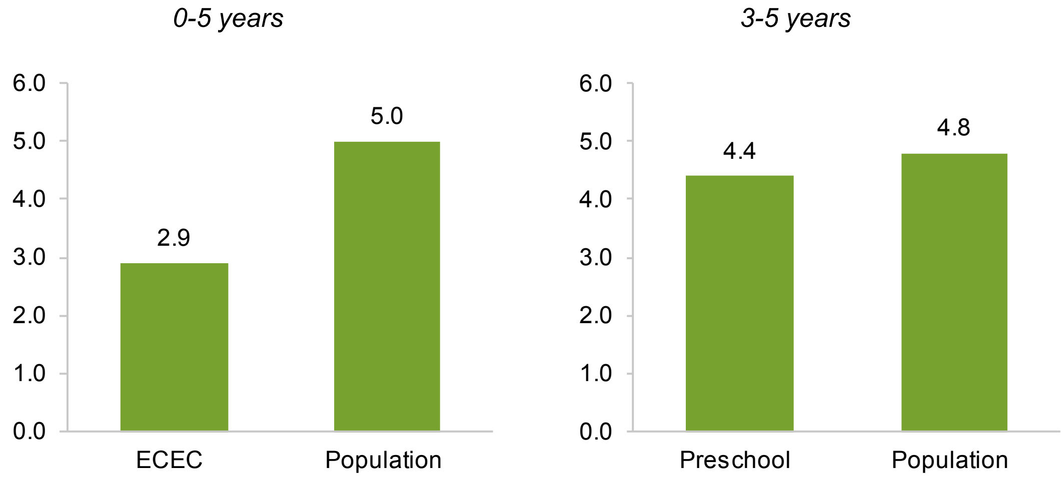
Indigenous children's attendance at ECEC and extra support required

Indigenous children (0–5 year) tend to be under represented in ECEC relative to their share in the general population (figure 13.3). In contrast, Indigenous children tend to be only slightly under represented in preschool enrolment rates relative to their representation in the general population. In 2012, around 4.4 per cent of Indigenous children aged 3–5 years attended preschool — similar to their representation in the population for that age group of 4.8 per cent (figure 13.3). However, preschool attendance rates are considerably lower for Indigenous children compared with non-Indigenous children. For Indigenous children, just under 70 per cent attended preschool in the year before school in 2013 — considerably below attendance rates for the general population (90 per cent and above) (Deloitte Access Economics Forthcoming; SCRGSP Forthcoming). (Chapter 12 provides a discussion on Indigenous preschool attendance and progress toward benchmarks set under the National Partnership Agreement on Early Childhood Education.)

A further 15 000 ECEC places (1500 preschool places) would be need if Indigenous children enrolled in ECEC (preschool) at a rate similar to their representation in the general population (Productivity Commission estimates).

Figure 13.3 **Indigenous children: ECEC and preschool enrolment rates**[a]

per cent



[a] Population data for 2012. Children aged 0-5 data for 2013. Children aged 3-5 data for 2012.

Source: SCRGSP (2014).

Participants to the inquiry suggested that there are multiple barriers which prevent Indigenous families from accessing ECEC services. For example, Inclusive Directions commented that many families from an Aboriginal or Torres Strait Islander culture do not access mainstream ECEC services because 'families are fearful of what they perceive as institutions and environments of regulations and paperwork' (sub. 142, p. 3). The Secretariat of National Aboriginal and Islander Child Care stated:

> Aboriginal and Torres Strait Islander children experience significant barriers in participating in ECEC services … These barriers include:
>
> - a lack of transport
> - prohibitive fees, even though services may still be heavily subsidised
> - unmet cultural or support needs of families
> - inflexible entry points, such as access only through a referral from another service
> - fear of racism towards families or their children, of being judged negatively, or that 'engagement with early childhood settings will undermine Aboriginal culture'
> - staffing issues including challenges in recruiting and retaining Aboriginal and Torres Strait Islander staff, few staff fluent in the local language, and a lack of systematic approaches to cultural competency training for staff. (sub. 411, p. 8)

ECEC services often need the following type of support to assist inclusion of Indigenous children, including:

- cultural support through staff being trained to understand and appreciate Indigenous values and protocols

- provision of educational materials reflecting local Indigenous cultural, values and significant events.

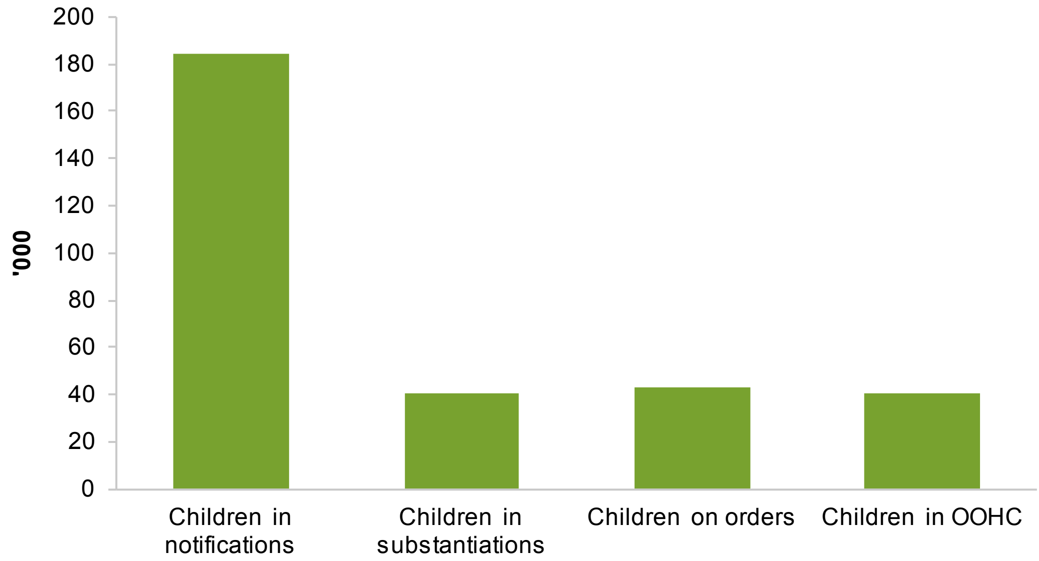
13.4 Children at risk of harm or neglect

Child protection statistics tells us how many children come into contact with child protection services. It is the only data routinely collected in Australia that give an idea of the number of children potentially experiencing child abuse and neglect. While these data have limitations, they are the best available indicator of the extent of the problem of child abuse and neglect in Australia.

During 2012-13, there were around 273 000 notifications of suspected child abuse and neglect made to state and territory authorities involving 184 200 children (a rate of 35.5 notifications per 1000 Australian children). Of the 122 500 cases investigated, there were approximately 53 700 substantiated cases of child abuse and neglect concerning 38 000 children (figure 13.4).

Figure 13.4 **Children at risk[a]**

2012-13



[a] Care and protection orders are legal orders or arrangements that give child protection departments some responsibility for a child's welfare. OOHC: Out of home care.

Source: Australian Institute of Health and Welfare (2014).

The rates of substantiated harm or risk of harm decreased as the age of the child increased. Children aged less than 1 year were the most likely to be the subject of a substantiation of abuse or neglect (14.4 per 1000 children), followed by children aged 1–4 years (8.7 per 1000 children) (AIHW). Some children who are found to have been harmed or at risk of harm from abuse and neglect are removed from their homes by child protection authorities and placed in out-of-home care (OOHC). These children generally live in home-based care such as foster care or with a relative. In 2012-13, there were around 41 000 children living in OOHC.

Extra support required for children ‘at risk’ to attend ECEC

Children at risk of abuse or neglect face multiple barriers to attending ECEC, including affordability, lack of transport, parents’ distrust of institutions, and parents’ general concern that they will be judged. Frankston City Council noted:

> … for these vulnerable families financial hardship remains as an ongoing barrier to accessing long day care, as the complexity of their needs often prevents them from consistent workforce participation. One of the major challenges in working with children at risk is the initial engagement to get them to access the service in the first place. The other major challenge is the actual regular attendance in the service. (sub. 286, p. 5)

Similarly, Community Children’s Centre South Australia highlighted the time it takes to build trust with vulnerable children and families — ‘many of whom are extremely wary of Government Departments & systems’ (sub. DR501, p. 1).

ECEC services often need the following type of support to assist inclusion of Indigenous children, including:

- full (or close to) fee subsidy: many participants highlighted the need for a full fee subsidy to ensure children at risk of abuse or neglect are not prevented from enrolling in ECEC (for example, Brotherhood of St. Laurence, sub. 208)
- additional needs support: participants highlighted that many of the children at risk of serious abuse or neglect also require additional support as they may have additional needs. These children can show signs of developmental delay or have challenging and aggressive behaviours — often directly from trauma experienced at home (for example, Barnardos Australia, sub. DR617).

13.5 Adequacy of programs targeting children with additional needs

There are three main programs that may provide services to children with additional needs. These programs, described in detail in chapter 4 and appendix B, are:

- Special Child Care Benefit

- the Inclusion and Professional Support Program
- the Budget Based Funded Programme and Children and Family services

This section examines the adequacy of access to each of the above programs. Funding for these programs and the children likely to access the support are outlined in table 13.3.

Table 13.3 Funding targeted towards ECEC services with children with additional needs

2012-13

	2012-13 $ million	*At risk children*	*Children with a disability*[a]	*Indigenous children*	*CALD children*
SCCB	*139.0*				
Child at risk	86.2	✓			
Financial Hardship	52.8				
IPSP	*103.7*				
Inclusion support subsidy[b]	50.6		✓		✓
Inclusion Support Agencies	30.4		✓	✓	✓
Professional Support Coordinators	14.5		✓		✓
Indigenous PSU	3.6			✓	
Bicultural Support	2.4			✓	✓
Specialist Equipment[b]	0.2		✓	✓	✓
NISSP[c]	2.0	n.a	n.a	n.a	n.a
Budget Based Funded[d]	*78.4*				
Multifunctional Aboriginal Children's Service	15.7			✓	
OSHC Services	7.7			✓	
Stronger Futures Crèches & Indigenous playgroups	3.2			✓	
Other Crèches	6.2			✓	
Mobile Services	11.4			✓	
Flexible Services	14.7			✓	
Improved Standards Initiative	18.9			✓	
Other	0.8			✓	
Indigenous Early Childhood Development Children and Family Centres	55.6			✓	

[a] Includes children undergoing assessment of disability. [b] Children from a refugee or humanitarian intervention background. [c] NISSP - National Inclusion Support Subsidy Provider. [d] Some BBF services have children with no additional needs, as well as children at risk, children with a disability or from a CALD background. Components do not sum to total due to rounding. n.a – not applicable.

Source: Productivity Commission assessment based on Department of Education Submission (sub. 147), pers. comm. (Department of Education 27 June 2014).

How well is SCCB working?

SCCB provides additional financial support to families of children deemed to be 'at risk of serious neglect or abuse' or to families that are experiencing temporary financial hardship.

Special CCB for at risk children

In 2011-12, 13 140 children received SCCB assistance (children at risk) — attending ECEC for around 32 hours per week for an average of 17 weeks (Productivity Commission calculations based on Department of Education administrative data). The cost of SCCB (children at risk) was approximately $86 million in 2011-12.

Most children receiving SCCB attend for less than 40 hours per week, however, a small proportion attend for more than 60 hours (that is, outside standard ECEC hours) — with a very small number of children accessing full-time care (24 hours care, 7 days per week) (table 13.4). Similarly, SCCB assistance is mostly granted for up to 13 weeks (61 per cent of children) with a small proportion receiving assistance for 52 weeks (9 per cent) — in any one year (figure 13.5). ECEC services have the discretion to grant up to 13 weeks SCCB before documentation or approval by DHS is required.

Table 13.4 **Special Child Care Benefit (children at risk) — average weekly hours attending**
2011-12

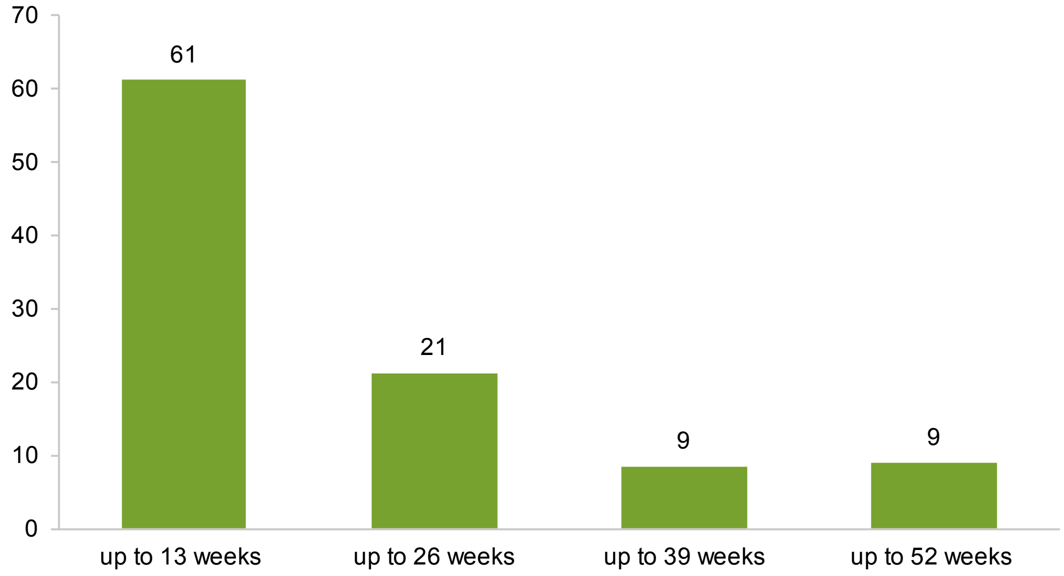
Hours per week	Number	Per cent
0-20	3 040	23
21-40	5 950	45
41-60	3 950	30
61-80	120	0.9
81-100	30	0.2
101-168[a]	45	0.3
Total[b]	13 140	100

[a] 168 hours ECEC per week represents 24 hours care, 7 days per week. [b] Does not sum due to rounding.

Source: Productivity Commission calculations based on Department of Education administrative data.

Figure 13.5 **Special Child Care Benefit (children at risk) — average weeks of assistance received**

2011-12



Source: Productivity Commission calculations based on Department of Education administrative data.

For children at risk of serious abuse or neglect, access to and funding for additional fee assistance through SCCB, particularly in the initial application, is largely unconstrained:

- ECEC service providers have the discretion to provide SCCB assistance for an initial 13 weeks
- families receive ECEC services free of charge
- there are no limits on the number of hours of support per week (if there are exceptional circumstances)
- there are no limits on the total number of weeks, subject to subsequent approval every 13 weeks, although SCCB is not intended to provide long term support
- as there is no cap on the total number of children who can apply in any year, there is no risk of children who met the criteria not receiving assistance due to lack of funding.

Given these features, there appear to be minimal program barriers that would prevent eligible children from accessing SCCB as short term support. However, as there is no monitoring and evaluation of SCCB, it is difficult to determine if there are children not accessing payments that would otherwise be eligible, whether these payments are sufficient to meet the needs of the children, and the overall outcomes for children who are accessing SCCB (Department of Education, sub. 147).

Short-term protective assistance

The additional assistance provided has a short-term protective function. It is designed to support attendance at child care, where cost is a barrier, so that:

- the amount of time the child spends in the risk environment is reduced
- the amount of time the child spends in a stable and developmentally beneficial environment is maintained or increased
- the child remains 'visible' in the community and opportunities to link the family with other appropriate services are increased
- the parent or carer has an opportunity for respite or to seek assistance from other agencies such as health and family support services (Department of Education, Employment and Workplace Relations 2012).

Feedback from submissions indicate the tension between the intended short-term nature of SCCB and the long-term desire to support and address the complex needs of these children. For example:

> … approved long day care services can approve up to 13 weeks of SCCB in a financial year for a child using their care. However, the 13 week policy is not adequate to support highly vulnerable families whose needs are extremely complex and who have children who are at-risk of serious abuse or neglect. As a result of their environment, these children often have multiple risk factors that often remain through their entire childhood. (Frankston Council sub. 286, p. 5)
>
> SCCB is a strictly time-limited benefit: every 13 weeks the ECEC Centre must reapply for approval of payment of the benefit. Most instances of children being at risk of neglect or abuse last much longer than 13 weeks. (Brotherhood of St Laurence sub. 208, p. 11)

The Commission acknowledges that in some cases children may be 'at risk' because of a short-term problem or 'crisis' (such as a major health issue in the family or leaving a violent family situation). However, in many cases the risk remains over the longer term (such as with drug and alcohol dependent parents). While both groups of children are likely to benefit from ongoing attendance at ECEC, the objective of this assistance is to provide quick and simple short-term access for a child or children into ECEC at no cost to the family while other government agencies and community groups manage the family problems that are prompting the serious risk to the child or children.

Governments need to balance the desire to establish a system or program that acts quickly and promptly to provide ECEC for children at risk with minimal eligibility criteria (as part of a wider solution) against the perverse financial incentives that such a system inherently establishes. Almost all ECEC providers are motivated by the benefits that education and care can bring to these children. However, systems with minimal eligibility criteria can be open to misuse, either directly through, for example, fraudulent claims, or indirectly by, for example, a service using SCCB for children for whom that assistance is not intended, albeit in need. This could lead to a payment system that is poorly targeted — capturing a wider group of children than originally intended.

To minimise this problem, the Australian Government limits the total amount of SCCB (for both 'child at risk' and 'hardship') that a service can approve in one quarter to 18 per cent of the total CCB, SCCB, and GCCB paid to the service in the quarter before last. If a service reaches the limit, any further SCCB must be obtained either by the service successfully applying to the Department of Education for a higher approval limit or by seeking approval of individual applications by the Department of Human Services (appendix B).

These limits are in place as safeguards to ensure that government funding for a relatively generous and easy to qualify assistance is used appropriately. Nevertheless, a number of participants have stated that this limit is too restrictive, particularly for services in disadvantaged areas (for example, ECMS, sub. DR849; SDN Children's services, sub. 205).

ECEC providers report the reapplication process is time consuming

After an ECEC service has made an initial determination of eligibility, further periods of up to 13 weeks can be approved by Department of Human Services (DHS) on application with supporting evidence (appendix B). In order to obtain SCCB for a child at risk, the service must make a claim on behalf of the family, stating the reasons why the child is at risk and how long SCCB will be required. The Antipodean Family Foundation outlined some of the evidence that may be required:

> This includes assembling documentary evidence from independent agencies, including child protection agencies, child and family welfare agencies, agencies specialising in mental health, family violence, family law, homelessness, drug and alcohol rehabilitation and indigenous services as well as professionals including medical practitioners, police, psychologists, teachers and principals, members of the clergy and counsellors. (sub. DR582, p. 5)

While it is reasonable to expect documentary evidence for the continuation of SCCB assistance given its generous nature, participants have argued that the responsibility of assembling sufficient evidence — a process which is time consuming, costly and uncertain — falls on ECEC services. The current SCCB requires ECEC services to bear the costs of making the case for each renewal of SCCB. Frankston City council highlighted the time consuming nature of the reapplication process and the need to liaise with other organisations:

> … 13 week submissions of SCCB applications for childcare centre staff … requires support from both Child Protection and Child FIRST Partnership staff. … When a SCCB application is rejected, it's an onerous task with supporting letters being rewritten up to three times by the family's case manager along with discussion and negotiation between Council officers and senior staff at SCAT and DEEWR. (sub. 286, pp. 5–6)

ECEC services noted that it could be difficult and time-consuming, often with delays, to get subsequent applications of SCCB approved (for example, Local Government Children's Services Reference Group sub. 240; National Disability Services sub. 296; Good Beginnings sub. 340; Municipal Association of Victoria sub. 363; Brotherhood of

St Laurence sub. 208; Early Childhood Australia sub. 383). The Antipodean Family Foundation argued that an application takes at least three hours per child every 13 weeks (longer if additional information is requested) over at least a three week period from application to approval (sub. DR582). Furthermore, participants argued that the cost of applying for SCCB creates a disincentive for child care services to enrol vulnerable children and imposes a penalty on services that do support these children and their families.

> The process often leaves early childhood education and care services either carrying a loss, in terms of paying for the place because it's not funded, or having to exclude an already vulnerable child from their services. This acts as a disincentive for centres to facilitate access for vulnerable children in the first place. So, there's no obligation and there's no incentive for early year services to include these children. (trans., p. 53, 19 August 2014, Melbourne)

To overcome this, the Antipodean Family Foundation argued that ECEC services should be paid for this effort:

> These costs should be recognised and services that are successful in renewing SCCB should be compensated by the Commonwealth. This could involve a payment once every twelve months that reflected the staff time required to document cases for renewal (sub. DR582, p. 10)

Participants criticised the lack of transparency and inconsistency in the decision making when ECEC services reapplied for SCCB. The relevant handbooks and guidelines were described as 'very open-ended', making it difficult to know with certainty that the evidence is sufficient and that an application will be approved (Antipodean Family foundation sub. DR582, p. 5). Goodstart claimed the threshold for continued support changed frequently and was based on subjective assessments by DHS (sub. DR875). Some ECEC services felt they were expected to be de facto social workers in making decisions on whether a family should access SCCB.

To streamline the reapplication process, thereby reducing administrative cost, participants suggested increasing the time period for eligibility. Antipodean Family Foundation suggested renewal for up to twelve months from ECEC services who were rated as meeting or exceeding the National Quality Standard (sub. DR582). The Brotherhood of St Laurence recommended a review of the assessment process to ensure the most appropriately qualified agency undertakes the eligibility assessment for the SCCB (sub. 208). Frankston Council suggested an annual application of SCCB, not quarterly, for the most at-risk children who are under Child Protection orders (sub. 286). Similarly, Goodstart (sub. DR875) recommends that for support to continue for 12 months after the first 13 weeks, DHS confirms with the state child protection department that the child is 'at risk' because:

- the child is in out-of-home care, or who have been removed from and then re-united with their family, or who have a substantiated child protection concern and remain with family
- the child is notified to a state child protection department and assessed as needing ongoing support (Tier/Priority 3 in state child protection risk assessments).

While these suggestions may have merit, it should be noted that child protection is the responsibility of state and territory governments.

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.

Taking these issues in to account, the design and future funding of ECEC assistance for children at risk of serious abuse or neglect is outlined in chapter 15.

Special CCB for financial hardship

The Child Care Benefit (Rates and Hardship) Determination 2000 provides that when a person experiences an event that substantially reduces his or her ability to pay child care fees, additional financial assistance under SCCB can be provided. The following are some examples of 'events' that may be considered hardship:

- loss of employment or a significant reduction in work hours or periods of unpaid leave
- the failure of a business
- a period of declared local emergency that reduces an individual's capacity to pay fees
- a natural disaster such as fire or flood
- destruction of or severe damage to the family's home
- significant additional expenses or reduction in income arising, for example, from a death or serious illness in the family
- family breakdown or the separation of parents/caregivers.

For families of children who are experiencing temporary financial hardship, there are some limits on the extra support available, such as:

- a weekly limit of 50 hours (same as CCB)
- a 52 week limit in relation to a single hardship event
- independent supporting documentation from the family for an initial 13 week period.

In 2011-12, 13 600 children received SCCB assistance (financial hardship) — attending ECEC for around 30 hours per week for an average of 11 weeks (Productivity Commission calculations based on Department of Education administrative data). The cost of SCCB (financial hardship) was approximately $31.9 million in 2011-12.

Given the nature of this assistance is principally linked to a change in income and general financial assistance is assessed based on income, the Commission is of the view that it would be more appropriate for these families to adjust their annual income estimate with the DHS for CCB eligibility to reflect the changed circumstances. The basis for removing financial hardship as a justification for receiving fully subsidised ECEC services is to treat families equally on their ability to pay.

RECOMMENDATION 13.1

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

Is IPSP assisting inclusion of children with additional needs?

For children with additional needs, the Inclusion and Professional Support Program (IPSP) is the primary program aimed at improving the accessibility of mainstream ECEC services. 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 resource and support. The IPSP comprises two main types of support — inclusion support and professional support.

- Inclusion Support improves access and inclusion for children with additional needs. This support is provided:
  - by Inclusion Support Agencies (ISAs)
  - by the National Inclusion Support Subsidy Provider (NISSP)
  - through access to the Inclusion Support Subsidy (ISS) and Flexible Support Funding.
- Professional Support raises the quality of the education and care provided in ECEC settings. This support is provided by:
  - Professional Support Coordinators (PSCs)
  - Indigenous Professional Support Units (IPSUs).

PSCs also manage Bicultural Support, the IPSP Resource Library, and Specialist Equipment.

Given the breadth of this inquiry, a comprehensive review of each element of IPSP has not been undertaken. This section largely concentrates on the support provided through the ISAs and ISS to ECEC services including children with additional needs and the concerns raised by participants to this inquiry. An assessment of the role of PSCs is outlined in chapter 8. The Department of Education has commissioned an evaluation of IPSP and the findings of that evaluation should also inform any view of the overall effectiveness of the program.

As outlined in chapter 4 and appendix B, for the purposes of the IPSP, children with additional needs are those from the following priority groups:

- children with disability
- children from culturally and linguistically diverse backgrounds
- children from a refugee or humanitarian intervention background
- Indigenous children.

Children with demonstrated ongoing high support needs, and may qualify for funding under ISS, include children:

- with assessed/diagnosed disability
- who are undergoing continuing assessment of disability or
- from a refugee or humanitarian intervention background.

In the six months to 30 June 2014, ISAs had over 20 000 requests for assistance to integrate children with additional needs, with the majority of these children having a disability or undergoing assessment (table 13.5). Not all requests for assistance require support in the form of an additional worker. In the first 6 months of 2014, approximately, 10 070 applications were approved to provide funding for an additional worker in the care environment (via ISS) — this equates to approximately 53 per cent of all requests for assistance to integrate children with additional needs.

Table 13.5 **Inclusion support assistance provided to ECEC services**[a]
2014 (January to June)

	Number of children[b]	*Per cent*
Children with a disability or undergoing assessment	16 410	87
Children from CALD backgrounds	1 390	7
Child with a refugee and humanitarian background	760	4
Indigenous children	350	2
Total	18 910	100

a This support is provided to services via Inclusion Support Agencies **b** Numbers have been rounded.

Source: Pers. comm. (Department of Education, 2 October 2014).

Funding for ISAs has not grown in line with the number of services

ISAs assist services to develop the capabilities, planning and strategies to include children with additional needs, and assisting services to draw on the bicultural support and the specialist equipment programs (via PSCs) and the ISS. The ISAs funding is allocated mainly to Inclusion Support Facilitators (ISF) who provide expert advice, with a small Flexible Support Funding (FSF) which allows for temporary financial support to a service to employ an extra educator during a settling in period for a child with additional needs. The FSF may bridge the gap between a child entering a service and the service accessing ISS, or can be all that is needed to assist the service to adjust to a suitably inclusive practice.

Funding levels have remained at the 2006 level, indexed only for CPI, for all 67 ISA services despite a substantial growth in the number of children using ECEC services. More problematically, the funding has not been reallocated across areas based on the number of services and the nature of the populations being served.

There is a call for ISAs to undertake greater outreach to some communities, where there are higher rates of developmental vulnerabilities, to encourage greater use of ECEC services. For example, the Ethnic Child Care, Family and Community Services Co-operative argued for the need for greater outreach into CALD communities:

> Families who are unfamiliar with Australian society, or who are not confidently speaking English, are less likely to seek out services, including ECEC….Many CALD communities have different perspectives of health, welfare, childrearing practices, and concepts of independence, family obligations, recreation and work than mainstream Australian society. (sub. DR773, p.6-7)

This outreach work appears to have contracted as ISA's real funding levels have declined.

The ISAs can only do so much to enhance the capacity of an ECEC service to offer an inclusive service. There appears to have been little focus on training in inclusive practice in the subsidised training program operated by the PSC, and relatively few requirements within Certificate III courses related to including additional needs children in mainstream services (chapter 8). This lack of training for ECEC staff is a barrier to services gaining the capacity to provide inclusive services. Syndromes Without a Name, for example point out that "Early childhood staff are often not trained to know the best way to include children with disabilities at their centres." (sub. DR847, p.1).

ISS level is too low

As highlighted above, the inclusion of a child with additional needs in centre based services, can sometimes require an extra educator to increase the staff to child ratio and better assist educators and carers manage programs in a care environment. The ISS is the IPSP program element solely aimed at making a contribution towards the cost associated with employing an additional carer or educator. A number of concerns about the adequacy of the ISS have been raised by parents, advocacy groups and service providers.

There was fairly widespread feedback that the funding provided by ISS is not sufficient to meet the cost of employing an additional carer or educator in a LDC (for example, KU sub. 385; Inclusive Directions, sub. 142; Goodstart sub. 395; Frobel sub. 275; Bundaberg

YMCA Child care services, sub. 211; Early Childhood Intervention Australia sub. 282; ACA sub. 310; Penrith City Council sub. DR599; YMCA sub. 901). The extra salary support ($16.92 an hour for LDC in 2014) is significantly below the cost of employing an extra carer (ranging from $23 to $31) (chapter 8). A number of submissions (for example, Goodstart sub. 395, ACA sub. 310; Guardian sub. DR837) estimated that the gap between the ISS amount and the wage of a certificate III qualified carer is around 30 to 35 per cent. (It should be noted that services in receipt of ISS funding are not required to employ a certificate III qualified educator or higher).

To fund the gap, services that employ extra staff can:

- increase all fees at the service
- reduce any profits and surplus earned by service
- fundraise within the service and broader community
- pass on the cost to the family with a child with additional needs.

These sources of 'gap funding' all have limitations, impacting on the objective of inclusion:

- Not all services are able to absorb the cost of the gap, acting as a large disincentive to enrol children with additional needs.
- Families with children with additional needs provided comments to the Commission indicating that they felt uncomfortable that the only way their child could attend ECEC was through fundraising activities (for example, ECEC user, comment no. 17).
- Services that ask individual families to fund the gap place extra financial pressure on these families, especially given they are faced with additional costs of medical treatments and therapies.

The total cost of the gap in funding can be significant for centres with a high proportion of children with high ongoing needs. KU noted that the gap was approximately $250 000 per year for its ECEC services (sub. 384). Frankston City Council outlined:

> … this subsidy is extremely inadequate for services with an over representation of children with a diagnosed disability, such as the Council operated centre in Frankston North where over 40% of children have a diagnosed disability. The cost to Council to make up for the gap is up to $100,000 after the subsidy has been deducted. (sub. 286, p. 7)

A number of participants also noted that the gap between ISS funding and the cost of the extra staff member has been growing over recent years (for example, KU sub. 384). The funding level per hour has increased in line with the wage cost index (1 to 1.5 per cent per annum) but this is 'well below' average annual award wage increases of 3 to 4 per cent (KU, sub. 385, p. 5).

Overall, without increases to the ISS rate, ECEC providers argued that the current arrangements act as a disincentive to include children with additional needs (failing the objective of the overall program) or increasing financial hardship for services committed to including all children (for example, KU sub 384 and Includion Support Agency alliance sub. 298). Those organisations committed to providing inclusive care can become known as the ‘go to centre’ with other services referring families with children with additional needs to this service (KU sub. 385) — further increasing the financial pressures on particular services.

A number of participants offered recommendations for the future funding of ISS. Goodstart Early Learning, for example, called for the subsidy to cover the cost of employing ‘more highly qualified educators or staff with specialist skills to provide inclusion support’ (sub. 395, p. 35). A number of participants recommended the level of subsidy be increased and the cap on overall funding be removed — that is funding ISS on a demand basis rather than budget allocation (for example, KU sub. 385; Early Childhood Management Services sub. DR489; Goodstart sub. DR875).

Regardless of whether the per hour subsidy is increased, KU have argued that the overall funding allocation (currently $51 million) will need to increase to cater for a recent increase in diagnosis in developmental issues and conditions:

> There have been recent changes to the diagnosis guidelines impacting on the numbers of developmental issues and conditions which are considered to be a disability, and subsequently this is likely to increase the number of applications received for support through ISS … (KU sub. 385, p. 6)

Too few hours for the ISS

For centre based services, the hours for which ISS funding is provided is viewed to be inadequate (table 13.6). For LDC, the funding for 5 hours per day is significantly less than a full day (approximately 10 hours). This reflects the intent that an additional staff member is funded to increase the staff to child ratio during the peak times of the day — outside of these times not all children will be at the LDC and the staff to child ratio will be higher. However, this overlooks that:

- LDC are generally optimising the use of staff by combining children across different age groups while maintaining the correct staff to child ratios. It is possible that at non-peak times staff to child ratios would not be above the regulated levels and therefore not able to facilitate inclusion.
- peak times of the day would be longer than 5 hours in LDC.

While children with additional needs are entitled to attend for a full day, some services only allow children to attend for the hours that an additional educator is in place at the service (KU sub. 385). However, ECEC providers have highlighted that the needs of services to facilitate inclusion of all children is not limited to a particular number of hours. Local government children's Services Reference Group explain:

> ISS funding to support 5 hours is not enough for a child who attends for longer than this; a child’s needs do not end after five hours. (sub. 240, p. 18)

Table 13.6 **Inclusion Support Subsidy rates and limits for centre based care services**

Type of service	*Hourly limits per week*[a,b]	*Weeks per year*
Long day care	25	52
Occasional care	25	52
Before school care	10	42
After school care	15	42
Vacation care	40	12

a Based on 5 days attendance **b** Under exceptional circumstances, services can apply for funding for longer periods.

Source: Department of Education (2013f).

Some participants also called for greater flexibility in how the hours of ISS funding could be used. For example, Cairns & District Childcare Development Association Inc suggested:

> If additional funding is approved, why can't it be approved for e.g. 20 hours per week- not 4 hours Mon/Tues/Wed/Thu./Fri- this would make it easier for the funding provider and for the child care service, who would claim for the funding used per week/fortnight and not have to then seek a ‘review’ of funding to change the days of care required? (sub. DR523, p. 2)

If the practice of limiting the hours of attendance for children with additional needs is wide spread, ECEC participation is unlikely to facilitate workforce participation for these children’s parents — a group within the community that has low workforce participation. Goodstart have suggested increasing the maximum number of hours a child can access additional support from 25 to 50 a week (sub. DR875).

Recommended changes to the structure and funding of inclusion support are outlined in chapter 15.

Applying for ISS funding is onerous and burdensome

There was considerable feedback that the application process for ISS was time consuming and frustrating, with the portal coming in for specific criticism (for example, Inclusion Support Agency Central West Fitzroy & Mackay sub. 181; KU sub. 385; Bega Valley Shire Council sub. 159). Leonie Arnold (sub. DR573) typifies the comments received:

> Vast amounts of money are wasted on paperwork and making new paperwork which is providing barriers for services, families and children to have the support they require. (p.2)

The IT ‘portal’ has been viewed as a major barrier to efficiently applying for assistance. The system has been described as ‘slow’ and ‘cumbersome’ (KU, sub. 385, p. 8). It has been known to ‘time out’ with data lost (Bega Valley Shire Council, sub. 159).

Some ISAs claim to struggle with the type of application that is appropriate in certain situations. Other participants have highlighted that even experienced inclusion support facilitators have difficulty with navigating through the various stages of an application (for example, Queensland Inclusion Network, sub. 95).

The time taken due to the paper work requirements and the current IT portal was considered a burden by users. KU noted that that the process required considerable administrative time for services and ISAs to complete an ISS application (sub. 385, p. 8). Inclusive Directions estimate that an ISS application process takes about 2 to 3 hours on average (sub. 142). Child Australia has estimated that the complete application for ISS funding takes about 16 hours, costing around $390 (based on a diploma qualified senior educator wage) (table 13.7). Queensland Inclusion Network commented:

> The IS application and reapplication process is now so complicated that ECEC services are unable to complete the requirements without considerable support from the ISA - the time spent on admin directly detracts from the coaching and mentoring role in the actual care environment. (sub. 95, p 1)

Table 13.7 **Cost of making an application for inclusion support funding — an example**

Action	*Time (hours)*
Completing application form	1
Time to discuss with parents	1-2
Initial observations documentation	6
Inclusion support subsidy documentation	8
Total	16-17

Source: Child Australia (sub. DR806. p. 7).

Participants also criticised the documentation required by families to apply for ISS and the requirement to update this information annually. For example, the National Inclusion Support Agency Alliance noted that the information required can be difficult to obtain, such as documentation to prove that a child has a disability when waiting lists for assessments and specialists may be over 12 to 18 months (sub. 298 p. 3). Swallow Street Child Care Association claimed the evidence required for a successful application was unclear with ‘constantly changing criteria as well as the forms, formats of reports and documents’ (sub. DR766, p. 15).

Despite this common criticism, funding for ISS is based on need. A service, therefore, must justify the need for government funding to employ an additional carer or educator and this need is justified by an application along with the documentary evidence. A Departmental fact sheet outlines examples of the types of documentary evidence that could be submitted with an application for ISS (box 13.5). However, as a service is making the application, they often rely on parents and guardians to supply the information. Parents often do not understand why such information needs to be provided, particularly given they may have also supplied it to other government agencies. Bega Valley Shire Council noted the burden of evidence required to substantiate a child's disability often rests with families who have 'a range of capacity levels' to pursue the medical or specialist diagnosis necessary (sub. 159, p.6).

Box 13.5 **Documentary evidence for an application for ISS**

A diagnosed disability

Evidence for diagnosed disability may include:

- Centrelink documentation stating a parent's or guardian's eligibility for Carers Allowance with respect to the child
- the child's Health Care Card stating the disability code
- the child's Disability Support Pension, if the child is over 16 years of age
- a qualified medical practitioner's confirmation of a diagnosis
- the results of an assessment by a registered psychologist
- diagnosis provided by allied health professionals, Registered Nurses or Nurse Practitioners.

Undergoing continuous assessment

Evidence for a child undergoing continuous assessment for disability may include:

- an appointment letter for an assessment by a medical practitioner
- supporting documentation or diagnostic report signed by a qualified medical practitioner or registered psychologist
- a report or supporting documentation signed by an allied health professional, Registered Nurse or Nurse Practitioner of the continuing assessment of a child for the purpose of diagnosing disability.

A child's refugee status

Evidence for a child from a refugee or humanitarian background may include:

- documentary evidence of the child's refugee status.

Source: Department of Education (2014i).

Some participants recognised the need for accountability to ensure government funds are spent appropriately, making suggestions to streamline the paper work burden within a framework that retained the need for documentary evidence, in particular:

- documentary evidence provided by families to qualify for the National Disability Insurance Scheme could also be accepted as eligibility requirements for ISS (KU, sub. 385; Queensland Inclusion Network, sub. DR620)
- a proforma for medical specialists so that wording is satisfactory or sufficient for ISS funding.

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.

ISS and universal access to preschool

The interaction between funding for ISS and for universal access to preschool is complex. When families access preschool through a long day care service, inclusion support funding for children with additional needs is accessed separately through:

- the relevant state/territory government program for the hours the child participates in the preschool/kindergarten (such as Disability Support Funding Program in Queensland, Kindergarten Inclusion Support in Victoria)
- ISS for the hours the child attends outside the kindergarten/preschool program.

KU Children’s Services emphasised the complexity of inclusion support funding and universal preschool access:

> This means that services can be applying to access inclusion support through both ISS and the state/territory governments to support the same children at different times of the day, week or year, which can be complex and confusing for services. (sub. 385, p. 7)

Children with Disability Australia, highlighted the problem by recounting a parent’s experience:

> The problem is with the inclusion support program funding guidelines that outline you are not able to access the funding if you are already accessing other funding. So, basically, if you have a disability and require a support worker, you can't go to kindergarten in Queensland! (sub 424. pp. 7–8)

Bundaberg YMCA Child care services

> … it costs services to have children with ISS and in Queensland our Kindergarten children cannot access this subsidy, services are struggling in this area as we feel we are not supported either financially or professionally in this area. (sub. 211, p. 6)

The issue of ISS and preschool is amplified in states and territories that largely deliver universal preschool access through LDC — in particular Queensland where traditionally there has not been a preschool program or inclusion support for preschool children. This area would benefit from a streamlining of responsibilities (and funding) for inclusion support.

Bicultural support and specialist equipment

Bicultural Support funds a translator to work with a service and family for up to a fixed number of hours to assist the family with paperwork and understanding the parents responsibilities associated with using the service and to assist in settling the child into the service.

The bicultural support budget has not been increased despite an increase in the number of children attending ECEC services and the strong growth in immigration and changing ethnic background of the Australian population. This has resulted in a decline in the hours of service that can be provided. The Ethnic Child Care, Family and Community Services Co-operative pointed to a reduction in bicultural support from 40 hours in 2007 to the current 12 hours, which they argued is inadequate:

> We find that services, families and our workers are commonly frustrated by this restraint; they can see progress that is being made with the child but support is cut off much too soon. Further, many services are reluctant to apply for Bicultural Support because the Inclusion Improvement Plan … because they do not believe it is worth taking the time to do this for only twelve hours of support. (sub. DR773, p. 4)

There was little feedback on the Specialist Equipment fund, although the Commission did hear that it was well run and adequate for requirements. Most equipment is provided on a lease basis and the funding is largely replacing old and obsolete equipment. Noah’s Ark (sub.344) did raise the issue of the need for an external therapist for fitting and monitoring of specialist equipment that was not funded from IPSP. Some states provide this service, and it should be part of the services included in NDIS.

Targeted ECEC assistance for Indigenous families

The Australian Government provides targeted assistance to ECEC services for Indigenous families, primarily through funding for the Budget Based Funded (BBF) Programme and integrated services (Children and Family Centres funded in partnership with the states and territory governments). The existing Community Support Programme which aims to support mainstream ECEC services in rural, remote and disadvantaged areas is discussed in chapter 10.

Budget based funding for children in disadvantaged, rural and remote areas

The BBF Programme is focused on providing non-mainstream services such as crèches, Multifunctional Aboriginal Children’s Services, flexible services, mobile ECEC services, OSHC and enrichment programs. The stated objectives of the program are 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. (sub. 147, p. 29, 31).

While the BBF Programme is not explicitly a program for Indigenous families, the majority (about 80 per cent) of BBF services are focused on ECEC services for Indigenous children (chapter 4). Participants commented that BBF services provide valuable ECEC services to Indigenous families. The Victorian Children's Council commented:

> In some locations, Multifunctional Aboriginal Children's Services have played an important role in bringing together Aboriginal parents and children and providing healthy development and safe care options — in Victoria, they have demonstrably provided a secure pathway into 4 year old ECEC programs and stronger connections to schools. (sub. 437, p. 7)

However, some participants to the inquiry argued that the BBF Programme is underfunded (box 13.6). Some noted that the level of funding was not sufficient: it had been indexed over recent years, but it was not matching the needs of the community. Other participants noted that funding had been received for capital investment, but operational funding (a state and territory government responsibility) had not been received.

Box 13.6 **Claims of under funding for Budget Based Funded Services**

The Isolated Children's Parents Association of NSW (ICPA-NSW) stated:

> The Commonwealth Budget Based Funded Program (BBFP) is designed to establish services where the market is not operating efficiently, and there is demand for services that would not otherwise be met. However, ICPA-NSW submits that the BBFP is insufficiently funded to correct the market inefficiencies of rural and remote areas. (sub. 139, p. 5)

The Victorian Aboriginal Education Association commented on the static nature of BBF for MACS:

> With the exception of Consumer Price Index (CPI) increases, the block allocation to the MACS has not increased since 2003. MACS have received infrastructure funding specifically to expand the capacity of the services to offer places, but not a funding increase for number of licensed places. For example Lulla's has received infrastructure funding so that it is now a 70 place centre, but still only receives funding for 17 places. The static nature of the block based funding has made it very difficult for the MACS to expand the number of places they offer to Koorie families in response to demand. (sub. DR785, pp. 4-5)

Similarly the Remote and Isolated Children's Exercise (RICE) said:

> Funding for the [RICE] child care program is from the BBF program Commonwealth Department of Education. This funding level is inadequate and has not increased in line with inflation …. Currently RICE are using reserves to maintain the level of services – this is not sustainable in the long term. (sub. 51, p. 2)

The short-term funding arrangements for BBF services were also viewed as problematic for some services. The Secretariat of National Aboriginal and Islander Child Care explained:

> The current method of one-year funding cycles presents various issues. In particular it:
>
> - Limits services' ability to conduct long-term, strategic planning, and to save money for larger or one-off projects such as vehicle replacement, building maintenance or general depreciation
> - Creates a significant administrative workload for both services and contract administrators
> - Can create a perception of service instability amongst staff, which can effect their commitment to the service
> - Can create challenges when employing new staff — such as trainees, or supporting staff to further their qualifications — when it is not known whether the service will be able to employ that person for the following year
> - Creates pressure to spend funds within the year to ensure budget levels are not decreased, as unspent funds cannot be carried over to the following year. (sub. 411, attachment, p. 13)

Discussions with BBF services emphasised the need for a business plan that looks forward at least three years as to how services will be funded.

A number of participants to the inquiry questioned whether the BBF Programme was being appropriately targeted to deliver services to communities most in need and some stated that the program has lost its focus. For example, UnitingCare Children's Services said:

> We note that both the Secretariat of National Aboriginal and Islander Child Care (SNAICC) and Early Childhood Australia (ECA) believe that the BBFP has lost focus and have called instead for a fully funded program supporting Indigenous organisations to deliver services to Indigenous communities. UCCS supports this proposal and believes successful integrated models such as the Aboriginal Child and Family Centres could provide an appropriate model for future funding options. (sub. 326, p. 17)

A recent review of the BBF Programme assessed the extent to which the program is targeted to meet current and future community needs and to deliver quality child care and early learning services and outcomes to children, families and their communities. The Review found that the program 'plays a vital role in the communities it operates in, particularly in regional and remote areas where it is the only child care and early learning service available for families' (Department of Education 2014m). However, it found that significant change is required for the BBF Programme to maximise outcomes. The review made eight recommendations, as listed in box 13.7.

Box 13.7 Recommendations of the BBF Programme review

1. Introduce an outcomes based performance management framework including performance standards and key indicators.
2. Develop and introduce a quality improvement strategy to enable services to progressively meet the requirements of the National Quality Standard, building on the Budget Based Funded Quality Measure.
3. Streamline and improve efficient practice and reduce administrative burden for services and the department.
4. The program objective and name be changed to provide a more definitive description of the program with clear purpose and expectations.
5. The program focus specially on supporting services in geographical locations where there are no other child care and early learning services.
6. A formula-based approach to funding be adopted for the program to provide a more coherent and equitable means of funding allocation.
7. A service fee requirement be introduced, with the fee to be determined by the service provider based on the profile of the community and families attending the service.
8. Services that are encouraged and supported to become approved to administer Child Care Benefit where it is feasible for them to do so.

Source: Department of Education (2014m).

In response to this review, the Assistant Minister for Education announced that recommendations one, two and part of three would be actioned. The Commission considers that there would be benefits in adopting the other recommendations of the BBF Programme review. For instance:

- targeted support to locations without access to another ECEC service will help to give the program focus, given evidence on the relationship between ECEC and childhood development (chapter 5)
- facilitating some level of ECEC for children who currently do not have the opportunity to access ECEC could result in positive developmental outcomes
- renaming the program could assist to raise awareness of the program's objectives.

Transitioning to mainstream is important

The Commission is of the view that recommendations seven and eight of the BBF Programme review are particularly critical. When a community grows and an ECEC service's viability increases, budget based funding needs to be reconsidered. Transitioning BBF services to mainstream funding arrangements (that is, demand driven child based assistance) frees up scarce block funding to be reallocated to providers in other localities where children do not have access to ECEC.

When it is clear that a BBF service would be viable under mainstream funding, it is important that a transition process commences. During this process, a service would receive some funding under the BBF Programme as well as charging parents an appropriate fee for use (with mainstream assistance). This would help ensure parents appreciate its value while recognising that making a contribution is a customary part of receiving ECEC services.

The Commission acknowledges, however, that it may not be feasible for BBF services in some locations to transition to mainstream funding because of small population size, transient communities and limited capacity for parents to pay fees (in areas of high unemployment).

The Commission has considered the recommendations of the recent review in developing a new program — the Community Early Learning Program — with a wider focus than the BBF Programme. This program is outlined in chapter 15.

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.

Integrated services for disadvantaged communities

There are a number of benefits of integrated services. For families and children, colocation and integration of family services can provide a more convenient and holistic way to access family services. Importantly integrated services provide a ‘soft’ entry point to ECEC services for many families who would not otherwise consider using ECEC services. They facilitate early recognition, intervention and acceptance of additional learning needs. There is evidence that integrated services have provided at least short-term improvements in developmental outcomes (chapter 5). For providers, they may provide efficiency and cost savings.

Commonly provided services include ECEC (including preschool), child health checks, immunisations, early childhood allied health services, parenting advice and skills development, counselling services and cultural programs. The nature of the integrated service can range from comprehensive case management to as little as saving time by not having to provide the same information to multiple providers. In between, are integrated services that provide are cross referrals and booking of services and reporting on outcomes to allow the effectiveness of programs to be assessed.

Many initiatives undertaken by governments in the area of integrated service provision have focused on disadvantaged areas (box 13.8). There are 38 new Children and Family Centres (CFCs) funded under the *National Partnership Agreement on Indigenous Early Childhood Development* that provide integrated ECEC services in communities with high densities of Indigenous families (box 13.9).

Box 13.8 **Integrated service provisions — government initiatives**

The South Australian Government has established 38 Children's Centres for Early Childhood Development and Parenting following a government inquiry into early childhood services in 2004. These centres provide a range of services for children and families from 0 to 8 years including childcare, playgroups and preschool. They also provide health services and family support programs and develop links to the local school. Each centre may offer a slightly different mix of services depending on the needs of the community and provide both targeted and universal services. The programs and services in the centres are provided by government and non-government agencies and funded by the Government of South Australia (2014).

In Queensland, 4 Early Years centres have been established in Brisbane and in regional areas to provide a one stop shop for long day care, school age care and kindergarten programs, parenting and family support services, child health services and Aboriginal and Torres Strait Islander family support. The mix of services varies according to the needs of the community and includes both universal and targeted services and the centres are operated by non-government organisations and funded by the Queensland Government (Department of Education, Training and Employment, Queensland 2014).

Victoria provides capital grants to community organisations and local governments to establish integrated service centres in disadvantaged areas. These centres provide the infrastructure for child care, playgroups, preschools and maternal and child health services to meet the needs of the local community (Department of Education and Early Childhood Development, Victoria 2014). Doveton College, a recent initiative between the Victorian Government and the Colman Foundation and part of the Doveton Regeneration Project, opened in 2012 and provides integrated services from pre natal to year 9.

The Western Australian Government is establishing 16 Child and Parent Centres on public school sites in high needs communities. These centres will be run jointly by government agencies and the not not-for for-profit sector organisations (sub. 416).

While all families may benefit from integrated services, they are particularly important for those in rural and remote areas, Indigenous families, and those with additional needs. There has been strong support for an integrated approach to Indigenous ECEC services. UnitingCare Australia typifies the support:

> As a provider of Aboriginal Child and Family Centres (ACFCs), UnitingCare Australia has experienced first-hand the benefits that can be achieved through provision of culturally appropriate, co-located services. This includes radical improvement in attendance rates at ECEC services by disadvantaged and vulnerable families, and broader community outcomes in areas such a health and employment. (sub. DR872, p. 27).

Box 13.9 **Winanga-Li Aboriginal Child and Family Centre**

Winanga-Li Aboriginal Child and Family Centre is an integrated service centre operating in Gunnedah in New South Wales since 2013. It is managed by Uniting Care Children's Services and Relationships Australia and provides care and education for children from new born children to five year old children. It also provides health and support services to children and families and support services for families of children with disabilities. Around 70 per cent of children attending the centre are Indigenous, although not all children and families attending the centre and utilising the services identify as being Indigenous.

The education services are mostly provided by Indigenous educators which assists in the ongoing involvement and engagement with the local Indigenous community. This has provided increased employment and education benefits for the local Indigenous community with staff at the centre being encouraged and supported to study for and complete qualifications in early childhood education. Local Indigenous community leaders have focused on engaging the local Indigenous community with Winanga-Li to ensure that the community are comfortable in leaving their children at the centre.

The centre provides 'wrap around' services in addition to ECEC services for children. Attendance at Winanga-Li and other similar services enables health and development issues to be identified early and additional services, such as speech pathology, paediatric services and psychological services, to be contacted and provided to the children. Attendance also provides the opportunity to deliver universal type health services such as dental and immunisation services to children.

As with other centres, having the mother make the initial visit to the centre — usually for maternal health matters — acts as the catalyst for the children to attend ECEC services and make use of any required health and support services.

The Queensland Indigenous Education Consultative Committee similarly stated:

> Early childhood education and care services should not be provided in isolation. Cohesive support to families within a holistic model will ensure the needs of families and children are met in a more seamless way. While "one stop shop" models are ideal, where colocation of services is not possible, better linkages need to be forged between the early childhood centre and health and family support services. (sub. 320, p. 3)

The Secretariat of National and Islander Child Care stated:

> The BBFs and ACFCs [Aboriginal Child and Family Centres] are bedrock services for Aboriginal and Torres Strait Islander families around Australia. They deliver services in flexible, locally determined ways that match community needs and build on community strengths. As a result of the goodwill and trust built up by these services and their staff, sometimes over many decades, they have tremendous potential to help 'close the gap' for Aboriginal and Torres Strait Islander children. (SNAICC 2013b, p. 2)

Baya Gawiy Buga yani Jandu yani u Centre stated:

> We agree that integrated services are the most effective means of addressing the complex needs of Aboriginal communities. Baya Gawiy combines a high quality early childhood learning unit with a culturally secure, one-stop shop for health and well-being services for children and their families, the Family Centre. (sub. DR705, p. 7)

And the Commissioner for Children and Young People, Western Australia noted:

> A model which integrates additional services for those with specific needs or who experience barriers to accessing universal services would lead to:
>
> - less fragmented services
> - improved access to services
> - more effective identification and referral for those with additional needs
> - a better response to emerging needs and problems
> - a greater focus on prevention and early intervention. (sub. DR519, p. 6)

In addition, the Forrest review has recommended that governments work jointly to agree on a new approach that includes progressive investment to implement integrated early childhood services to foster child health, development and school readiness (Forrest 2014).

Coordination and funding is important for overall success

Dedicated coordination is required for integrated services to work well. Coordination could be provided by an independent service or a lead agency which offers this service to other service providers in the facility.

Most integrated services are the result of a community's push to bring services together in the one location. Often the focus is on establishing a multipurpose facility, drawing on local government support, grants from state and territory and the Australian governments and philanthropic fundraising. Discussions with some integrated services have emphasised that successful operation requires:

- community commitment and 'ownership'
- some government capital support for construction of facilities
- including the services most often used by the client groups
- a business plan that looks at least five years out as to how services will be funded
- a focus on disadvantaged communities, which benefit the most from improved accessibility and the coordination of services.

The Commission is of the view that the scope for greater integration of family services is considerable, particularly in areas where there is a concentration of disadvantage. However further integration of family services is inhibited by the divide in responsibilities for human services between the Australian and state and territory governments. For example, ECEC, aged care, and primary health, are largely the Australian government's responsibility, while preschool, schools, and hospitals are state and territory responsibilities.

Successful operation of integrated services requires consideration is given to the long-term funding. It is important that when capital grants to build infrastructure are negotiated that operational funding arrangements are also established. The Northern Territory Government said:

> The NT is, under the National Partnership Agreement on Indigenous Early Childhood Development, developing five child and family centres to provide health and education services and programs that are closely linked with schools. While the NT welcomes the Australian Government's investment in infrastructure to support these services, they are dependent on securing ongoing operational funding. The lack of sustained funding contributing to the child and family centres severely jeopardises the services that can operate from them. (sub. 461, p. 6)

Having all providers largely funded through fees (usually subsidised by governments) is a more sustainable model than separate block funding streams. The Benevolent Society expressed support for child-based funding for integrated services

> In relation to the best way to fund integrated services that provide ECEC, we support the child-based funding model. The current system requires services to continually apply for funding … … Child-based funding would reduce red tape and make it easier for children to move between services, including into formal schooling. (sub. DR775, p. 5)

Moving to demand-based funding arrangements could also facilitate more innovative financing approaches to integrated services delivery (box 13.10).

Box 13.10 **Innovative models of integrated service delivery**

As many services are funded and operated in programs that align with the departmental responsibility, integrated services can be difficult to establish. Most integrated services are set up as a separate program with standalone funding or designated contributions from the different agencies involved. In the latter case governance arrangements can be difficult, and cost shifting is a possibility.

The value from integrated services results from the ability of one service to encourage their clients to seek other services where those people need a more holistic (or just a single additional) service to address their needs. Sharing of information on clients, as well as referral powers, allows better assessment of needs, and can prove more cost effective. For government funding of services, it is such information that can guide the allocation of resource to providers and service delivery areas that are more cost-effective in delivering desired outcomes.

There are a range of models for delivering integrated services, the most common being a lead agency model, where one service provider takes on the responsibility of organising the information exchange and managing the set of services a client receives. This is the model used for Medicare Locals, with the infrastructure costs paid for by the Australian Government. An alternative is to have a platform provider who provides the facilities and the information management systems (bookings and client records). The platform provider would receive rent from the facilities, but could also be paid by government on an outcomes basis for achieving the government objectives for the population that is being served by the integrated service. Such a model would align with 'social impact investing', which can be structured to reward the investment on an outcomes basis. This model could work well for the integration of ECEC services with other services.

Barriers to mainstream funding

A number of participants to the inquiry argued that mainstream funding for CFCs would not be feasible. For example, Baya Gawiy Buga yani Jandu yani u Centre said:

> The assumption that for remote and/or Aboriginal and Torres Strait Islander services mainstream funding should be the norm ignores both the financial realities of these communities and the ongoing nature of the high needs for which these Centres cater. The idea that Centres could be made financially viable by means of short-term viability assistance is for most Centres, unrealistic.
>
> Mainstream funding is completely unsuitable for these services. For our service, even if we were to pursue mainstream funding, it would only account for approximately 25% of our operating costs. These Centres are in localities where the market cannot, and is highly unlikely to ever, operate. (sub. DR705, p. 9)

SNAICC discussed problems trying to move block funded Indigenous services towards mainstream funding arrangements.

> Early childhood services for Aboriginal and Torres Strait Islander communities … act as key hubs to link families to a variety of early childhood support services. A CCB model supports only restricted funding to child care services. Thus at the most, it would only ever support part of the costs of a service for Aboriginal and Torres Strait Islander families.

However, SNAICC also suggested that in some circumstances the ECEC component of CFCs could be funded through mainstream assistance.

> Although CCB and CCR are inappropriate as core funding mechanisms for BBFs and ACFCs, they may in some circumstances be an appropriate way to fund the 'child care' component of services. Whether this is the case will depend on local circumstances, the range of services provided, the extent to which parents are engaged in the labour market (and indeed, whether there is a labour market for the parents to engage in) and other factors relating to the community and the service. (SNAICC 2013b, p. 20)

Where the facility brings together services that attract a fee for service (as is the case for mainstream ECEC services), this provides a source of operational funding. While such fees are unlikely to cover the coordination costs of integrated services, to the extent that coordination can reduce costs for the individual providers, providers should be willing to pay for this service. Where the benefits of coordination accrue mainly in better outcomes for families block funding of the coordination function may be required to realise the value of integration.

There can also be other barriers to integration. Regulations that require different facilities when multipurpose facilities would be possible, and different regulatory agencies with responsibility for assessing compliance are another barrier. Regulations that restrict practice and ownership are another. However, the Commission does not view these barriers as insurmountable if governments of all levels are willing to support integrated service delivery.

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.

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.

PART D: FUNDING, IMPACTS AND IMPLEMENTATION

14 Funding options

Key points

- Government funding for early childhood education and care (ECEC) can be:
  - provider-based. This is most suitable where there is an on-going funding commitment to universal low cost access to ECEC services, or where the market is unable to provide services under a child-based funding arrangement.
  - child-based. This works best where there is already a market for the provision of ECEC services and consumers are well informed about the quality and price of services.
- Co-payments should apply in most (though not all) circumstances as they assist in the efficient allocation and provision of ECEC services.
- Child-based funding subsidies can be delivered through the tax and/or social security systems. If subsidies are means tested, the delivery method mainly affects eligibility and timing of payment.
- Tax deductability, tax credits, and tax offsets usually offer a higher effective subsidy for workers facing higher marginal tax rates. They provide little incentive for low wage mothers to participate more in the workforce.
  - The current exemption of employer-provided ECEC services from Fringe Benefits Tax (FBT) is not widely used, because the current child care rebate (CCR) provides a higher subsidy. However, as the dollar cap on CCR affects more families over time, there will be greater use of the FBT option. As relatively few employers are able or willing to provide an ECEC service, the FBT option will unfairly benefit a few higher income workers. It should be abolished.
- Income contingent loans are not well suited to financing ECEC, because the loan repayments are likely to discourage parents from participating more in the workforce. If the loan interest rate is low, many families may use this option simply to lower their other borrowing costs, with little if any effect on workforce participation.
- Child-based subsidies can be fixed in value or based on a share of fees.
  - Fixed value subsidies can provide information to families on the cost of the service if they are set at a ‘benchmark’ value rather than an arbitrary level.
  - Share of fee-based subsidies allow for cost-padding if markets are not highly competitive. They also may mean taxpayers subsidise elements of higher cost services that do not contribute to the workforce participation or child development objectives of the subsidy.
- A benchmark price has advantages over the cost model in setting the benchmark value of the subsidy, due to its ease of calculation, automatic indexation, and adjustment to changes in the underlying cost structures that are passed on to fees.
  - Where there are significant systemic differences in the costs of providing services in different locations and/or related to the age of child, reflecting the differences in the benchmark value would improve both allocative efficiency and horizontal equity.

This chapter sets out a number of potential government funding models for early childhood education and care (ECEC) services and assesses their effect on the efficiency and affordability of ECEC services.

14.1 The criteria for evaluating funding options

The Commission has sought to identify government funding options for ECEC services that are likely to generate the biggest improvement in the welfare of the community as a whole, including people not using ECEC services.

There is a case for public subsidies of ECEC …

While ECEC services are largely ‘private’ goods, they can also have a public benefit as positive social outcomes arise through improved child development outcomes and greater workforce participation.

There is also a fiscal case for ECEC subsidies if the workforce participation they induce generates greater additional tax revenue (and welfare savings) than the cost of the subsidies provided. The fiscal impact depends on the effect subsidies have on workforce participation and also their longer run dynamic effect on productivity. This comes from the contribution that employment makes to future growth in wage income, and from the educational and other outcomes of children being better prepared for school (and life, including future employment). These participation and productivity impacts are reflected in a higher gross domestic product (GDP), but also can contribute to other source of wellbeing (appendix J).

While ECEC subsidies are likely to lift participation to across all household incomes, the fiscal case is strongest in relation to families that are vulnerable to poverty and welfare dependency. Early intervention can also reduce later public expenditures on children who are at risk of developmental vulnerabilities. Maximising the benefits to the community would see the funding model focus on encouraging the use of ECEC services by vulnerable children and families (appendix J). There is also a case for targeting public support to these groups to reduce vertical inequality.

A further argument some have advanced for public subsidies is that access to affordable ECEC services is critical for ‘levelling the playing field’ between mothers and others in the workforce (Cox, sub. 189). This case is built around a view of horizontal equity — that mothers should face the same incentives to work as women without children and men.[1]

[1] A different horizontal equity case could also be made that the system should be neutral in the incentives it gives mothers whether to work or to not work. This would mean that stay-at-home mothers should be able to access ECEC services on the same basis as working mothers. Notions of horizontal equity underlay the introduction of Family Tax Benefit Part B, as it was recognised that a family that has two income earners pays less tax than a family with one income earner for the same household income (Hodgson 2005).

Like paid parental leave at full replacement wage, universal access to ECEC services aims to remove any disincentives to having children by ensuring the income of mothers remains the same despite their decision to have a child.

The cost of childcare is, however, only one of several disincentives for mothers (or the second income earner) to work. High effective marginal tax rates facing second income earners can also reduce the incentive for mothers to work while their children are young (chapter 6). Without removing all other non-ECEC disincentives to work, even universal access to free or heavily subsidised ECEC services would not deliver this form of horizontal equity for mothers of young children in the labour market.

While the Commission does not support a universal access model to funding of ECEC services — which would also require funding well beyond the current funding envelope — it does see value in encouraging access to ECEC services, not only for children from disadvantaged families but for all young children, for both developmental and parental workforce participation reasons. Hence, the government funding model should seek to make ECEC services as accessible and affordable as reasonably possible.

… but funding needs to be prioritised and efficient

Nevertheless, given the cost to taxpayers, funding needs to be prioritised to where the additional child development and workforce participation effects are greatest. To give effect to this ,and to provide the best value for the taxpayer dollar, the funding model needs to reflect four key sets of considerations.

First, while many children benefit from some use of ECEC services, the most conclusive evidence for a significant development gain for most children is from attending preschool in the year prior to starting school (chapter 5). Hence, the funding model should ensure universal access to ECEC in the year before formal schooling commences.

Second, to encourage workforce participation, government subsidies need to minimise the effective marginal tax rate (EMTR) on additional hours worked, taking into account income tax on wages and the loss of any welfare transfers in setting subsidy rates (appendix E). Notions of horizontal equity between families (that underpin the targeting of FTB) also require consideration of capacity to pay and support the idea that subsidy rates should be related to a broad measure of family income.

Third, most parents are best placed to judge what is in the interests of their child, and to decide whether and how much to work. While parents can find it difficult to assess quality (chapter 7), they will generally seek an ECEC service that best meets the needs of their

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However, this argument fails to recognise the value of the household work in the latter household, on which no tax is paid. It also fails to recognise that progressive income tax rates, and the loss of Family Tax Benefits, reduce incentives for second income earners to work (or work more hours), which violates horizontal equity. This highlights the difficulty in applying the principle of horizontal equity in a uniform way.

child and their family's working arrangements. However, the availability of subsidies can distort demand toward services that have higher subsidies. Hence, the funding model should aim to minimise any undue distortionary effect of subsidies between services, as these can erode the (allocative) efficiency of the ECEC system.

Fourth, in a competitive market, providers will respond to demand for ECEC services as long as there is sufficient demand to support a viable business. However, government subsidies can undermine the effectiveness of competition. Hence, the funding model also needs to encourage providers to efficiently deliver ECEC services (by aligning the incentives of producers to supply their services at minimum cost for the quality of service they provide) (chapter 9).

Desirable attributes of a government funding model for ECEC services

More specifically, the Commission considers that the government funding model should ideally:

- maintain family choice over the ECEC services they use (chapter 3)
- target children who are developmentally vulnerable and families for whom workforce participation will make a difference to the risk of poverty and/or to child development outcomes (chapter 5)
- promote universal access to preschool for all children in the year prior to starting school (chapter 12)
- encourage mothers of young children to participate in the workforce to promote their future income via minimising the effect of childcare out-of-pocket costs on their EMTR (chapter 6)
- take account of a family's capacity to pay (chapter 11)
- minimise the distortions that subsidies introduce in the choice of service and the hours of use (unless there is a public benefit from this distortion) (chapter 9)
- align the incentives of providers to minimise their costs of production and choose a quality of service that best matches that in demand in their local area (chapter 9)
- be easy to use for both families and providers. Improvements that might otherwise enhance allocative efficiency do not enhance overall efficiency if the design of the system results in an increase in administrative or compliance complexity and the associated costs outweigh the gains from a better allocation[2]

2 Economists distinguish between improvements in allocative efficiency, which comes from allocating resource to produce things that people value more, and productive efficiency, which is producing the most output for any given level of inputs. Getting better at doing things that people do not value does not contribute much to community wellbeing, so allocative efficiency can be as, if not more, important than productive efficiency.

- allow governments to scale up (or down) the funding provided with changes in the community's willingness for taxpayers to subsidise ECEC services.

14.2 What are the main funding models?

Funding models are distinguished by (a) whether the funding is child-based (demand side), (b) provider-based (supply side) and (c) the level of co-payment required. Countries differ greatly in the extent to which they use any or all of these ways to subsidise ECEC services (appendix G), suggesting there is no one 'right' option for all systems. The quantum of funding can also affect which models are possible.

Provider-based funding models

Direct funding to providers of ECEC services is a supply-side funding approach.

Under this model, governments usually set quality criteria, operating restrictions, and eligibility requirements for who can access these services. Providers may also be allowed or encouraged to charge a co-payment, which is often fixed in dollar terms.[3] Families using provider-based funded services may still be able to have a choice of provider but, in the absence of other non-subsidised ECEC services, choice is limited to the providers that government has selected to fund.

Provider-based funding models are generally used to provide a universal service at low or no cost to families. They are more common in countries, such as Scandinavia, where there is a social compact that allows high taxes in return for high levels of social services.

How efficient and effective are provider-based models?

Whether services are delivered efficiently will depend largely on arrangements for allocating places to services and ensuring quality and cost-effective supply.

Some submissions (such as Cox, sub. 189) contended that ECEC services are more efficiently delivered under government purchasing (or provision) arrangements. In support of equity and effectiveness, if not efficiency, Family Day Care Australia cited an OECD review which concluded that supply-side funding mechanisms may lead to better outcomes for children and families:

> The evidence suggests that direct public funding of services brings more effective governmental steering of early childhood services, advantages of scale, better national quality,

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3 For example, in Quebec, ECEC services charge parents CA$7 a day, while in France pre-school for 3–5 years olds is free (Grun 2008). In Sweden, families are charged a user fee that is a maximum of three, two or one per cent of household income for ECEC use for the household's first, second and third child, respectively.

> more effective training for educators and a higher degree of equity in access compared with parent subsidy models. (sub. 301, p. 6)

Efficiency can arise from scale advantages in public provision of services, so the quantum of funding rather than the funding mechanism itself may play a role in driving efficiency. Utilisation rates need to be high for efficient provision, which will depend on how well the places supplied are targeted to demand. In Quebec, for example, high utilisation rates are achieved due to a shortfall in supply relative to demand at the price of CA$7 a day (Fortin, Godbout and St-Cerny 2012). However, provider-based funding also allows low utilisation and inefficient services to be provided, sometimes to meet a universal ECEC availability commitment.

Government's role in ensuring quality in the services that taxpayers fund matters. Quebec, for example, found that quality was a major issue with the rapid expansion of services when it introduced its low fixed cost policy (Lefebvre, Merrigan and Roy-Desrosiers 2011). This problem (which was subsequently addressed) points to a need for vigilant quality assurance processes when families receive services at low or no charge. Where these processes are effective, the provider-based approach can deliver a more uniform quality of service (Grun 2008).

Provider-based payments can be linked to projected use of services, but most systems aim to make a defined number of places available. Government payments may cover all or part of the provider's funding requirements (with the rest covered by co-payments or in some cases charitable funding). Provider-based ECEC services can be delivered by government agencies or private and not-for-profit agencies under a contract with the relevant government agency. The arrangements for awarding the contract will affect the costs for both providers and government. In assessing the efficiency of any provider-based option, the costs of running and responding to a competitive tender need to be set against the improvement in efficiency arising from the competitive process.

From a provider viewpoint, provider-based funding can give a more reliable cash flow as providers are usually paid for a certain number of places whether occupied or not. It also reduces the problem of bad debts from parents (as does making government payments directly to providers in child-funded models).

However, where specific programs are provider-based (block) funded, the renewal of funding can be highly susceptible to government budget pressures. This can create considerable uncertainty about continuity of service for the provider and the families using the service.

Universal access with provider-based funding requires high public expenditure. If funding is restricted, rationing means that some families — those that get a place — benefit while others miss out. The excess demand observed in Quebec, where nearly half the children of eligible age are in ECEC services (Lefebvre, Merrigan and Roy-Desrosiers 2011), raises the question of whether those who would benefit most are the ones accessing the service or missing out. Introducing co-payments is another way to manage demand, although this places a greater burden on lower income families unless the co-payments are means tested in some way. This would be a move away from a universal access approach.

Child-based funding models

The main feature of child-based funding models is that the government payment follows the child. Payments can be made directly to families, or be paid directly to the service providers that families have chosen to use. Payments could be on the basis of actual use or on projected use and adjusted for actual use once this is known.

Incentive effects on efficiency

Provided families have sufficient information on quality and alternative options, child-based funding facilitates choice. This choice promotes (allocative) efficiency by encouraging providers to respond to the preferences of families, including about where centres are established and the type of care provided (chapter 9).

Another advantage of child-based funding is it that supports competition between providers. It gives providers an incentive to minimise the cost of producing the services they provide, as families respond to the fees they have to pay above any subsidy they receive. (It is worth noting that even in provider-based systems where government sets prices and contract provision, choice can impose a discipline on private providers to offer an attractive service — as utilisation rates have an impact on the financial returns and/or funding sustainability of the service).

The New Zealand ECEC funding system has been described as a ‘textbook’ example of public demand-side child-based funding, with private ownership and management (Grun 2008). In addition to enforcement of quality standards, the public subsidy varies with the quality of the service to provide an incentive to increase quality, and in particular to provide services to children with additional needs. Grun (2008), in a comparative analysis of different types of ECEC systems, concluded that:

> … it is conceivable that under the New Zealand system quality and capacity by provider vary more than in say a French system. (p. 14)

Co-payments in child- and provider-based funding models

Some level of co-payment — through an out-of-pocket cost — is generally considered desirable in all funding systems. Co-payments:

- can reflect the private benefit that accrues to the child and family
- provide an incentive for families to consider their usage decisions and reduces the risk that places will be taken up when they may not be needed (although work/study tests can also mitigate this risk)

- can empower families to demand more from the service providers as making a payment can help them feel like they are buying a service rather than just receiving it from government
- are a way of controlling government expenditure on ECEC. This is because there is a direct substitution between what families pay and what government pays, and because higher co-payments can reduce the demand for ECEC and hence the total cost of government subsidies.

However, co-payments that are fixed at the same dollar amount for every family can be problematic as they do not give families a good indication of the cost of ECEC, nor of changes in the cost of supply. Where families relate their out-of-pocket cost to the service quality, they tend to demand quality commensurate with what they pay. A fixed co-payment means that families may not connect price and quality. They may also be less concerned about fee increases, whether driven by costs or profits. For this reason, fixed co-payments are more common in provider-based funding systems, where government dictates quality, or where the use of ECEC services needs to be encouraged with the aim of providing benefits to the broader community. In contrast, the advantage for families of fixed co-payments is that they know how much they will be required to pay.

A fixed subsidy — whether expressed as a dollar amount or as a share of the fees paid — exposes families to changes in prices, as the out-of-pocket costs rise directly with the fees unless the subsidy is adjusted. This brings market forces to bear in provider decisions about changes in their production process and improvements in quality that have cost implications. Families can also respond to changes in (out-of-pocket) fees by switching providers, as long as switching costs are not too high (chapter 9).

Although co-payments can contribute to a more efficient market for ECEC services, there can be situations where even a low co-payment may discourage the participation of high priority children (from a community perspective) in ECEC. In such situations, such as where the child is at risk of abuse or neglect, a zero co-payment may be appropriate.

In principle, families should be required to make a co-payment unless there are considerable benefits to the child attending an ECEC service and a co-payment would prevent them attending.

Which funding model is preferred?

A single child-based payment mechanism is preferred for mainstream services

There is no compelling case to shift from the current child-based to a provider-based payment system for mainstream ECEC funding in Australia. The current child-based system is highly responsive to the demand for services (chapter 9). The diversity it offers appears to be appreciated by families and any shift to a predominantly provider-based payment system would likely reduce variety in service provision, and thus the choices available (Grun 2008). In addition, a shift to a provider-based system would be extraordinarily disruptive, even if government were to contract with the existing private and not-for-profit providers for the services. Most importantly, a provider-based system that includes universal access would require subsidies well beyond the current funding envelope.

But provider-based funding may be more effective in some disadvantaged communities

While the bulk of current Australian Government funding is child-based, there are some provider-based or block-funded programs that fully or partially fund ECEC services. As the Australian Government's Department of Education noted in its submission:

> In practice, many of the supply-side programmes were created to address specific policy issues and have tended to become increasingly complex for government to administer and for providers to navigate as those specific issues have evolved. (sub. 147, p. 27)

A more flexible child-based funding system — where the subsidy provided relates to the cost of providing the service — should resolve many of the specific issues that such provider-based funding was developed to address. Nevertheless, there will continue to be some types of services where provider-based arrangements will be a more efficient way to deliver ECEC services to target groups. Where possible, funding arrangements should encourage a shift to child-based funding, and block funding should be supplementary, and designed to be transitional rather than permanent.

Keeping it simple can improve system functioning

Multiple funding systems tend to raise the overall administration cost to Government and providers, particularly where families have discretion about which way they receive their subsidy. They can also make it difficult for families to work out the dollar value of their subsidies. So clarity on what services are available and how they are funded, as well as simplicity in the funding formulas where possible, is important for the efficient and effective functioning of the system. While the Commission supports the consolidation of the current child-based funding arrangements, there are a number of ways this can be designed.

14.3 Approaches to child-based subsidies

Child-based subsidies subsidises can be administered through the:

- tax system — as rebates, tax credits or deductions. While tax deductions can be applied as part of the regular income tax payment, thereby leaving families with higher post tax take-home pay, rebates and credits are usually paid annually on completion of a tax return

- social security system — as subsidies to actual expenditure, or as a dollar entitlement for use of ECEC services. Government payments can be made directly to the families who then use this to pay providers, or be 'signed over' to providers (so that a subsidy to the user is paid directly to the provider).

This section examines the advantages and disadvantages of these different options, noting that they are not necessarily mutually exclusive.

Tax-based approaches

Tax deductibility is inherently inequitable

Some participants have advocated tax deductibility of ECEC out-of-pocket costs as a mechanism for delivering support to families (for example, The Tax Institute, sub. 166; National In Home Childcare Association, sub. 365; Dial-an-Angel, sub. 135). Other participants did not favour this option or expressed reservations because of the regressive nature of the approach (for example, Shop Distributive and Allied Employees Association, sub. 74; Guardian Early Learning Group, sub. 274; Australian Childcare Alliance, sub. 310).

While childcare costs are fully or partly tax deductible in some countries (for example, Canada, Austria and Belgium), this is not the case under Australian tax law. An employee is entitled, under section 51(1) of the *Income Tax Assessment Act 1997*, to claim a deduction for expenditure incurred in gaining or producing assessable income. However, this does not include any expenditure of a capital, private or domestic nature, irrespective of whether that expenditure is necessary in order to earn income. Childcare expenses have been determined to be private and domestic in nature (*Lodge v. F.C of T.; Martin v. F.C of T.*, Taxation Determination TD 92/154). Reversing this determination may give rise to calls for other expenses, previously considered to be of a private and domestic nature, to be allowable deductions, which would further narrow the income tax base.

The main advantage of tax deductibility is that it increases the incentives for high income secondary earners (mostly mothers) to work more hours. As the Tax Institute argued:

> Tax deductions for the costs of child care, if appropriately targeted, would encourage highly educated women who bear the primary responsibility for domestic duties to return to work. (sub. 166, p. 3)

However, the corollary that introducing a tax deduction would be offset by tax revenue from higher income — as argued by Louise McBride, Sophie Grace Pty Ltd and Sophie Grace Legal (sub. 431) — is unlikely (box 14.1). As tax deductibility provides relatively higher benefits for higher income earners, and as high income mothers are more likely to be working already, 'additionality' is low. That is, the additional work effort induced will be small for the people who are paying the higher tax rates because they already work more hours. In addition, under the current system only those workers for whom the tax deduction is worth more than the CCR (due to the capped nature) will switch to the tax deduction, so the cost of ECEC support provided will rise. And as a tax deduction is not worth much to low income earners, it does not have a much effect on their labour supply. Recent modelling by AMP.NATSEM found that not only would a shift to tax deductibility make most families worse off than under current arrangements, it would make low and middle income families considerably worse off (AMP.NATSEM 2014).

Box 14.1 The fiscal implications of tax deductibility of ECEC expenses instead of Child Care Rebate (CCR)

While mothers working more is likely to benefit to the Australian Government in fiscal terms (by increasing tax revenues and reducing welfare payments), it is extremely unlikely that allowing ECEC out-of-pocket costs to be tax deductible would 'pay for itself'. This is for several reasons:

- Mothers in high income families who are already working full time would only want to switch from current CCR assistance if their income was over \$57 000, which is where the value of the tax concession exceeds the current CCR. Depending on family income and, hence, on how much Child Care Benefit (CCB) they also receive, the income switch point could be higher, but those that do switch will end up increasing rather than decreasing the fiscal cost (they will not switch unless the effective subsidy is more generous).
- Early Childhood Australia estimated that family income would have to be \$185 000 for the tax deduction to be worth more than the current policy (based on one child in long day care at \$366 a week) (sub. 383).
- A shift to tax deductibility would benefit mothers on high incomes (raising the share of ECEC costs paid for by Government from 36 per cent to 45 per cent for women on incomes greater than \$204 000) at the expense of low income mothers with low family incomes.
- For mothers already working part time, an increase in their hours worked is only worthwhile if the tax concession is worth more than what they would receive from CCR/CCB assistance. As the top marginal tax rate (45 per cent) is below the 50 per cent rate of CCR, only those families who have hit the cap would prefer a tax deduction. For many mothers a switch from CCR/CCB assistance to tax deductibility would reduce rather than increase their hours worked as it would reduce their net wage.
- The Commission has estimated that for there to be a net fiscal improvement, mothers' wages would need to increase by at least twice the amount of childcare fees over \$15 000 per year before income tax revenue exceeded the savings in expenditure on the CCR.

However, if the Commission's recommended funding system (recommendation 15.2) is adopted, most high income families would receive lower rates of subsidies than under current arrangements, which would make tax deductibility more attractive for many families.

Source: Productivity Commission estimates based on current CCB and CCR arrangements and personal income tax rates.

As an additional complication, allowing out-of-pocket ECEC costs as a tax deduction could see a rise in FTB payments unless the deduction was added back into family income for these means tested benefits. A further concern raised by the Shop Distributors and Allied Employees' Association is that tax deductibility could potentially lead to 'stratification' of the ECEC system:

> Wealthy parents would pay more, knowing they could claim such costs on their tax. Over time, this would lead to the children of high income families being grouped together in certain centres and the children of lower income families being grouped together in other centres (sub. 74, p. 12).

Recognising the regressive nature of income tax deductibility, several participants suggested it should be considered in conjunction with other support measures that would assist lower income families (for example, The Tax Institute, sub. 166). However, the Henry Review (2009, section F4-2) highlighted the administration and compliance costs that would be associated with a dual system of tax deductions and transfer payments, noting that it would be simpler to provide assistance through a single mechanism in the transfer system. The Henry Review concluded that child care assistance is more effectively provided through the payments system rather than through a tax deduction.

The Commission agrees with the Henry Review's assessment and does not support tax deductibility as a funding model. It also notes that tax deductibility (at least of out-of-pocket expenses) does not address the limitations of the CCR in restraining growth in high end or premium services, as these additional costs are effectively shared with the tax payer.

Tax rebates and credits can address equity problems, but are limited by their administration through the tax system

Tax rebates and credits to offset the cost of ECEC for users are designed to be less income regressive than tax deductions. However, tax credits only provide support if the taxpayer pays more tax than the credit, and a tax offset or credit is of no or little value to individuals who have no or a very low tax liability. With a relatively high-income tax-free threshold this will apply to many part time workers. A flat rebate (such as the original Child Care Tax Rebate) or refundable tax offset provides the same benefit to all taxpayers for a given ECEC outlay regardless of their income levels.

Tax credits are commonly used to improve the affordability of ECEC services (for example, in the United States, the United Kingdom, the Netherlands, France and New Zealand). In France the fully refundable tax credit was recently doubled (Queisser 2013). The tax credit in the United Kingdom is available for up to 70 pence for every pound spent on childcare costs up to an annual limit (appendix G).

In principle, tax credits can be designed to be progressive, paying a higher dollar rebate or offset to workers on lower incomes. They can also include a means test so that once an individual's income exceeds a certain threshold, they would no longer be eligible to claim the rebate. However, this largely equates to using the tax system as a payment vehicle for a means tested subsidy scheme. The main difference is that linking subsidies to the tax system limits payments to those who file tax returns. In addition, the 'lumpy' annual frequency of payment reduces the value of the rebate for managing the costs of ECEC services throughout a calendar year. It also removes the clear link in family's minds between government subsidy and the cost of childcare.

Employer-provided childcare and Fringe Benefits Tax exemption is also inequitable

A model very similar to allowing tax deductability of childcare costs is to exempt employer provision (or purchase) of childcare for their employees from the assessable income of those employees. Currently an exemption from Fringe Benefits Tax (FBT)[4] applies for use of child care services provided for the benefit of employees *on the employer's business premises*. Employers can allow employees to salary sacrifice the cost of childcare when using these facilities (which provides a benefit to the employee that is similar to that afforded by allowing expenses as a tax deduction).

As accepting this arrangement generally precludes the family from accessing CCB and CCR, it is mainly used by full time employees on high incomes (Early Childhood Australia, for example, estimate that with one child the income flip point from moving to employer based arrangements is $180 000, sub. 383, p. 54). It may also be possible for families to use the employer provided services on a FBT-exempt basis once they have reached the CCR threshold, although the extent to which this is the case is not known. What evidence there is suggests that the current employer provided FBT exemption scheme is not widely used. For example, McMillan Shakespeare's survey of 100 large companies found only 2 per cent have sought FBT exemption for eligible childcare provision or purchases. As McMillan Shakespeare concluded:

> The transfer system has also developed to the point where it actively provides a disincentive to any parent other than those on high incomes to incur childcare costs on a before tax basis. (sub. 439, p. 3)

Participants (Australian Childcare Alliance, sub. 310; ANZ, sub. 125; Australian Industry Group, sub. 295; Australian Chamber of Commerce and Industry, sub. 324; MacMillan and Shakespeare, sub. 439) suggested other reasons why the scheme is not popular. They noted that many employers outsource the operation of their 'on-premise' long day care (LDC) Also, demand can be lower than expected as many parents prefer LDCs in their local area, nearer to home, because they facilitate pick up by either parent and for the social contacts for the children and families. Further, employers can find it difficult to meet the legislative requirements for the FBT exemption.

A number of participants have called for FBT exemptions to be extended to any childcare services purchased by an employer (for example, Australian Childcare Alliance, sub. 310;

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4 Section 47(2) in the *Fringe Benefits Tax Assessment Act 1986* (Cth) exempts childcare services provided for employees by employers in a facility that is located on the business premises of the employer (which has been interpreted by the High Court as premises leased by the employer, even if services are then contracted out). Section 47(8) of the Act gives FBT exempt status on contributions made by employers to approved programs to obtain priority access for the children of their employees.

Australian Industry Group, sub. 295; Australian Chamber of Commerce and Industry, sub. 324; Institute of Chartered Accountants, sub. 369; McMillan Shakespeare, sub. 439). Happy Hubbub, which offers co-working office accommodation with crèche services, has also called for employees of firms using their services to have the ECEC service not regarded as a fringe benefit, as self-employed people using their service can treat the whole cost as part of their operational cost (sub. DR457). While extending the FBT exemption would correct the inequity of the current system for some employees, not all employers are likely to be able to provide (or purchase) childcare for their employees. Moreover, as noted above, this approach provides lower support to workers on low incomes than to those on high incomes and involves potentially large tax expenditures.

The one advantage of exempting employer provided ECEC services from FBT, compared with allowing the tax deductibility of an individual's child care costs, is that it involves employers assisting their workers to access ECEC services. This may influence employer and employee attitudes about workplace flexibility, which are important for increasing the workforce participation of parents (chapter 6). However, given the problems associated with this FBT-based approach, other ways of encouraging employers to support their employee's access to ECEC services should be encouraged. This includes promoting knowledge about section 47(8) of the *Fringe Benefits Tax Assessment Act 1986* (Cth), which enables businesses to obtain priority access for children of their employees without this being considered an expenditure subject to FBT.

Retaining the employer provided ECEC tax exemption may undermine the intent of other reforms to ECEC funding arrangements. Any move to make the funding system less generous to higher income workers would be likely to lead to an expanded use of this provision. Given the case against the use of tax concessions, the scope for greater use under different funding arrangements, and the apparently low current use, the Commission concurs with recommendation 101 of the Henry Review (2009) to remove the FBT exemption on employer provided childcare. As the Henry Review (2009, p. 594) pointed out, '[T]he FBT exemption is now a remnant of an older system of support largely overtaken by an alternative system of direct support'.

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.

Tax and other concessions for providers

Governments provide a range of tax concessions to eligible not-for-profit organisations. Australian Government concessions include exemptions from income tax, FBT and GST, and refunds of franking credits on investments. Specific concessions and eligibility criteria differ between state and territory governments, but can include, for example, exemption from payroll, land tax and other input taxes, as well as municipal rates (chapter 9).

Participants representing the for-profit sector (for example, Dial-an-Angel, sub. 135) raised concerns about the competitive advantage various tax concessions afford not-for-profit providers, and that they violate competitive neutrality. Previous work by the Commission (PC 2010) found that FBT exemptions are also inequitable — usually higher paid employees of not-for-profit organisations and those from higher income families who can afford to reallocate their income to expenditures (such as mortgages) can make the greatest use of FBT exemptions. The system of tax concessions is 'complex, inefficient and inequitable, imposing substantial administrative costs on both not-for-profit organisations and governments' (PC 2010, p. 166). The Henry Review (2009) recommended that FBT concessions for not-for-profit organisations be phased out over ten years and replaced with direct government funding.

A few participants (such as Dial-an-Angel, sub. DR640) suggested extending the existing FBT concessions to all ECEC providers. As the current ECEC funding arrangements do not distinguish between for-profit and not-for-profit providers, FBT concessions should not be required for financial viability. Moreover, supporting not-for-profit organisations through tax concessions is less transparent than providing direct subsidies or grants. Extending FBT concessions to include for-profit ECEC providers would create further distortions as other sectors competing for resource with the ECEC sector would be disadvantaged.

But tax concessions may be important for the financial viability of some providers, such as not-for-profit providers supplying ECEC services to children with additional needs. Moving to a funding model which better meets the costs of additional needs should remove the case for retaining FBT concessions to these providers. In fact, should the Commission's proposed funding model be adopted and FBT tax concessions not be phased out, the Australian Government would effectively pay twice for services offered by not-for-profit providers.

Income contingent loans

An alternative to directly funding ECEC services is to provide 'income contingent loans' to families using ECEC services. Repayment of such loans commences only when the income of the borrower exceeds a threshold, and typically occurs through the tax system. This type of deferred repayment arrangement was introduced in Australia for university student loans in 1989.

Australian Government loans could be offered to families to meet out-of-pocket expenses (after receipt of any government assistance under other arrangements) or such arrangements could be introduced as a substitute for other forms of ECEC assistance.

In theory, the key reason government might provide such loans would be to offer a rate of interest lower than the market rate, or to improve access for families who are unable to access the financial market for such loans.

The main justification for the Australian Government to subsidise a loan for tertiary education is to finance investment that will generate an income sufficient to repay the loan and interest. Maintaining attachment to the workforce, including minimising time away from work after the birth of a child, may also be viewed as an investment as it is likely to contribute to higher earnings in the future (appendix J). The other main reason for taking a loan is 'consumption smoothing' over time. Many families might reasonably expect their incomes to be higher in the future and their expenses to be lower as children reach school age. Taking out and later repaying home mortgages is an example of consumption smoothing.

The main concern with an income contingent loan scheme for ECEC services is that access to finance is unlikely to be a significant barrier to utilising ECEC services. While some families cannot easily access finance, many more have home mortgages which suggests that they can. In any case, unlike studying, where the investment activity precludes earning an income, ECEC is in large part about enabling parents to work. Given this, finance from a loan is only required if the costs of working (including childcare costs) exceeded the after-tax and transfer-adjusted wage — that is, where the net wage is negative. This would be the case if families are using ECEC services to study, in which case such a loan could be an extension of the HELP scheme, although the same logic would apply to living costs. But for most families using ECEC services it would only provide another means for income smoothing.

Additional concerns with the income contingent loan approach include:

- any interest rate differential between home mortgages or other debt and the loan offered by government will provide an incentive to take the government loan and use it to reduce other borrowings
- repayments would commence only when, or indeed if, the relevant parent's income reaches the threshold level (this was $51 309 for the Higher Education Loan Program in 2013-14). If this threshold is the income of the mother, this adds to the effective marginal tax rate (EMTR) of returning to work or increasing the hours of work, and hence is an additional disincentive to any work effort that takes income beyond the threshold for repayment
- if the loan repayment threshold is imposed on family income, then a decision on how to allocate the loan obligations across the two parents is required. If family income is used as the base, repayment is likely to start immediately, reducing the consumption smoothing value of the loan.

Low income families may benefit if they normally only have access to high cost credit. However, unless lower income thresholds are applied, the scheme may end up closer to a grant than a loan scheme for some of these families.

The cost to taxpayers of such a loan scheme would depend on the specific design of the scheme, including effective interest rates and the income thresholds for repayment. While in theory, the cost is likely to be lower than grant-based schemes, these types of results typically assume a high rate of repayment. If take up rates are high, the repayment rates are likely to be much lower and/or over much longer terms, both of which raise the cost of the scheme.

Given these concerns, the adoption of an income contingent loan for ECEC expenses is not warranted. Nor is this option likely gain user support; Higgins and Withers (2009), in a survey of Australian attitudes to income-contingent loans found very low levels of support for the use of income contingent loans for ECEC expenses.

Social security approaches

There are two main approaches to providing child-based subsidies:

- provide a fixed value ‘voucher’ to families that they can use toward the cost of their selected ECEC services
- meet a share of the actual fees charged by the services that families have chosen.

In both cases the payment is usually made either directly to families (through the social security system) or to providers (by the relevant department) on the basis of information supplied by families and/or the social security system.

In Australia, the Australian Government’s Department of Human Services (DHS) manages child-based payments on behalf of the Department of Education. The current CCB is a fixed–value subsidy (albeit very complex); the current CCR is effectively a fee-based subsidy as it meets a 50 per cent of out-of-pocket costs (which depends on fees and the families eligibility for CCB).

For both fixed value subsidies and share of fee subsidies, governments can vary the rate (the percentage of the subsidy that the family receives) based on criteria, such as family income. They can also cap the total amount of the subsidy, on an hourly, weekly or yearly basis. These features help to achieve program objectives and manage the cost to government (which is discussed in section 14.4). This sub-section looks at the advantages and disadvantages of the fixed value and share of fees approaches in regard to promoting market efficiency while meeting government objectives.

Fixed value subsidies allow market signals to operate

With a fixed–value subsidy, the co-payment faced by a family depends on both the rate of subsidy they receive and the difference between the benchmark value and the fee that the ECEC provider charges for the service. Even if a family has a 100 per cent subsidy rate, they will face an out-of-pocket cost if the fees charged by the service they select are higher than the benchmark value. This feature of a fixed–value subsidy should induce greater resistance to fee increases for all families as they bear the full cost of any fee increase unless the subsidy value is adjusted. From an economic perspective this encourages greater allocative efficiency as it exposes the family to the full amount of any changes in ECEC costs.[5] Whether this adds to community wellbeing depends on the source of the cost increase, and the public benefit from the use of the ECEC services.

If markets are not fully competitive, the fixed–value subsidy reduces the scope for providers to 'cost-pad', that is to provide a higher quality of service than that for which families are fully willing to pay.[6] A related advantage of a fixed-value subsidy over a share-of-fee-based subsidy, even in competitive markets, is that the full cost of any extra service features, such as dance and music lessons, are not unduly subsidised by taxpayers —government is not subsidising services that are not part of the program's objective. That is, the fixed–value subsidy helps constrain costs rises from quality increases that are not equally valued by families (or by the broader community).

With fixed value subsidies families face the full cost of any fee increases so they should be more willing to be 'activist consumers', which is important to ensure ECEC providers deliver the sorts of services for which families are willing to pay, in the locations and age groups needed. In contrast, these incentives are lower in share-of-fee-based subsidy systems, so the level of competition between ECEC providers and the capacity of families to switch services become more critical in determining constraints on growth in fees. As a result, any regulatory barriers (chapter 7) and natural barriers to entry (chapter 9) are even more important to address in a share of fee based system (appendix I).

… but fixed value subsidies require adjustments over time

Fixed value subsidies need to be adjusted for general input cost increases to maintain their real value. They also require adjustment to reflect changes in costs that government regulation imposes on providers. For example, where costs are rising due to a mandate for higher quality, the fixed-value subsidy can undermine other objectives (most notably affordability, which affects workforce participation and ECEC use), if the level of the subsidy is not adjusted over time.

5 Prices that reflect cost guide consumers to pick the mix of goods and services that gives them the greatest welfare for any given total cost. While privately optimal, in the presence of externalities this choice may not be socially optimal.

6 In a fully competitive market, the scope for providers to cost pad is limited by competition, as families will only choose the service if they value the additional features on offer (appendix I).

Benchmarking can help to set the fixed–value subsidy

If the subsidy is based on the benchmark value, fees above the benchmark value add to any co-payment required from the family based on their subsidy rate. Where the provider's fees are below the benchmark value, the value of a subsidy can be determined:

- on the fees actually paid — leaving families with the same subsidy rate as lower fees lower their out–of–pocket cost in direct proportion to their subsidy rate
- on the benchmark value — giving families a higher 'effective' subsidy rate than their assessed rate. For example, families with a 70 per cent subsidy rate paying fees of $7 an hour would have an effective subsidy rate of 80 per cent at a benchmark value of $8 an hour.

If a high benchmark value is adopted, then the subsidy should be based on actual fees. If a lower benchmark value is used then the second approach may be preferred, especially if the maximum subsidy rate is well below 100 per cent. This would improve affordability more for families with high subsidy rates who choose lower cost services.

One concern is that a benchmark value (or any fixed value) subsidy would set a floor price for the product or service — providers with fees below this level would raise their fees to this level. However, if most families only receive a proportion of the subsidy (due, for example, to means testing), there can still be pressure on providers to set fees below the benchmark value under either approach to determining the subsidy. The more competitive the market, the greater these pressures will be. Similarly, providers would have a strong incentive to pass through any savings from improvements in efficiency to their clients, in the form of lower fees. This contrasts with the share-of-fee based system where any saving would benefit government as much, if not more, than clients (depending on their subsidy rate). The arguments for and against the different approaches are summarised in table 14.1 and discussed in appendix I.

The extent to which the introduction of the CCR, which is a share–of–fee–based subsidy contributed to the growth on ECEC fees is unclear (chapter 9). However, anecdotal evidence suggests it has resulted in the Australian Government subsidising some additional features in a small share of ECEC services for which it would be hard to justify providing a public subsidy.

Table 14.1 **Characteristics of different co-payment options**

	Fixed co-payment	*Variable co-payment – share-of-fee-based subsidy*	*Variable co-payment – fixed-value subsidy*
Example	Quebec $7 a day	CCR	CCB
Effect of an increase in fees on the rate of subsidy	Subsidy rate rises	Unchanged (although an annual cap would be reached earlier)	Subsidy rate falls
Incentives for families to resist fee increases	None	Depends on subsidy rate – low for those on a high subsidy rate	Market incentives as families bear full cost of fee increases
Incentives for providers to 'cost pad'	Depends if they can pass back to a government funder	High if the market is not competitive	Lower as greater family resistance even if market is not very competitive
Incentive for adding extra 'quality' elements to service	None – unless government is willing to pay for them	As family only pays part of the cost, more incentive to offer and for families to accept additional services even if they value them less than the additional cost	Family pays full cost, so only accepts additional services it values more than the cost

In summary:

- a fixed–value subsidy removes the risk of cost padding, and can provide greater incentives for producers to be efficient (where the market is not highly competitive) than a share of fee based model
- a fixed–value subsidy (when based on a reasonable cost of delivering a service of the quality desired by government) means that the taxpayers do not (part) fund extra services that some providers offer to families
- a benchmark value approach, which is updated regularly, is superior to a fixed–value subsidy in continuing to achieve the policy objectives in the face of overall rising costs.

For these reasons, along with the greater ease of controlling the total cost of subsidies, the Commission is proposing a benchmark value basis for ECEC subsidies (recommendation 15.3). Several participants supported this kind of approach. For example, Brennan and Adamson argued that:

> Rather than being an arbitrary figure as CCB appears to be, the maximum hourly rate for ELS [Early Learning Subsidy] should be designed to reflect reasonable costs of delivering a high quality service. (sub. 420, p. 3)

Setting benchmark values

As detailed in appendix I, there are two main ways in which a fixed–value subsidy can be provided:

- the government can set the benchmark value of vouchers available, based on an overall budget and expected demand. In this case, the benchmark value of the voucher bears no relation to the cost of the ECEC service.
- alternatively, the benchmark value can be set to reflect, for example, what the government determines would be a reasonable cost of providing the service or a reasonable fee (including a normal return on investment) for provision of a service that satisfies the National Quality Framework (NQF) (appendix F).

A benchmark pricing approach is better than a cost model approach

In the cost model approach, government analyses the cost structures of providers and services to determine the full set of factors affecting the cost of providing a service to the quality standard required, and builds a model to replicate this. There are different ways to model the cost, such as using a structural model that aims to replicate the production or cost function based on particular input relationships, or using econometric models that capture the drivers of input choices (and so allow for some substitution between inputs). This process is data intensive, and the cost models can become quickly outdated if the nature of production is rapidly changing. This may be less of an issue in ECEC services where labour costs are a large share of the total cost of production (chapter 9). But as input prices also tend to rise over time, the estimated cost needs to be indexed even if the structure of the cost model does not need to be updated regularly.

A market driven approach to setting the benchmark value is to use information on prices, setting the benchmark value to the actual level of fees charged by a representative sample of services (or all services). For example, the benchmark price could be set at the median level of fees (or any other percentile of fees) which should be representative of the fees charged by a service that satisfies the NQF. As long as the benchmark price is based on a percentile level of fees, it will remain unchanged even if all services below it raise their fees to the benchmark price.

One concern with a cost model approach is that it can end up distorting market prices if providers use it as a basis for setting their fees and there is then a fundamental change in the cost structure of ECEC businesses. The benchmark price approach avoids this problem as fees do need to adjust to changes in cost structures and input costs in competitive markets. Another advantage of the benchmark price approach over the cost model approach is that it can be easily updated as long as data on the fees charged is collected.

The Commission is recommending that a benchmark price approach (rather than a cost model approach) be used to set the benchmark value of services.

… but systemic differences in costs should be reflected in a benchmark fixed value where they reinforce government objectives

One of the challenges in implementing the benchmark fixed–value subsidy approach is where there is variation in the cost of producing a service that satisfies the NQF across different locations and/or types of services.[7] The cost model approach can be used to estimate a cost difference based on the type of ECEC service, age of children, and/or location, and this estimate can be used to determine 'loadings' to be applied to the benchmark fixed–value subsidy. With a benchmark price model approach, estimates of different types of 'loadings' can be based on revealed fee differences, as long as the sub-markets are reasonably competitive (so that variations in fees reflect differences in the cost of supply, rather than differences in market power).

Having 'loadings' is important for achieving ECEC affordability objectives, especially if there are substantial cost differences across the different dimensions of service provision. They are also important for horizontal equity reasons — so that families in similar situations face similar out-of-pocket costs.[8] Nevertheless, the case for 'loadings' must be an empirical one — they are only needed if there are *significant* systemic differences in costs. This can be ascertained through an examination of fees.

There is a trade-off between the gains from greater differentiation through loadings and the costs imposed by the associated additional complexity. As mentioned above, a loading is warranted if there are large differences in the underlying cost structures or input costs. However, the more categories of benchmark value (or loadings to a base benchmark value) that are allowed, the greater the complexity, administrative costs, and scope for distortions and inequitable outcomes (for example, neighbouring centres either side of a boundary between two benchmark value zones).

Where there are significant cost differences, these will not be apparent in fees if providers are able (and choose) to cross-subsidise across different cost services. For example, providers who operate across several locations may choose to cross-subsidise to offer the same fees in all their locations regardless of differences in costs. This may be efficient for the provider, particularly if the cost differences are temporary. But if the cost differences are systemic, this can prevent other providers from entering into the higher cost market, reducing competition (chapter 9). This cross-subsidising behaviour will induce entry into the lower cost market, potentially resulting in excess supply in that market. Setting subsidies that reflect the sustained differences in costs across locations should reduce incentives to cross-subsidise, and enable provision of services to more closely match demand in an area.

7 This is why diagnosis related group (DRG) pricing, or efficiency pricing, is not applied to complex and infrequent hospital procedures.

8 As long as families have a subsidy rate of below 100 per cent there will be some difference in out-of-pocket costs, but they will be lower than in the case of a single deemed cost.

There can be improvements in allocative efficiency if a distinction is made in the benchmark fixed value between services based on the age of the child, which is the area where providers currently tend to cross-subsidise (chapter 9). Allowing the benchmark fixed value to reflect the different cost structures of supplying services to children of different ages send families a price signal about the cost differentials in providing these services. It also translates to different out-of-pocket costs that will tend to affect the family's demand for these services. Currently, most LDCs cross-subsidise across the age groups. A move to a higher benchmark fixed–value subsidy for infants and toddlers and a lower one for preschool aged children should encourage services to reduce the cross-subsidises across ages. This would reduce demand for places for the youngest children and increase demand for places for older children, which will be desirable from a child development perspective as there are definite benefits from ECEC for most children in the 3 to 5 year age range while long hours for younger children can have negative effects (chapter 5).

If some providers choose to cross-subsidise services for the younger children in the face of a different benchmark fixed–value subsidy, their services to infants would end up with a very high proportion (if not all) of the fees being met by the subsidy, while their services to the older children would have a higher out-of-pocket cost. However, this is unlikely to be financially viable for the provider over time, and already providers are moving toward some differentiation in fees by age (chapter 9). A benchmark price will differentiate by age only as the market adjusts and the median fee for an age group changes. If individual providers choose to continue to cross-subsidise as the overall market moves away from this pricing model, they will experience a major increase in demand for infants and a loss of older children. This in turn will reduce the viability of maintaining their cross-subsidy.

The Australian Government may also want to sway parents towards choosing a particular type of service if it believes that service offers greater public benefits. For example, services offering different mixes of 'care' and 'education' could also be costed accordingly, allowing a higher benchmark fixed–value subsidy for services with more 'education' in their mix. This higher subsidy for more education reduces the distortion that a fixed–value subsidy provides for taking a lower education, but cheaper, ECEC option. New Zealand has adopted this differential subsidy approach (appendix G). Ultimately, whether care and education loadings should be used comes down to how much government sees value in encouraging families to choose services with a higher education content.

14.4 Achieving objectives while managing the cost

In provider-based subsidy systems, governments can fix price and quantity based on the available budget by rationing supply. For example, they may set limits on the number of subsidised childcare places available at each service as well as on the number of subsidised providers. In such systems, queues are observed when there is unmet need.

In child-based funding systems, where rationing is not an option, other approaches are used to limit the fiscal exposure of governments. These include caps on use and/or subsidies, means testing (limiting the size of subsidies rather than their use) and other eligibility limitations, such as activity tests. Such design features affect who is encouraged to use ECEC services and how much can be used.

This section considers the various options for promoting the objectives of child development and workforce participation, while also managing government's fiscal risk in a child-based funding system.

Capping the use of services or total subsidies paid (or both) can help to limit costs to taxpayers

The most direct way to manage the cost to taxpayers is by capping the hours to which subsidies apply and/or the total subsidy a family can receive for a child's use of ECEC services. The Australian Government has implemented both types of limits. For example, CCR is capped at an annual dollar amount per child and the total hours to which subsidies (CCB and CCR) apply is limited to 50 hours a week.

Binding caps can distort behaviour, reducing workforce participation …

Caps, to the extent that they are binding, distort behaviour. Anecdotal evidence suggests that many families vary their working hours or make other arrangements to stay under the $7500 CCR cap, to avoid paying full fees for ECEC services. As a result, the CCR cap acts to restrain the hours that the second income earner, or even both parents, are willing to work. One parent who uses ECEC services commented:

> The capped rebate is anti-full time employment and anti-career. It primarily affects women as secondary earners, so is also inherently misogynistic, and achieves the opposite of what was spouted — it drives women back home, depriving them, their families and the community of independent, industrious workers. (comment no. 49, ECEC user).

Another asked:

> … why is it capped at $7,500 a child? Is this to limit the amount of hours we are working? (comment no. 205, ECEC user).

While a cap on the amount of subsidy per child is a simple way to manage cost to government, it has had unintended consequences, distorting work and care choices. For example, one mother described in her submission her family's management strategy:

> … when we reach the cap of $7500 pa (previously just over $7800 but reduced by the Rudd Government), I have to use my leave and extended family to help look after the children instead of daycare for the final month. We then run the risk of losing our place in daycare because we have to un-enroll the children and then re-enroll in the following financial year. (Name withheld, sub. DR866, p. 2)

The current freeze on the CCR cap means more families will find it harder to avoid 'hitting the cap' in the future, potentially adversely impacting the affordability of ECEC services and workforce participation. Ideally, this type of 'threshold effect' should be avoided when designing subsidies (as should sharp shifts in eligibility for FTB, which also creates threshold effects — chapter 6 and appendix E).

The National Commission of Audit (2014) recommended retaining a cap on CCR, but setting the dollar value of the cap higher for lower income families, thus allowing a higher share of their ECEC use to be subsidised. This proposal reduces the interaction of the cap with other means tested payments, but to prevent any threshold effect of the type outlined above would require the cap to be set equal to the cost of full-time ECEC use for middle income families who are still eligible for means tested benefits. While a means tested cap could be applied in conjunction with a means tested subsidy, this may be unnecessarily complex for the extent of cost management it would provide.

… limiting the hours of subsidised ECEC may be a desired distortion

Caps on the number of hours of eligible subsidies can also create a threshold at which the net wage falls dramatically. This is a problem if the subsidised ECEC hours are less than those required by a mother's employment. As very long hours of ECEC for younger children is usually not advocated (chapter 5), the current limit of 50 hours per child per week is likely to be adequate to enable workforce participation of parents and to avoid unduly long times in formal ECEC for younger children.

However, to ensure that a 50 hour a week cap does not constrain work arrangements (for example for workers with variable shifts), the Commission is proposing that the existing cap on hours of use is imposed on a fortnightly (rather than weekly) basis. A fortnightly cap on the hours of use means that parents receive the same subsidy for full-time working hours (although to the extent their income rises they may receive a slightly lower subsidy rate). This approach would remove the disincentive to increase hours of work, and is more equitable for parents working full-time and hence needing 100 hours of care a fortnight.

Means testing helps target taxpayer funds to those who need it most

Both the subsidy rates and the income thresholds in a means test are critical in encouraging families to use ECEC services that may be beneficial for their child, and achieving the workforce participation objective.[9] They also provide the Australian Government with policy levers to manage the cost of the ECEC system.

9 This discussion relates to ECEC services where universal access is not an objective. Chapter 12 sets out the case for universal access to and, hence funding of, ECEC for children in the year prior to commencing school.

While many factors affect parents' decisions to work and use ECEC services, the out-of-pocket cost of childcare is a major consideration for many mothers and single parents (chapter 6). Mothers will return to work as long as the net wage (wage post tax, any change in family income due to loss of income tested benefits, and net of out-of-pocket childcare costs) exceeds their reservation wage[10]. The reservation wage varies considerably across women, both independent of and as a result of their family situation. For example, a recent survey (CareforKids 2014) suggested that a significant share of mothers must have a reservation wage close to zero as they report that, after childcare costs, they are often not better off financially. Other research has identified a low take-home pay from return to work as a major barrier for low wage mothers (Phillips 2014). The Parenthood cited their survey results that '[T]hree in four parents 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, p. 11). If this was the case, it suggests that many mothers have a reservation wage only just below their net wage.

Targeting greater workforce participation requires providing greater subsidies (and thus lower out-of-pocket costs) to those people whose net wage currently falls below their reservation wage. If a mother's reservation wage rises with hours of paid work (because the opportunity cost of longer hours in paid work increases as paid work hours rise), increasing the net wage may induce longer hours. Hence, lowering out-of–pocket costs can induce both higher workforce participation and longer hours in the paid workforce. Conversely, raising out-of-pocket costs will lower workforce participation for mothers whose net wage was only just above their reservation wage, and lower hours in the paid workforce for those mothers who are sensitive to their net wage.

As participating in the paid workforce can substantially improve the current and future standard of living for mothers and their families, directing ECEC subsidies to families below or close to the poverty line can represent an efficient allocation of limited taxpayer resources.

Setting means-tested subsidy rates

The rate of subsidy is a key variable for inducing use of ECEC services and for controlling the government's ECEC expenditure. The more generous the subsidy rate, the lower the out-of-pocket costs to the family, the more they are likely to use an ECEC service and the higher the cost to government. This quantity response to a higher subsidy rate means that government expenditure on ECEC rises for both price and quantity reasons. Moreover, if workforce participation increases with more generous subsidies, the total out-of-pocket expenditure of families could actually rise despite a higher share paid by Government.

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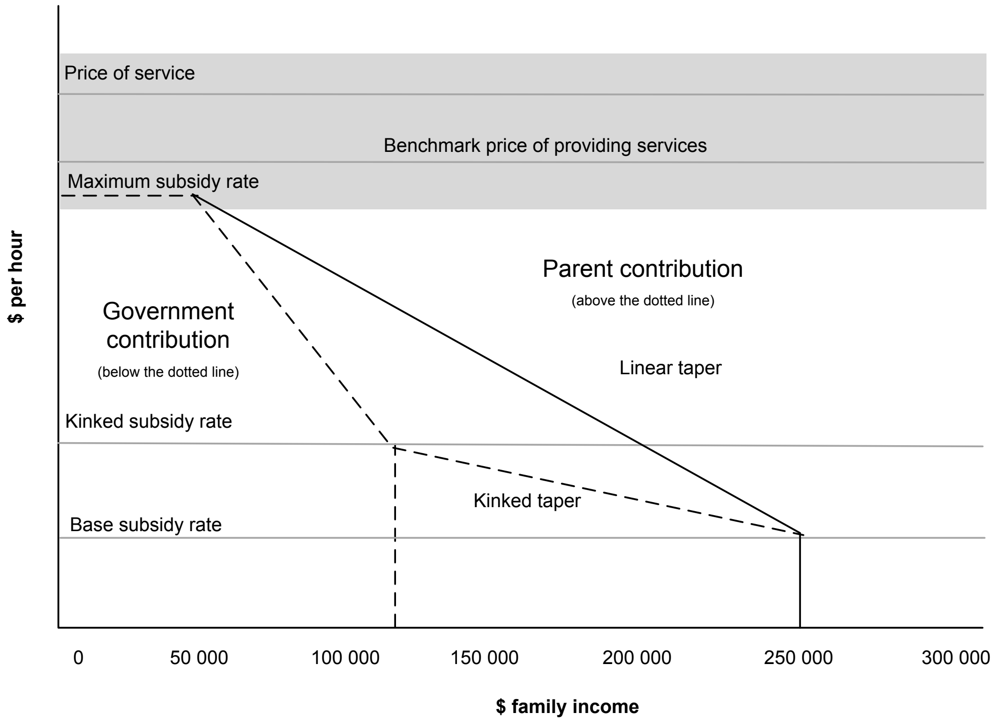
[10] The reservation wage is the wage a worker needs to receive to make it worth their while to work. For mothers, this can include the cost of ECEC services, travel costs, and the value that they place on their parenting time.

The rate of subsidy usually varies between a base rate for families with an income above a upper threshold and a maximum rate for those whose income falls below a lower threshold. Between the maximum and the base rate, the rate of subsidy depends on the taper rate, which can be linear, kinked at an income threshold, or have some other profile. Figure 14.1 illustrates the way a means test is applied to a subsidy rate. For the same maximum and base rates and thresholds, a kinked taper is less generous to all families than the linear taper, and so has a lower cost to government.

Figure 14.1 **An illustration of the way that subsidy rates and thresholds work to determine the hourly out-of-pocket cost for families**



Various base and maximum subsidy rates have been suggested in submissions and by other reviews (table 14.2). The current subsidy rates range from 100 per cent for some children (those with families that get Special CCB (SCCB) and with grandparent carers who are on income support), to around 30 per cent (for a child who is in full time LDC at $100 a day (reflecting the 50 per cent CCR for a family that does not qualify for CCB and hitting the $7500 cap)). In 2012-13, the average subsidy rates for families on incomes below $40 000 was 89 per cent, for families between $60 000 and $100 00 it was 71 per cent, and for families on incomes over $200 000 it was 36 per cent of the total cost of ECEC services (chapter 11). It is worth noting that families that do not satisfy the activity test are eligible for CCB for up to 24 hours of ECEC a week. For these families, even if they get 100 per cent CCB, their effective subsidy rate will be below 50 per cent if their fees are more than twice the CCB rate.

As there is a strong case for requiring a co-payment that reflects the cost of providing ECEC services (see above), other than in exceptional situations (such as where a child is at risk), the maximum subsidy rate should be less than 100 per cent. With LDC costs for most families currently around $7 to $8 an hour, a subsidy rate of 90 per cent for low income families means that the co-payment would be 70 to 80 cents an hour.[11] With the current federal minimum wage of $16.87 an hour, this subsidy rate adds only between 4 and 5 percentage points to the effective marginal tax rate (which depends on the income tax rate and the withdrawal rates of other benefits as income rises).

Table 14.2 **Some suggested subsidy rates**

	Maximum	*Base*	*Comment*
	%	%	All based on family income
Henry Tax Review (2009)	90	35	Fee-based, rate set by marginal tax rate for average income
National Commission of Audit (2014)	80	50	Fee-based, capped at $12 000 for those on maximum rate declining to $7500 for those on base rate
Brennan and Adamson (sub. 420)	100	35 to 50	Based on ‘reasonable’ cost
Brotherhood of St Laurence (sub. 208)	90	35	Fee-based, 100% for at risk children and those facing multiple disadvantages. Capped at $5250 for base rate

Source: AMP.NATSEM (2014); Henry Tax Review (2009); National Commission of Audit (2014); Phillips (2014); sub.420; sub.208.

There is no ‘right’ base rate of subsidy

An efficiency case for a zero base rate for high income families can be made if working women on high incomes are unlikely to change their workforce participation even if they have to pay more for ECEC than they currently do. If this is the case, then reducing subsidies for this group reduces the cost of ECEC subsidies for the government without any offsetting loss of income tax or change in other transfers (or change in ECEC use unless they can substitute to informal care). There may also be a vertical equity case, as high income mothers (and families) should be able to afford to pay for ECEC services, and it may be poor use of taxpayer money to subsidise their use of ECEC.

However, although women with a higher educational attainment are more likely to return to work while their children are young, they can still be sensitive to the cost of childcare (chapter 6).

[11] The current out-of-pocket costs range from 90 cents to $2 an hour for this group depending on the type of service they use and number of children. The exception is parents in receipt of JETFCAA who pay a $1 and hour, for which they can claim CCR, reducing it to 50 cents an hour. Out-of-pocket estimates will also depend on whether the family chooses a service that charges more than the deemed cost of care.

Currently, many mothers in higher income families who work part time (and so deliberately stay below the cap) receive a 50 per cent subsidy. Reducing this subsidy rate may see them reduce their working hours (although alternatively, members of this group could potentially also increase their hours of work if the effect of removing the cap dominates the lower subsidy rate). How they react will affect the average labour productivity of working mothers. The net impact of changes in the funding arrangements on the labour supply and its average productivity is ultimately an empirical question (chapter 16).

A number of participants argued that some assistance with ECEC costs should be provided to all families irrespective of income levels. A recent article by Andrew Podger summarised the view that a 'universal entitlement' was justified:

> Rather than means testing every payment, we should appreciate that family payments are there for horizontal as well as vertical equity, recognising that at all family income levels, the cost of children, and the costs (direct or indirect) of their care, affects parents' capacity to pay tax. (Podger 2014, p. 43)

A non-zero base rate can be seen as recognition that:

- there is an educational component to ECEC that is important for all children
- childcare costs are a cost of producing income for many mothers and single parents
- even at high income levels, the tax (if not the transfer) system reduces the benefits of working relative to not working, acting as a bias against paid work
- support for public subsidies for ECEC services is enhanced if there is some universal element.

In addition, setting the base rate to zero will increase the pressure for the government to offer tax deductibility, which, as argued above, is highly inequitable. Moreover, workers who are able to access an employer provided ECEC service will be exempt from FBT unless this tax treatment is not removed as recommended.

There is also a view that mothers have the same 'right' to participate in the workforce and should face the same incentives as non-mothers, although not all people would agree.

Regardless, the case for funding subsidies to higher income families needs to be balanced against the benefits the funding would bring from providing assistance to children with additional needs or to those children who would not have any access to services in their area. Hence, while the funding system should be designed to allow for a non-zero base subsidy, the size of the base rate in practice should be determined by the size of the funding envelope that the Australian Government makes available.

Subsidy rates don't need to take account of the number of children in a family

The current CCB rate calculations take into account the number of children as well as family income (appendix C). This reflects the higher total cost of ECEC use if a family has multiple children using these services. These adjustments make for a highly complex formula, which is one reason why it is difficult for providers to explain the current subsidy to each family.

Some participants argued for increasing funding assistance for families with multiple children. There are, however, some ECEC options that are more affordable as the number of children within a family rises. As Guardian Early Learning commented:

> … as it is expensive having multiple children in care and work becomes marginal and the economics of nannies more attractive the more children you have. (sub. 274, p. 5)

Expanding the scope of the ECEC subsidy to include nannies should assist some larger families (chapter 10). The case for varying subsidy rates with the number of children rests on a cost of children argument. As the FTB system is designed to assist families with the costs of children and includes additional support for large families, adjusting subsidy rates for the number of children adds a layer of complexity that is already partly addressed.

Which income source should be used for means testing?

Currently, the Australian Government uses family income as the basis for the means test for CCB. An alternative is to use the income of the second income earner (usually the mother). The case for considering this income basis is to more closely tie the subsidy to the mother's net wage in order to more directly affect her workforce participation.

While intuitively appealing as a way to have a greater effect on workforce participation, the association between the income and incentives to undertake further hours of paid work for a second income earner is not straightforward. The most important consideration is how a means test for ECEC services would interact with other family payments (for example, FTB). The second earner's income is generally much lower than family income, so for a given amount of subsidy, a lower income threshold would be needed to start the taper rate (for maximum ECEC subsidies) together with a steeper taper to a lower income threshold (than the equivalent family income threshold) for the base rate subsidy. A steeper taper has the potential to further exacerbate the high effective marginal tax rates faced by many mothers as they expand the hours that they work. Unless the funding envelope was expanded considerably, it would be very difficult to avoid a major interaction with FTB thresholds. In a similar vein, as FTB Part B is means tested on the second earner's income as well as family income, an additional means tested payment on the same base would raise the effective marginal tax rate for mothers in families eligible for FTB Part B. This compound effect is higher than when using a family income means test.

There are also horizontal and vertical equity considerations. Income threshold levels and taper rates designed for a means test for a second income earner — being steeper by necessity — would adversely impact single parents. There would need to be a separate test for these families.

In addition, there is a significant difference between families that derive an annual income of say $120 000 from two parents working full-time (with each earning $60 000), and a family that has one parent earning $110 000 per year and the other $10 000 per year from one day a week of work (Peter Apps, sub. 414). The need for ECEC services to enable the family to earn $120 000 is clearly greater for the first of these two families. Using family income as the means test would treat these two families the same — which may be seen by some as inequitable — but basing subsidies on the second income would see the second family receive a substantially higher subsidy rate — which may be seen by others as more inequitable. This illustration highlights the need to apply a second income earner test to the hourly wage (or potential full time annual income), rather than to the annual income, to maximise impacts on workforce participation. But this test would be complex to implement.

Administrative difficulties also arise as the income of the second earner tends to be less stable than family income as the primary earner tends to work full time and second income earners are often part-time, with a higher rate of casual work (Abhayaratna et al. 2008). A highly fluctuating income would require regular adjustment of the subsidy rate to ensure that the family is not left either under- or over-compensated relative to the subsidies they would receive based on annual income.

Family income is a better indicator of a family's capacity to meet ECEC out-of-pocket costs. It is also a better proxy for a child's socio-economic circumstances, which are related to the benefits for this group of children from attending ECEC services. The probability that the family will use ECEC services is also positively related to family income so, from a child development objective perspective, a family income means test is preferred.

The continued use of family income for the means test was not challenged, nor any alternative put forward following the draft report. For all these reasons, the continued use of family income for the means test remains warranted.

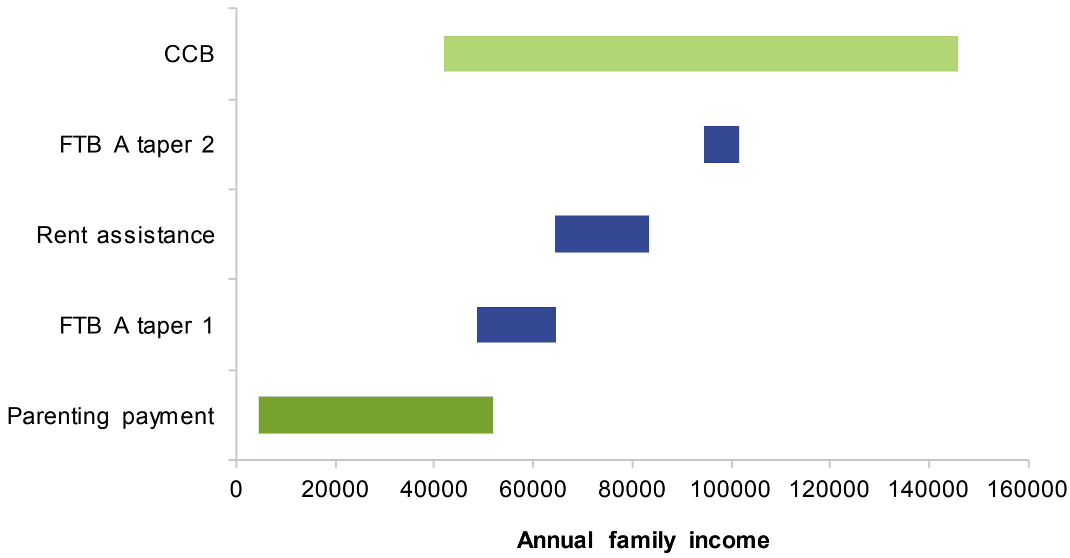
Thresholds for ECEC subsidies interact with thresholds for other means tested payments

The setting of the income thresholds, in conjunction with maximum and base subsidy rates, are important policy levers to help target funding. But income thresholds for ECEC subsidies also interact in complex ways with other means test thresholds.

Both the threshold for the maximum rate and the threshold for the base rate of subsidy affect the subsidy rates for other income levels. The higher both these thresholds are, the more generous the subsidy rate is for middle income families. That is, the upper income threshold along with the lower income threshold (plus any mid subsidy rates and thresholds for kinked tapers) will determine the subsidy for families on incomes between the two thresholds.

The profile of the taper — along with the income thresholds — may also offset or add to the compound effects of multiple means tests. For example, if the income at which the kink is applied aligns with other means test thresholds, it can exacerbate the compounding effect on effective marginal tax rates. Hence, setting the threshold for the 'kink' above thresholds for other means tested payments reduces the effect of the kink on effective marginal tax rates (EMTR). Figure 14.2 shows the current maximum income threshold for the different payments, and the range of incomes over which these payments are progressively withdrawn.

Figure 14.2 **Staggering of means tests under current arrangements**
Income ranges where government assistance is withdrawn[a]



[a] As at June 2014 for a single parent family with one child. Family Tax Benefit part A has two tapers. Any rent assistance a family receiving Family Tax Benefit receives begins to be reduced after the first taper for Family Tax Benefit.

Source: Productivity Commission calculations; Department of Human Services (2014a); appendix E, figure E.2.

There are several ways to minimise the impact on effective marginal tax rates:

- the tapers for each payment a family might be eligible for can be staggered, so the withdrawal rates do not overlap — to a large extent this is the way the FTB Part A tapers are designed
- a very gradual taper/withdrawal of benefits can be applied as incomes rise — the current CCB is designed along this line

- kinks arising within any other withdrawal range can be avoided — the change in the withdrawal rate for FTB Part A between taper 1 and taper 2 avoids the withdrawal rate for rent assistance.

The challenge for the ECEC means tested subsidy is to provide support over the full income range. To minimise the effect on the EMTR will require a long and slow taper and avoiding any kinks that might interact with other payments, or changes in the tax rates. Given that the top marginal tax rate starts $180 000, this suggests that kinks should be avoided below this income threshold if the aim is to minimise the impact of withdrawal of ECEC subsidies on workforce participation.

The current CCB annual income threshold for the maximum rate of subsidy is $42 997, while the income limit for CCB depends on the number of non-school aged children in approved care. For a family with two children, the upper annual income threshold to be eligible for CCB (at a very low rate) is $155 013. These thresholds are indexed to the consumer price index (CPI). Families with an income above the CCB upper threshold can still access CCR if they satisfy the activity test, so most would be getting a subsidy rate of 50 per cent (if they stay below the cap). Families below this income are receiving a higher subsidy rate but, with few exceptions, even families below the lower income threshold would have some out-of-pocket costs. For example, with one non-school aged child in a LDC service that charges $7 an hour, a family on an income of $40 000 would have an out-of-pocket cost of $1.50 per hour (after CCR), implying a 79 per cent subsidy rate. If this family did not satisfy the activity test, it would only get CCB, so would have an out–of–pocket cost of $3 an hour, which is a 57 per cent subsidy rate.

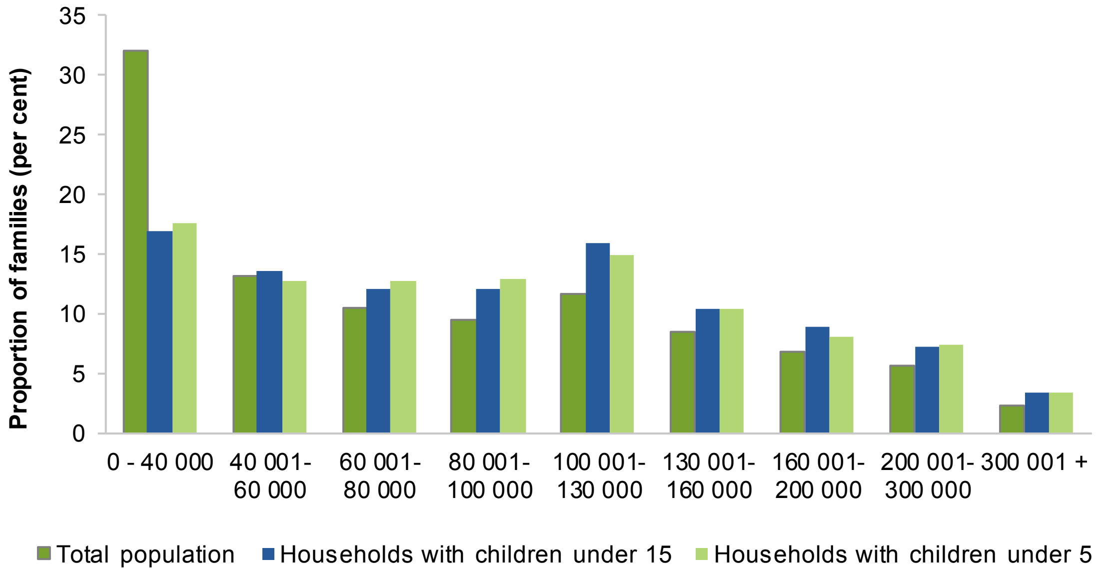
As figure 14.3 illustrates, the majority of families with young children have a gross family income of under $130 000, as do most families with children under 15 years. However, a substantial proportion of families fall in the income ranges where they would be eligible for FTB, and a smaller but not insignificant share are in the income range for eligibility for income support payments, including the Parenting Payment.

Combining the family income distribution with the information on thresholds for family benefits suggests a:

- minimum annual income threshold of $60 000 to reduce the overlap with other Australian Government welfare payments withdrawal thresholds
- maximum threshold that can be varied according to the level of funding available, taking due regard to the impact of the choice of this threshold on the subsidy rates for families on incomes below this threshold (chapter 16).

Figure 14.3 **The distribution of gross household income**

2011-12, per cent of households in each income groups



Source: ABS (2014i).

The income thresholds chosen will affect the cost of the ECEC system for the Australian Government as well as for families. Commission modelling estimates for a range of options is provided in chapter 16. Given the non-linear nature of the current system (appendix E), for the same lower and upper income thresholds, a linear taper will cost more as it provides a relatively higher rate of subsidy for families in the upper end of the middle income distribution.

The choice of income thresholds (along with the base and maximum subsidy rates) affects the realised subsidy rate for any family, and potentially their workforce participation, as well as their use of ECEC services. As a result, the fiscal cost of the ECEC system can differ from the impact on government ECEC expenditure because with changes in workforce participation come changes in tax revenue and in family and other government payments. Government should be more interested in the fiscal impacts than just the cost to government of the ECEC system. It can be the case that increases in funding can lower fiscal cost (box 14.2), but whether this is the case for the Australian ECEC funding system is an empirical question.

Box 14.2 Means testing, 'additionality' and the fiscal impact

Ideally, funding systems for ECEC services will 'pay for themselves' as the increase in workforce participation (including in hours of paid worked) results in higher income tax revenue and a decline in income-dependent welfare payments. Fiscal cost takes account of the tax-transfer effect of ECEC funding on income taxes (which rise with increased workforce participation) and income and family support payments and FTB (which fall with workforce participation). From a fiscal cost perspective, the aim is to find the 'sweet spot' where any further increase in the level of ECEC assistance is just offset by a rise in taxes less transfers.

While lowering the subsidy rates, or the income thresholds where they apply, lowers the direct cost to government of the ECEC system, the fiscal cost is reduced only if any decline in workforce participation and associated lower income tax and higher welfare payments are less than the cost saving from reduced spending on ECEC services. Similarly, increased funding will only 'pay for itself' if it induces additional workforce participation and associated income tax, and a decline in welfare payments. Hence the sensitivity of second income earners (mostly mothers) to changes in the subsidy is central to determining the direction and size of the fiscal impact. Longer term, to the extent that children do better at school and boost employment rates and productivity, there is a 'dynamic' gain, but the long time between the investment in ECEC and the pay-off to government coffers means the discounted effect is small.

Some estimates for Quebec suggest that its shift to a universal low cost system only pays for itself if these dynamic impacts on productivity are taken into account. Fortin, Godbout and St-Cerny (2012) estimated that in 2008 the static impact on government finances was CA$355 million which was generated in income taxes and CA$149 million in welfare savings, with a further CA$972 million in higher social security contributions, indirect taxes and other own source income. This CA$1.45 billion compares to the CA$1.8 billion cost of the program. When dynamic effects are taken into account, the fiscal return is estimated to be CA$2.4 billion. They also noted that the fiscal impact for the province was marginal, with the federal government benefiting from the income tax rise without meeting any of the program cost.

The Commission's modelling investigates the fiscal impact of a mix of subsidy rates and income thresholds in Australia (chapter 16). This modelling depends on assumptions about how families respond to changes in out-of-pocket costs. In Australia, where ECEC is funded mainly by the Australian Government, any fiscal benefits will also accrue to the same level of government.

Eligibility requirements can help also help to better target taxpayer assistance

Alongside means tests, eligibility criteria can be used to target certain groups. For example, they can be used to give higher ECEC subsidy rates to groups for whom there are greater additional benefits from their participation in ECEC, such as for families where children are at risk.

Eligibility rules can also be used to encourage workforce participation by linking subsidies to work or training related activities. The National Commission of Audit (2014), for example, recommended a work test for access to ECEC subsidies. The nature of any work test can affect workforce participation. One option suggested by Peter Apps (sub. 414) was that only hours of care above some minimum number of hours (20 hours per week was suggested) would be eligible for a subsidy. This would require accurate reporting of hours of work and would be problematic for casual workers, whose weekly hours can vary considerably over the year. Given working even a day a week can be a pathway to greater workforce participation, such a strict eligibility rule might reduce rather than encourage workforce participation for those finding returning to work more difficult. The time required to look for work or to attend training or other educational activities to prepare for work may also require ECEC services. So any eligibility criteria would not want to preclude these activities by making ECEC costs prohibitive.

The current CCB allows families that qualify (on an income test basis) to access 24 hours of subsidised care a week without satisfying the 15 hours a week activity test. There are mixed views about this qualification requirement among participants, with comments from some families stating that they cannot access care for work-related reasons due to demand from families where mothers are not working (for example, ECEC users, comment nos. 146 and 210; ECEC worker, comment no. 99). Other participants pointed to the benefits of this access to ECEC for children or their parents (ECEC user, comment no. 24). Given the taper rate of CCB, and that access to CCR requires an activity test (of at least 15 hours a week of work, training or study for each parent), subsidies for use of ECEC services for reasons other than work are generally highest for lower income families. They are also substantially lower than those available to families on similar incomes that do satisfy the activity test.

In the administrative data, around 15 per cent of children using ECEC services (a little under 20 000 children) were eligible for CCB only, suggesting that they did not qualify for the 15 hours a week activity test. Goodstart (sub. DR 875, p. 20) estimated that around 10 000 children in their LDC services are from families that would not satisfy at 24 hours a fortnight activity test, half of which receive the maximum rate of CCB.

To the extent that rates of developmental vulnerabilities are higher for children from lower socio-economic families, limited access without the activity test may be appropriate targeting. Moreover, for some families, particularly single parent families, such access may be important for the wellbeing of the parent and the quality of parenting that they can provide. But so too can encouraging these parents into the workforce have beneficial effects for the parent, child, and community generally. Setting a work test as part of a broader eligibility requirement supports this direction.

Setting an activity test that is simple to implement and enhances rather than detracts from work incentives is challenging.

An activity test that sets a threshold number of work hours can interact with the tax system and social security payments in a way that can provide a major disincentive for secondary earners to work only one or two days a week. For example, if a two day a week work test is set, a mother who works one day will have to pay the full cost of the ECEC service for that day as well as losing FTB from the increase in income. If she works two days, then both day's fees are eligible for the subsidy (substantially reducing her effective marginal tax rate). This is a major inducement to work two days, but not all mothers will be able to obtain two days of paid work. This points to the efficiency in providing taxpayer subsidies only for those hours spent in paid work, seeking work or preparing for work. The best approach (from a workforce participation perspective) is to provide subsidies for the actual hours of paid worked (plus a travel time), which is what the National Commission of Audit (2014) recommended. However, this would be highly complex to implement (if not impossible in the absence of reporting hours worked as part of tax data) as it would necessitate regular provision to Centrelink of evidence of hours in paid employment or time spent looking for work or in training.

Although encouraging workforce participation is desirable, there can also be good reasons for allowing some non-activity tested use of ECEC to be subsidised. Low income families may find it difficult to afford any ECEC service without a subsidy if they do not satisfy the activity test. Concerns about this group, who currently are able to access 24 hours a week of subsidised service, were raised in a number of submissions responding to the draft report. For example, Goodstart (sub. DR875) pointed out that low income families are least able to change their workforce participation to be able to satisfy an activity test. Moreover, they are families where children may be at higher risk of developmental vulnerabilities, and hence would benefit more from some attendance at an ECEC service. This would suggest that retaining some activity test exemption for low income families might assist in promoting child development, and in leaving the low and often irregular hours of work pathway to greater employment open for these families. The main group are those receiving Parenting Payment, where the single parent, or one of a low income couple family, are not required to look for work until their youngest child turns six.

Should these families be exempted from the activity test, generous subsidy rates for these low income families mean that limits on the hours of subsidised ECEC services will be required.

For other families who do not meet or are not exempted from the activity test, universal access to preschool and a broad range of services outside of the formal ECEC system — such as playgroups, crèches and 'new mothers' groups which support new mothers and their children — can provide some early learning opportunities for children.

14.5 Desirable design features

In summary, the Commission considers that the government funding system for ECEC services should:

- be demand-based, with per child subsidies, but allowing for provider-based block funding of services where there is a strong public benefit case and the market is unlikely to supply these services
  - remaining block-funded services should seek to transition to a child-based funded service
- adopt a benchmark value approach to setting a child-based fixed–value subsidy using a median benchmark price
  - which can vary where there are unavoidable systemic variations in the cost of supply
- limit the hours of service that are eligible for a subsidy to 100 hours a fortnight
- apply an activity test for the subsidy, with possible exemptions
- set the maximum and base subsidy rates with regard to workforce participation incentives and the associated costs and/or benefits of children from greater participation in ECEC
- incorporate a parental co-payment except in exceptional circumstances
- set income thresholds (and hence effective subsidy rates) with regard to the thresholds for withdrawal of other means tested benefits and marginal tax rates.

15 A new approach to funding

Key points

- New approaches are proposed for Australian Government funding for mainstream ECEC services, services for children with additional needs, and universal preschool services.
- The Early Care and Learning Subsidy (ECLS) for use of mainstream ECEC services will continue the child-based funding system. ECLS will:
  - be available for use of approved centre and home based care, for up to 100 hours a fortnight
  - provide a subsidy for the hours charged with the rate:
    - based on family income with a linear taper between the maximum and base rate
    - applied to a benchmark price set by the median fee for the type of service, and for LDCs differentiated by age group — 0–35 months and 36 months to school age
  - require families to meet an activity test of 24 hours a fortnight, except if explicitly exempt
    - families on Parenting Payments are eligible for 20 hours of subsidised service a fortnight without having to meet the activity test
  - be paid directly to the parents' choice of provider, and transparently passed on to families as a discount in the fees charged.
- Viability assistance will be available for three years in seven to viable services in rural and remote areas that experience temporary financial difficulties due to fluctuating demand.
- Children with additional needs will be supported to attend suitable ECEC services through:
  - meeting the full benchmark price for services for children assessed to be 'at risk' of neglect or abuse (families are not subject to a means test or an activity test) for up to 100 hours per fortnight
  - an Inclusion Support Program, that assists providers to meet the cost of additional staff required to include children with ongoing high support needs, and provides professional guidance and support to assist services to provide inclusive services
  - a Community Early Learning Program (CELP), that directly funds providers to deliver services in highly disadvantaged communities, promotes service integration, and provides professional support to improve the quality of their service and help them transition to mainstream funding with ongoing support if required.
- The allocation of funding for, regulations applying to, and delivery of, preschool services will remain the responsibility of the states and territories. The Australian Government will contribute funding for each child attending a state and territory funded preschool program (sufficient to support preschool attendance of children for 15 hours for 40 weeks in the year prior to them starting school).
  - For children attending preschool in LDC settings, this funding should be passed on and the ECLS subsidy adjusted by lowering the benchmark price for the preschool hours.
  - The Australian Government should negotiate with the states and territories for preschool to become a state and territory responsibility regardless of where it is delivered.

This chapter sets out the Commission's recommended approach, drawing on the analysis in chapter 14 for the mainstream Early Care and Learning Subsidy, chapter 13 for the funding for children with additional needs, chapter 12 for preschool funding, and a set of principles set out by the Commission to guide the design of the funding system (box 15.1). The program cost, implications for ECEC use and workforce participation, and fiscal impacts of the Commission's preferred model are discussed in detail in chapter 16.

The Commission proposes that Government funding be allocated into three categories:

- a 'mainstream' ECEC program to assist families in workforce participation and providing early learning opportunities for young children
- an 'additional needs' program to promote the inclusion of children who have additional needs and enable children from highly disadvantaged communities to access suitable ECEC services
- a preschool program to assist the states and territories to provide universal access to preschool education to all children in the year prior to starting school.

15.1 Funding for mainstream services

As set out at the end of chapter 14, the features of the preferred funding model for mainstream ECEC services are:

- a single child-based subsidy for the hours of service charged
- the subsidy be based on a benchmark price
- the subsidy rate be based on family income
- families be required to meet an activity test with some exemptions
- the total hours of service for which the subsidy is available be capped
- the subsidy be paid directly to the provider.

Box 15.1 Guiding principles for government funding of ECEC services

Funding and associated systems and processes should:

- be fiscally sustainable and consistent with objectives of other government programs
- encourage diversity and not unnecessarily distort the choices families make — support should be available to any service meeting appropriate standards and treat families, children and providers in equivalent circumstances equally
- support provision of services in areas where the market would not otherwise deliver appropriate services (subject to a net social benefit test)
- incentivise providers to be responsive to the preferences of families, innovate with respect to services they deliver, and impose a discipline on cost and fee increases
- ensure most families have to meet at least a proportion of their ECEC costs, reflecting the private benefit that accrues to the child and family and to ensure they consider costs in their usage decisions
- reflect differences in the cost of supplying an ECEC service (including to meet additional needs), but funding should not cover additional 'premium' services
- impose no unnecessary administration or compliance costs — processes should be streamlined, transparent, accountable, and simple to navigate.

To support learning and development objectives, funding should:

- contribute to the achievement of desired learning and development outcomes and ensure the safety and wellbeing of children
- promote inclusion and participation by all children, including those with children with disabilities and from culturally and linguistically diverse backgrounds
- support universal access to preschool for children in the year before starting school
- encourage parental care for children under six months old (and not for children where the family is in receipt of taxpayer subsidised paid parental leave payments).
- provide greater support for low income families who might otherwise not be able to access ECEC services than high income families who can afford these services.

To support workforce participation, funding should:

- be focused on increasing participation and hours worked ('additionality')
- be subject to a work, training or study activity test
- minimise work disincentive effects created by the design of support payments and their interaction with other family payments and the tax system.

To maximise the social and economic benefits, funding should:

- be targeted at those parents whose increased workforce participation is most likely to:
  - alleviate family poverty and associated social costs and government outlays
  - promote employment choices that empower mothers and contribute to stronger future income growth.

A single child-based subsidy for mainstream ECEC services

To improve the transparency and simplicity of the support available the Commission is recommending a single child-based subsidy for mainstream centre-based care (CBC) and home-based care (HBC) ECEC services. These comprise all approved CBCs (long day care (LDC), outside school hours care (OSHC), vacation care, and occasional care) and approved HBCs (family day care (FDC), and approved 'nannies'/in-home carers). Approved services must satisfy the National Quality Framework (NQF).

Many participants called for the combining of the Child Care Rebate (CCR) and the Child Care Benefit (CCB), in large part to simplify the system (for example, Brennan and Adamson, sub. 420; ACOSS sub. 332; Early Learning Australia, sub. 271; Early Childhood Australia, sub. 383). The National Commission of Audit (2014) and Henry Tax Review (2009) also both recommended that CCR and CCB be combined. The Commission's draft proposal for a single means-tested subsidy to replace CCB and CCR was almost universally accepted as a major improvement on the current system. Table 15.1 summarises ECLS.

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.

The subsidy should be based on a benchmark price

The draft report proposed basing ECLS on a 'deemed cost' of providing a service that meets the NQF rather than actual fees. Feedback was mixed on a deemed cost approach, but of the options for setting this cost the benchmark price option was preferred. For example, Guardian Early Learning Group said:

> We would prefer that the "deemed cost" be based on current average fees rather than an implied centre operating cost, with the output being a benchmark fee against which a family's ECLS % is applied.(sub. DR837, p. 2)

A number of submissions that supported the benchmark price option argued for setting it well above the average or median price. For example, Goodstart proposed:

> … that setting a benchmark price equivalent to the average price (mean) plus 2.5 standard deviations would effectively limit taxpayer funds to 'reasonable' fee levels, while ensuring families using standard services in legitimately higher cost markets are not penalised. (sub. DR875, p. 14)

However, setting the benchmark price at such a high level would defeat the purpose of providing an incentive to most providers to control costs and families to more fully take cost into consideration in determining their use of a service.

It is important to note that the benchmark price is determined by market forces and not government as it reflects the actual fees charged by providers.

Table 15.1 Overview of the proposed Early Care and Learning Subsidy

Subsidy rate	Maximum of 85%; base rate of 20% Thresholds; lower — \$60 000, upper — \$250 000 Effective subsidy rate depends on whether the fee is higher or lower than the benchmark price
Means test	Family income used for FTB, adding in non-taxable and tax exempt income
Eligibility	Activity test (work, study, looking of work, volunteering, on Newstart) of 24 hours a fortnight. This includes parents on parental leave, but ECLS is not available for the new baby. Exemptions for grandparents and other non-parental primary carers, families on DSP or Carer Payments (other than for the child using the ECEC service), at risk children, and exceptional circumstances including due to a loss of a job for a short period Families on Parenting Payments eligible for 20 hours a fortnight
Subsidy rate applies to the benchmark price	Set at a benchmark price based on median actual fees, but the subsidy cannot exceed the actual fee charged. Varies for LDC with child age (0-35 months, 36 months to primary school age) Varies with provider type – LDC (including occasional care), OSHC (including Vacation Care), HBC (includes FDC and approved in-home care/nannies) The benchmark prices are updated every 6 months
Hours of ECEC subsidy	Up to 100 hours a fortnight
Service providers	Approved providers (service satisfies the NQF)
Other eligibility	Must demonstrate that the child has received all their scheduled childhood immunisations
Payment	Paid directly to the ECEC provider of choice on report of the fees billed for hours of care charged on a fortnightly basis.

The benchmark price should be set at the median fee for ECEC services …

As discussed in chapter 14, when the subsidy is set as the rate times the benchmark price the family gets the same dollar subsidy regardless of the fee charged. The exception to this is where this subsidy would be higher than the fee, in which case the subsidy only covers the fee charged. Under this option, families using services that charge fees below the benchmark price will get a higher effective subsidy rate (families using services that charge more than the benchmark price get a lower effective subsidy rate under this approach and where the benchmark price acts as a cap – see below). This fixed dollar subsidy approach has the advantage of simplicity — families know what subsidy they receive once they know their subsidy rate and the benchmark price. It also provides an incentive for services to keep their fees below the median level in order to attract families to the service, and enables services, in particular not-for-profit services, to offer very low (or no) out-of-pocket costs for low income families to meet their social objective.

A second option is that the subsidy is based on the percentage of the lower, of the benchmark price, or the actual fee charged. This approach would better control the cost of the subsidy if a high ‘cap’ benchmark price is adopted. The advantage of this approach is that it treats services more equitably where they face different costs of supply. For any given benchmark price, this is a lower cost option, and ensures that families always have a co-payment. For cost control reasons, this second option is preferred if a high benchmark price is chosen. However, the first option is more generous to lower income families because they are more likely to use lower cost services. So unless the maximum subsidy rate is very high, the first option is preferred.

As discussed in appendix K, while there is a large range of fees charged for LDCs (and likely also for OSHC and FDC), most are clustered in a tight range. For example, in 2011-12, only 2 to 3 per cent of LDCs charged more than $10 an hour, with 50 per cent charging between $5.85 and $7.40. This suggests that although, by definition, 50 per cent of services have fees higher than the median fee, the vast majority of these exceed the median by only a small amount.

Goodstart (sub. DR875) raised a concern that some low families do use higher cost services. As discussed in appendix K, there is a clear positive relationship between family income and the fees of the services they use. From the administrative data, around 65 per cent of families on incomes less than $45 000 use services that charge less than the median fee and would get a higher effective subsidy rate than 85 per cent (20 per cent would get an effective subsidy of 100 per cent). For families on incomes in the $100 000 to $130 000 range, 40 per cent use services that charge below the median fee, compared to 17 per cent of families on incomes above $245 000. So while it is possible that low income families will face a lower effective subsidy rate than under current arrangements, it is unlikely to be common (provided they meet the activity test), and only a problem where the family cannot access lower fee services.

Based on the modelling results (chapter 16), the Commission has opted to base the subsidy on the median fee, and using the first option of a fixed subsidy unless the fee charged is below the family’s assessed subsidy, in which case ECLS will cover the fixed fee. This allows funding to be more generous to most lower income families for the same ECEC budget constraint.

… for each service type and child age for LDCs

The Commission recommends setting benchmark prices for each main service type — OSHC (including vacation care); LDC (including occasional care); and HBC (FDC, approved nannies and in-home carers). The logic for allowing a different benchmark price is the different minimum staff to child ratios required. This proposal was not questioned by respondents to the draft report.

It is also recommended that the benchmark price for LDCs differ by age of children because the minimum staff to child ratios, and hence the cost of provision, varies considerably by age. While current fees do not reflect the very large cost differentials in providing services to the different age groups in LDCs, there was support for setting a different benchmark price for different age groups in LDCs. It is anticipated that as the market matures, greater age based differentiation in prices is likely to emerge. As Guardian Early Learning noted:

> While most centres now operate a differential fee model based on the child's age, the extent of the differential is limited, such that the fees for children over 3 cross-subsidise the fees for children aged under 3. [T]he only way to remove this cross subsidisation is for the ECLS to truly reflect the cost of providing care and early learning services to the different age groups. (sub. DR 837, p. 3)

Varying the benchmark price by age for LDCs will also assist new LDC services, which can tend to have a higher share of younger children than more established services. HBC services have greater scope to choose the mix of ages of the children in their care, so this price distinction was not seen as necessary. However, the single benchmark price for HBC services may need to be reassessed in the future, particularly if a large price difference emerges for different age children in centre based care services.

… but not by location or other source of cost differences

Many submissions argued for varying benchmark price by location to reflect the different costs of supplying a service (notably higher rents in inner cities, higher general costs in remote areas). The different average costs across states and territories was also noted, with Victoria, New South Wales and the ACT being identified as higher cost, and South Australia and Tasmania as lower cost. The Commission's analysis of industry data found little systemic difference in the rental costs or the staff costs across major cities, outer urban and regional areas (appendix K). Moreover, some of the main drivers of cost are likely to have offsetting forces, for example, rural rents are lower but so is utilisation, while in inner city areas the rents are likely to be higher but so too is average utilisation. On this basis, the Commission is not recommending that the benchmark price be varied by location. However, the legislation should give the government the option to do so in the future should large cost differences between locations become apparent.

There may well be other source of cost difference. For example, Australian Childcare Alliance (sub. DR823) argued that the benchmark price should vary based on whether the provider was a not-for-profit provider or not (appendix I). As discussed in chapter 9, it is better to remove this source of cost inequity than to seek to adjust subsidies. Other source of cost differentials, such as peppercorn rents, are also becoming less common as councils and states and territories seek a market return on their assets. As a major source of cost difference is the efficiency with which a business is operated, and the main source of fee differences are cost differences and market power, the Commission is reluctant to enshrine any source of benchmark price differentiation other than type of service, age of child and leave open the possibility of location.

To summarise, the ECLS would adopt a benchmark price as the base for the ECEC subsidies, using:

- median fees for approved ECEC services for each service type — LDC, OSHC (and vacation care), and HBC (FDC and approved in-home care/nannies)
  - determined twice a year based on reported fees
- age of child in setting the subsidy base for LDC services for 0–35 months and 36 months to school age
- unless the hourly fee charged is below the family's subsidy (their subsidy rate times the benchmark price), in which case the subsidy is the full fee only
- with the option for the government to vary by location should this be warranted, due to large differences in underlying cost.

The subsidy rate received is determined on family income

The case was made in chapter 14 for the rate of subsidy to be determined on the family income to encourage workforce participation and improve affordability. The case was also made for the maximum subsidy to be lower than 100 per cent. The Commission recommends a maximum subsidy rate of 85 per cent with a minimum subsidy rate of 20 per cent.

The minimum subsidy rate is 20 per cent …

The response to having a non-zero minimum subsidy rate was mixed. The Australian Childcare Alliance (ACA) reported that 42 per cent of respondents to their survey did not 'support families on more than $300 000 receiving any subsidy', while 37 per cent supported 'all families receiving at least a subsidy of 30 per cent' (sub. DR823, p. 16).

Conversely, a considerable number of submissions argued for retaining a minimum rate of 50 per cent, citing that removal of this would affect workforce participation. For example, the Parenthood (sub. DR763) reported in its submission that their survey found that '72 per cent of families said that they would reduce work or stop work completely if their childcare subsidy was cut or reduced' (p. 4), although the other answer choice was 'no change – I'm happy to pay more'. Given the nature of the survey, its representativeness is not clear.

A minimum rate of 30 per cent was suggested in the inquiry draft report as it would keep the effective rate of subsidy roughly the same as current arrangements for women who currently work full time. It is less generous to second income earners from high income families who work part time or use more expensive ECEC services for fewer hours.

Inevitably there is a trade-off between higher minimum subsidy rates and being more generous to low income families and additional needs children. As the UnitingCare Australia concluded:

> That, given the government's commitment to existing fiscal constraints, and given UnitingCare service's commitment to supporting those experiencing economic disadvantage, the means-testing regime should taper the payment to a level below 30 per cent for the very high income earners. (sub. DR872, p. 9).

The Commission's modelling found that the budget was exceeded if the minimum rate was 30 per cent once other preferred funding arrangements were included (chapter 16). As a consequence, the Commission is recommending a minimum rate of 20 per cent. As set out in chapter 14, the main arguments for retaining a non-zero minimum rate are recognition that for many mothers childcare is a cost of working, and that workforce participation and some aspects of horizontal equity will be reduced if a zero minimum rate is adopted. There are also some public good benefits from participation in ECEC (chapter 5), although the additionality is uncertain. While on efficiency grounds the case for a non-zero minimum rate is weak, on balance, the Commission is supporting a minimum rate of 20 per cent, in large part as a signal from the wider community of the social and economic importance of workforce participation for mothers at all income levels.

… and the maximum rate is 85 per cent

A number of submissions raised concerns about the inquiry draft report recommendation for a 90 per cent maximum subsidy rate, which for some families was suggested could form a barrier to the use of ECEC services. UnitingCare argued:

> The *proportional* cost of 80 cents per hour to a minimum wage earner after taxes and loss of transfer payments may be inequitably high. … the argument that a 90 per cent subsidy is reasonable for low income families is that it is premised on the person paying for care having an income of at least the minimum wage. However, there will be welfare recipients who do not receive such an amount, and for whom an outlay of around six dollars per day would present a significant budgetary pressure. (sub. DR872, pp. 9–10)

Those raising concerns about the 90 per cent subsidy rate being too low also raised the issue of the activity test being a barrier to these low income families. The current system has effectively two subsidy rates, one for families where the second income earner does not work at all (CCB), and one where they do (CCB and CCR).

One concern with moving to a single subsidy rate is that low income families where the second income earner is not working can still access a very high subsidy rate unless this is prevented by an activity test. This may result in them using a lot more ECEC services than under the current system. While this may be desirable from a child development perspective, it would be a very costly outcome for the government. In addition, it would not induce greater participation in the workforce, and could reduce it. Hence the activity test becomes an important element in the design of a single subsidy approach.

A concern raised in many submissions (see below) was that children in low income families that did not meet the proposed 24 hour a fortnight activity test would miss out, and that this group can benefit most from ECEC services. As the modelling in chapter 16 demonstrates, relaxing the activity test with generous subsidy rates has large fiscal implications as expenditure on ECEC rises and workforce participation falls (so tax revenue falls and transfers rise). The trade-off to allowing some exemptions to the activity test for low income families was to lower the maximum subsidy rate to 85 per cent.

The Commission has retained the linear taper rate between the maximum rate of 85 per cent and the minimum rate of 20 per cent as part of the recommended approach.

The lower income threshold is $60 000 and the upper threshold $250 000

A few participants recognised the complexities of setting threshold income levels to minimise the interaction with the welfare system. The $60 000 threshold was generally seen as sensible as it is above the withdrawal rate of all income support payments. It is also in the region where the Family Tax Benefit Part A is withdrawn at 20 cents in the dollar (the maximum rate is payable for families on incomes below $50 151). This $60 000 lower income threshold is retained.

As discussed in chapter 14, the upper threshold is important mainly as it affects subsidy rates for all families on incomes between the lower and upper threshold. With a minimum rate of 20 per cent and maximum rate of 85 per cent, an upper threshold of $250 000 results in a 50 per cent subsidy rate at $162 000. This means the proposed arrangements may be less generous than CCR for working families above this income level, unless they currently exceed the CCR cap. It is also less generous than the proposal of a $300 000 threshold in the draft report, which would have seen families on incomes of $220 000 attract a 50 per cent subsidy rate, but may still seem generous for high income families. However, reducing the threshold further, along with the rate changes, means that some families on much lower incomes would receive lower subsidy rates.

… which does not vary with the number of children

The Commission requested feedback in the draft report on whether the subsidy rate (or income thresholds) should be affected by the number of children a family has using ECEC services. The current CCB subsidy rate is adjusted for the number of children in care and the income thresholds are increased based on the number of children. The draft recommendation was to apply the same subsidy rate and thresholds regardless of the number of children in a family.

There was some concern raised about this recommendation. The ACA reported the results of their parent survey in their submission: 46 per cent of families selected ‘it would place additional financial pressure on my family’, while 36 per cent selected ‘it would hinder my ability to remain in the workforce’ (sub. DR823, p. 22). Goodstart argued:

> …that payment arrangements should recognise that families with several children in care spend a larger share of their disposable income on ECEC, and face stronger cost pressures (and associated workforce disincentives). … A ‘child add-on’ would reduce the impacts of effective marginal tax rates and would help ensure it was affordable for women from low- and middle-income families to return to work when they have more than one young child. (sub. DR 875, p. 9)

While the Commission recognises this issue, there is additional Family Tax Benefit support available to families that varies with the number of children.

With gross family income as the basis for the means test

The draft report suggested that the family income base should be the same as that used for estimating the Family Tax Benefit (FTB) Part A, but adding non-taxable (or tax-exempt) income and transfers including FTB. For simplicity and in recognition that FTB are designed to (partly) compensate for the costs of raising children, the Commission is recommending using the same pre-FTB income as used for estimating FTB Part A. Ideally non-taxable income, such as that arising from Fringe Benefits Tax (FBT) exemptions or certain allowances, should be added, but the Commission understands that the Australian Tax Office (ATO) does not collect this data on individual benefits as a matter of course. Should the ATO do so (and it should) this should be included in the income test for all transfer payments, including ECEC subsidies.

The subsidy applies for up to 100 hours a fortnight for eligible families

As discussed in chapter 5, long hours in an ECEC service may not be beneficial for most very young children, and yet the hours need to be sufficient to enable the family to work. The Commission recommends the subsidy to continue to be available for up to 100 hours a fortnight for all ECEC services.

Providers have also called for the limit on hours to match the sessional hours as they see difficulty charging for hours or services that are not covered by a subsidy. Some providers argued that 50 hours per week was not sufficient to cover a daily charge rate based on an 11 hour opening time. For example, Guardian Early Learning (sub. DR 837) suggested 110 hours a fortnight. Goodstart suggested a daily sessional funding rate rather than an hourly rate.

The current model for fees is a daily fee for LDC and a sessional fee for OSHC and Vacation Care. Hourly rate services exist in occasional care, and FDC can offer a range of fee options. Yet there is nothing, particularly with a relaxation of opening hours, that restricts services from moving to an hourly fee. The decision to do so needs to be a market driven one, and allowing hourly rates minimises the distortion that the subsidy approach imposes on the way ECEC services choose to levy their fees. Given this, the Commission considers the 100 hours to be adequate, and if a service wishes to charge a family for 110 hours when they routinely use less than this, this is between the service and the family to resolve.

Ultimately, it would be more efficient for taxpayer subsidies to be based on the hours of service used rather than the hours that are charged. Shifting to a use based subsidy should be considered by Government once the ECEC market matures and more flexible sessional options emerge. Use-based subsidies would also help address issues related to taxpayer outlays where the subsidy covers the full cost of care. It would also encourage providers to adopt more flexible pricing strategies.

The activity test for eligibility is discussed below.

The subsidy is to be paid directly to providers

There was strong support for the Commission's draft recommendation that the subsidy should be paid directly to the provider of the family's choice. A number of providers said that this would assist them in reducing bad debts, and reduce the incentives for families to move from provider to provider leaving bad debts and pocketing the cash rebate.

To encourage efficiency, families need to be made aware of both the cost of the service they are using and the fee assistance provided by government. To ensure this, invoices need to show the fees charged, and the subsidy paid (both the benchmark price and the families subsidy rate), as well as the residual 'co-payment' required of the family (chapter 17).

Immunisation requirement

As an inducement to families to fully immunise their child, and to protect the children and the workers in CBC services, immunisation should be required for children to be eligible for child-based subsidies unless they are being cared for in their own home.

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.

The activity test and other eligibility criteria

The main rationale for the draft recommendation for an activity test of 24 hours per fortnight was to encourage second income earners (usually mothers) to participate in the workforce for at least two days a week. A low income mother being induced to work has the dual benefits of the children receiving ECEC services and the value of work to the mother and family (which goes beyond the income earned) (appendix J).

A number of submissions raised concerns that the 24 hours a fortnight threshold is too high. The main concern was that for some mothers, working even one shift a week (4 to 8 hours) can be a good way back into the workforce, and the proposed threshold may preclude this pathway. How important low hour jobs are as a pathway is an empirical question, on which there is little evidence. From data following mothers who received paid parental leave, it appears that relatively few mothers who have returned to work are working less than 12 hours a week (box 15.2).

Box 15.2 **Mothers' return to work and the activity test**

To assess the impacts of the introduction of the Paid Parental Leave scheme in 2011, the Department of Social Services has followed a cohort of mothers who were working before they had a baby in October or November 2011. The second wave of the survey was conducted in November and December 2012 when the babies were 12 to 15 months old. This survey data can be used to find out the share of mothers who would be working, but not satisfy the 24 hour a fortnight activity test. As shown in the table below 31 per cent of mothers were not working when they were surveyed, and 69 per cent were working. Of those mothers working, 83 per cent were working 12 hours or more a week, 8 per cent were working at least 8 hours but less than 12, and another 8 per cent were working less than 8 hours a week.

The share of mothers in each work category that were using childcare is also given in the table. While the proportion of mothers using childcare rose with the hours worked a week, it is interesting that even for mothers working 12 hours or more a week, 45 per cent were not using a childcare service.

It should be noted that these results are for a sample of mothers who were working sufficiently before having their baby to be eligible for the Paid Parental Leave scheme. Also, the reported shortage of ECEC services available for younger children may have influenced at least some of the work decisions. The relatively low use of ECEC services despite working, reinforces this conclusion.

Mother's hours of work and ECEC use

Mother's hours of work	*Proportion of mothers* [a]	*Proportion using childcare*
	%	%
Not working	30.7	12.6
Working less than 8 hours a week	5.7	25.8
Working at least 8 but less than 12 hours a week	5.7	31.2
Working 12 hours a week or more	57.8	55.5

[a] Sample: 3451 mothers who were working before having a baby in October or November 2011.

Source: Family and Work Cohort Study, Paid Parental Leave Evaluation, Department of Social Services, unpublished data.

The Commission's preference is that, exceptions to the activity test aside, the hours of subsidised ECEC be directly related to the hours of work, which avoids the problem of taxpayers subsidising care unrelated to work. However, it would put a considerable and an unreasonable burden on providers to ask them to collect and report the hours of work of all parents using their service. Moreover, hours of work information is needed for eligibility assessments for a number of other social programs. Given this, there would be considerable merit in hours of work information being reported by employers and self-employed people as part of their routine income reporting. If the ATO collected the hours of work in its tax data, such as in the proposed 'single touch' payroll system (Leeper, G. 2014), this would provide the information that would allow the subsidy entitlement to be matched to work hours (plus travel time), enabling families who work less than the threshold to be able to receive a subsidy for their work–related care. In the absence of this information, the threshold test remains the only viable option.

The Commission's modelling examined how much the work test is an inducement to work (or to expand working hours to meet the criteria). There was a significant inducement effect on mothers already working less than the 12 hours per week to increase their hours to meet the activity test (chapter 16). This inducement effect was much lower for an 8 hour per week test, which saw a much higher use of ECEC services without a commensurate increase in hours of labour supply. For these reasons, the Commission is staying with the recommendation of a 24 hour test per fortnight.

Activities that satisfy the activity test

There are a range of activities that satisfy the activity test in addition to paid work. They include volunteering, looking for work, training and study, and paid leave (appendix B). There are also a range of exemptions from the current activity test (see below). Payment of the Newstart Allowance also requires that the recipient meet an activity test related to looking for work or preparing for work, such as through study. While there are exceptions allowed to this activity test, they are largely aligned with the exceptions that are allowed in the current CCB activity test, so the Commission considers that receipt of Newstart should be sufficient to satisfy the ECLS activity test.[1]

Families on Newstart with young children and students on income support are currently able to access the Jobs, Employment and Training Child Care Fee Assistance (JETCCFA) program. The Commission found that this program was not well targeted (finding 11.1), and recommended that JETCCFA be rolled into the ECLS program. Some JETCCFA income support recipients could end up with somewhat higher out-of-pocket costs under the proposed arrangements.[2] If these costs do prove to be higher and a barrier to these people transitioning to employment then the employment programs could include additional funding to assist their clients to pay for ECEC services required for them to complete work ready training. For example, the Department of Industry includes free childcare as part of their English language program for permanent migrants and humanitarian entrants who do not have functional English (chapter 13).

Access to some subsidised service without an activity test

The draft recommendation to remove the current CCB subsidy for 24 hours a week of subsidised ECEC without the need to meet any activity test was a controversial proposal.

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[1] One exception that does not align is expectant mothers, but women in this situation are highly unlikely to have children under 6, as they would then be eligible for Parenting Payment rather than Newstart.

[2] The JETFCCA program requires a $1 per hour co-payment (which is eligible for CCR resulting in an out-of-pocket cost of 50 cents an hour). The extent to which the out-of-pocket cost will be higher depends on whether the JETCCFA recipients applied for the CCR, and whether they will use an ECEC service that charges fees below the benchmark price.

Many participants argued that subsidies should be available to all families for more limited hours on the basis that ECEC attendance has benefits for child development. Most were particularly concerned about the effect that an activity test would have on lower income families who could not otherwise afford to use an ECEC service. For example, ARACY argued:

> In a child-centred approach, access to such services would be an entitlement of all children, not dependent upon the employment status of parents. ARACY notes that children from disadvantaged backgrounds exhibit the greatest levels of vulnerability and have the most to gain from high quality ECEC. They are also least likely to be engaged. For this reason, the application of an 'activity test' requiring parents of these children to be in employment or training is a point of concern. (sub. DR794, pp. 14–15)

VCOSS argue:

> Consistency is also important, and children should not be required to drop in and out of ECEC if their parent's employment is uncertain or if they move through cycles of unemployment or underemployment. (sub. DR646, p. 5)

However, some views were expressed to the contrary in regards to families with a stay at home parent accessing an ECEC place:

> We should be encouraging women to progress and thrive in the business world. If they choose to stay at home to look after their children, that is absolutely fine, but they do not need daycare. (Name withheld, sub. DR866 p. 2)

One of the issues with offering a high subsidy rate, as mentioned above, is that without an activity test there will be an incentive to increase the use of services by families facing very low (or no) out-of-pocket cost. Modelling of blanket activity test exemptions for a fixed number of hours of services found the costs well beyond the current budget envelope. This is because the current low maximum CCB payment acts as a rationing device for families that are not eligible for CCR and so the ECLS rate would be substantially more than the CCB effective rate for many low income families where the second income earner does not work. This suggests the current 24 hour exemption may not be targeted at the most needy families. An alternative is proposed below.

Exemptions from the activity test

The Commission agrees with the view that developmentally vulnerable children would benefit from attending ECEC services before the preschool year. While high income families can afford to pay full fees to send their children to an ECEC service for one or two days a week, low income families cannot. Applying a means test to the activity test is, however, problematic to implement and adds to the loss of benefits with increased income and hence to the effective marginal tax rate. Hence the Commission has proposed an alternative set of exemptions to enable the more vulnerable children to access ECEC services for child development reasons. Most of these exemptions align with current practice (appendix B), the differences are detailed below.

Exemptions for 'exceptional circumstances'

The current arrangements have an exemption from the activity test for families experiencing exceptional circumstances. These are events such as illness, voluntary work during emergencies, and jury duty (appendix B), and can be applied for by the family or the provider on behalf of the family. The Special CCB (SCCB) also has an exemption for families experiencing financial hardship. The draft report had not explicitly included exceptional circumstances as a reason for the activity test exemption.

Retaining this exemption and extending to include sudden loss of employment for a limited period would address valid concerns raised in a number of submissions about how the activity test would affect families who experience periods of hardship when their employment circumstances change.

This is a simpler alternative than suggested by the NSW Far North Coast Early Childhood Educators :

> Low income families should have a cumulative period of say up to 12 months within the first four years of their child's life when they are able to claim exemption from the activity test. This will allow that if they have a period of stress or upheaval in their lives when they cannot work they can still retain ECLS during that period for that two days per week, to assist them to get their lives in order and subsequently get back to the workforce. (sub. DR828, p. 3)

The application for exceptional circumstances could be linked to an application for a change in the subsidy rate. While these applications would normally be made by the family, providers should be able to facilitate the application through an Early Childhood Management System portal. This combination of a quick adjustment to the subsidy rate and exemption from the activity test for three months would assist families who might otherwise have been eligible for the SCCB on hardship grounds, which the Commission has recommended be removed (recommendation 13.1). A minimum period of work should have been undertaken in order to be eligible for this special exemption.

Exemptions for families that are unable to work

More generally, there is a range of reasons that families may not be able to satisfy the activity test (see for example, The Social Policy Research Centre submission (sub. DR811, pp. 2–3).

Some income support recipients are subject to work and study requirements that are considered a valid activity as set out above. But there are other income support recipients who are assessed as unable to work due to their disability or caring responsibilities. The Commission is recommending that these income support recipients remain exempt from the activity test. However, there are a few current exemptions that are accessed by a wider group which could be removed, on the basis that there is a desire to encourage these parents to work. This includes Carer's Allowance for a child and Carer's Payment for a child where this payment is in regard to the child accessing the ECEC service.

Exemptions for low income families to access subsidies for 20 hours a fortnight

Exemptions for hardship and for families that are not able to work will allow many children who are more likely to be developmentally vulnerable due to family circumstances to access ECEC services. However, there may be some children whose family would not fall into these categories or satisfy the activity test for whom the benefits of attending an ECEC service would justify the public cost for providing a subsidy. Currently these families can access CCB if not working and both CCB and CCR if they are working at all. As a high share of families who receive Parenting Payments appear to use ECEC services, even though they are not working, the activity test is likely to severely limit their access (box 15.3).

To address this need, the Commission recommends allowing families who receive Parenting Payments to access 20 hours of ECEC service a fortnight without having to meet the activity test. For those families only eligible to receive CCB (and around 80 per cent of families on Parenting Payment were not working (box 15.3)) this should offer a higher subsidy rate than currently, although for lower hours (10 hours a week compared to the current 24 hours). The modelling results confirm that this is a relatively costly exemption, as eligible families have the maximum subsidy rate and so are likely to use most, if not all, of this allowance. Families on Parenting Payments are also the group in the model who are most likely not to satisfy the activity test. However, if child development is a goal, then this is a group who should be targeted.

The implications of extending this exemption to all income support recipients is likely to be small as most are already exempt from, or deemed to satisfy, the activity test (box 15.3). Hence this may be a more sensible exemption, especially in the face of likely changes in the income support arrangements following the *Review of Australia's Welfare System* ('McClure Welfare Review'). The Commission modelling in chapter 16 includes an exemption (for up to 20 hours per fortnight) from the activity test for recipients of a Parenting Payment.

Exemptions for grandparent and other non-parental primary carers

In recognition of the service provided by grandparents who take on the primary care role for their grandchildren, and other non-parent primary carers, they should be exempt from the activity test. The Commission considers, however, that they should be subject to the means test in assessing their rate of subsidy. This is a change from the current policy which meets the full cost of childcare fees for up to 50 hours a week for grandparents and other non-parent primary carers who receive an income support payment and meet the CCB eligibility requirements. The basis for this change is to treat families equally on their ability to pay. In practice, the change will only have a small effect on most families where grandparents are the primary carers for children, as the vast majority would be eligible for the highest subsidy rate on the basis of their income.

Box 15.3 **ECEC use by families on income support**

Administrative data from the Department of Social Services suggests that there were around 304 000 families with a dependent child 12 years or under receiving the Parenting Payment and either not working or working less than 24 hours a fortnight in June 2014. Half of these families were single parents with a child under five years old and 93 per cent (282 700) were not working at all. Around another 48 000 families reported working more than 24 hours a fortnight and therefore would pass the 24 hour activity test, making a total of 352 000 families on the Parenting Payment.

In 2012-13, administrative data from the Department of Human Services suggests that 239 200 families receiving a Parenting Payment used approved care, implying that a large share of the families receiving a Parenting Payment would use approved care. As a number of these families were not working they would only have been eligible for CCB, which depending on the fees charged would imply a subsidy rate of around 50 to 60 per cent.

In June 2014, there were around an additional 140 400 families with their youngest child 12 years or under and receiving an income support payment other than Parenting Payment. They comprised:

- 40 800 families receiving the Disability Support Pension which would be exempt from the ECLS activity test
- 46 300 families receiving the Newstart allowance and would therefore meet the ECLS activity test
- 53 300 families receiving other social benefit payments — 70 per cent of whom youngest child was 5 to 12 years old. (Other social benefit payments includes the: Age Pension, Wife Pension, Partner Allowance, Widow Allowance, Bereavement Allowance, Carer Payment, Austudy Payment, ABSTUDY Living Allowance, Youth Allowance, Sickness Allowance, and Special Benefit.)

If the 10 hour exemption was expanded to all income support recipients, this could potentially increase the number of eligible families by 18 per cent (53 300). However this is likely to be a large overestimate as other social benefits includes families on a carers payment who are exempt from the ECLS activity test (table 15.2). In addition, some families do not use formal ECEC services, particularly for school aged children (chapter 3). Hence extending the eligibly for 10 hours of subsidised services without meeting the activity test to all income support recipients would not be expected to capture much larger group of families than is already captured by the Parenting Payment.

Source: Productivity Commission estimates from administrative data from the Department of Social Security and the Department of Education.

A few submissions raised concerns with this draft recommendation. AGJ Business Pty Ltd commented:

> The removal of 50 hours free care for grandparents could be devastating. Depending on the circumstances, the grandparents could relinquish the child’s care to the state. (sub. DR557, p. 1)

The Commissioner for Children and Young People WA (sub. DR519) pointed to research that found that 'grandparent carers are financially disadvantaged compared to other families with children' (p.8). While this may be true in many cases, there will be many parents caring for their own children who are also on very low incomes. Moreover, state and territory governments would have an incentive to compensate grandparent carers for this cost if the alternative was for the child to be placed in foster care. Although the Commission recognises the important role that grandparents and other non-parent primary carers play in caring for children, the provision of free ECEC services for long hours for this group is an example of mission creep, where the government's subsidised ECEC program is effectively being used for respite services. Nevertheless, the consequences of the recommendation should be monitored to ensure that a small co-payment does not preclude the children in these care arrangements from attending an ECEC service.

Other exemptions from the activity test

Some services are currently able to offer services to families that are eligible for the government subsidy although the family does not meet the activity test. The justification for an exemption is that without access to this segment of the market the provider would not be able to offer a service, leaving the area without any ECEC service of that type. This exemption is currently available to services under strict conditions. In light of greater flexibility in hours of service and the viability support program (see below), this exemption should not be required, and should be removed.

There are several other situations where an exemption from the activity test is required that are raised later. These are exemptions for:

- families where a child has been assessed as 'at risk' (recommendation 15.5)
- the child is attending a Community Early Learning Program service (recommendation 15.8)
- families using preschools in LDCs in the year prior to formal schooling for the 15 hours a week for 40 weeks a year for which the preschool subsidy is available (recommendation 15.10).

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 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 will 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.

Children living in rural and remote areas

The recommendations in chapter 10 to improve the flexibility and reduce the cost of meeting the NQF should enable most children living in rural and remote areas to access an approved ECEC service. As WACOSS, in regard to the draft recommendation, commented:

> This will have significant impact on a number of the smaller providers in regional WA. It will assist families in regional areas who have been unable to access the child care benefit (CCB)/child care rebate (CCR) because their local centre does not open 5 days a week. This recommendation is a welcome recognition of the needs of rural communities. (sub. DR835, p. 2)

The National Association of Mobile Services also noted:

> Relaxation of the mainstream operational parameters has the potential to both provide better access in some rural, regional and remote communities per se and **extend the reach of the care-providing mobiles**. … It is in the provision of service to several venues under a 'mobile' model that economies of scale are gained and the venture would become cost-effective and financially viable. (sub. DR902, p. 14)

Nevertheless, there will be some locations where the provision of ECEC services is not financially viable due to small numbers of children (often in remote locations which raises the cost of service delivery). Community Connections Solutions Australia (CCSA) argue that:

> Flexible service delivery costs more to deliver, thus placing an additional burden on both providers and families. Services such as mobiles, occasional care, Multi-function Aboriginal Children's Services (MACS) and early intervention make a significant contribution to children's learning and development and assisting parents to participate in the workforce. The long term sustainability of these services operating in small communities is not addressed by the recommendation of a 3 in 7 year viability funding model. (sub. DR805, p. 5)

Despite making the point about potential viability under relaxed rules, the National Association of Mobile Services expressed a similar opinion:

> … it is unlikely that a long term business case can be developed that would enable the twenty regulated, dedicated non-parental care, BBFP funded Mobiles to transition to a 'child based' funding arrangement. (sub. DR902, p. 17)

As discussed in the draft report, the Community Support Programme (CSP) although intended to target rural and remote communities, did not do so to any extent (chapter 10). So beyond the Budget Based Funded (BBF) Programme block funding some services, it is unclear to what extent sustainability support was provided to rural and remote services that would otherwise have been unviable. Yet several participants expressed concern with the draft recommendation of viability support being available for 3 in 7 years. Lady Gowrie Tasmania argued:

> This recommendation has the potential to force rural and remote services to close meaning communities will not have access to any educational can (sic) care programs as it does not provide ongoing support services where there is no other service available. (sub. DR544, p. 6)

Culburra Beach Preschool questioned:

> …you are offering assistance to remain viable but only for 3 years out every 7 years. Would this apply to my centre as I would need a lot of assistance every year? (sub. DR495, p. 3)

Ultimately, it is a government decision on the extent to which ECEC services should be universally available, including in rural and remote areas. The only universal access commitment at present is for preschool (chapter 12). In the absence of a commitment to universal access, the case for funding services that will never be financially viable needs to be based on there being a clear community benefit to warrant the public expenditure. This may be the case for some rural and remote services that target disadvantaged communities (see below), but will not be a valid claim in most communities.

The Commission makes a distinction between services to highly disadvantaged communities that can face a higher cost of supply and/or lower ability to pay than other services due to their location and/or the needs of the population they service, and services that face fluctuating populations. The aim of viability support is to assist the latter, while the Community Early Learning Program (see below) addresses the former problem. The Commission recognises that there will be some areas where the population is too small to support a financially viable ECEC service, such as a LDC, (most areas with a primary school should be able to support an OSHC if enough families wish to use the service). As more scalable alternatives are available in the form of home-based care (FDC or nannies), the Commission does not see the need for government to ensure that all families have access to a LDC regardless of where they live. There is also nothing in the regulations to prevent a FDC providing what is effectively OSHC in the local school hall where the numbers of children are too low for an OSHC service to be viable.

The Commission's recommendation for viability funding aims to address the problem of fluctuating populations of children that can make it difficult for providers to always rely on (subsidised) fees to cover the costs of service provision. To avoid the stop-start nature of ECEC service provision in rural and remote areas, the Commission proposes that centre-based and mobile services that have the potential to be viable in most years under child-based funding should have access to viability funding. Support will be available, on a three years in seven basis, to viable providers to allow them to continue to operate while experiencing a temporary reduction in demand. If a provider has had two years of viability funding, then the provider will be assessed as to whether they can return to viability, and a third year of funding provided only on production of an agreed strategy to become viable or to facilitate an exit strategy for the provider and allow families using the service to find alternative arrangements.

Viability funding support will also be available to new services (but not 'reinvented' ones) to assist them in the start-up phase. Rather than funding capital, as occurs under the current Establishment funding under the Community Support Programme, this funding would provide short term assistance for a new service while it builds its utilisation rate. For existing services, viability support will be based on the gap between their current utilisation and average previous three years utilisation rate. This utilisation rate needs to be financially viable and achievable in at least 5 years in 7 given the population catered for by that the service.

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.

15.2 Funding for children with additional needs

While children who are developmentally vulnerable are spread across the socio-economic profile (chapter 5), many will be in families who can afford to pay for ECEC services. The ECLS subsidy rates and activity test exemptions are designed to make ECEC services affordable for low income families to increase the likelihood that developmentally vulnerable children will attend an ECEC service.

However, for some children there are other barriers to their attending an ECEC service although they would benefit greatly from these services. These include children:

- at risk of abuse or neglect
- with a disability or developmental delay or undergoing assessment for a disability
- who have a higher probability of being developmentally vulnerable because of their family or cultural situation. This groups covers Indigenous children, refugee and humanitarian intervention background children, and other children from culturally and linguistically diverse (CALD) backgrounds where English is not spoken at home.

Some of these children have needs that are inherently higher cost to supply while, for others, families may not see value in their child attending an ECEC services so any out-of-pocket cost is prohibitive.

The case for improving access and affordability of ECEC services for these ‘additional needs’ children is founded on both equity and efficiency objectives. Inclusion is an important principle, but this can require additional resource, as the Inclusion Support Agency Alliance explain:

> Every child is entitled to access and participate in ECEC programs which recognise them as active agents in their own lives and learning, respond to them as individuals, respect their families as partners and engage with their diverse backgrounds and cultures. This means that ECEC services and support professionals must be resourced and supported to the level required to fully include children with a disability and to achieve high quality outcomes for all children. (sub. DR 745, p.2)

Nevertheless, while the developmental benefits that can arise include those, such as better health, education and employment outcomes, that reduce the future cost to government (appendix J), there is a point at which further public funding comes at a higher cost than the benefits it delivers. As an added complication, the benefits from ECEC may not be fully realised unless these children can access a more comprehensive set of services than just ECEC (chapter 13).

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

- *ECLS 'at risk' children funding* will meet the full benchmark price of providing ECEC services to children assessed as at risk (100 per cent ECLS).
- The *Inclusion Support Program* (ISP) will support providers to include children with a range of additional needs, including disability and developmental delay, Indigenous, CALD and refugee children. The program will provide program guidance, professional development support and funding for additional staff and equipment.
- *The Community Early Learning Program* (CELP) will assist providers delivering new and ongoing services to children in highly disadvantaged communities. It will fund:
  - new ECEC services with a five year business plan to transition to mainstream funding
  - services during and after transition to child-based funding that need additional support due to their cost base and the needs of the children attending their service
  - a coordinating role where the ECEC service is part of an integrated service delivery model and ECEC is the logical service to play this role
  - professional or business support to providers as they transition to the mainstream funding (ECLS) and on an ongoing basis if required.

Table 15.2 sets out the proposed funding programs for service providers providing ECEC services to children with additional needs. All children, unless they are in a fully block funded program under the CELP, will be eligible for ECLS.

Table 15.2 **Targeting of recommended funding programs to support children with additional needs[a]**

Funding program	*'at risk' children*	*Children with a disability[b]*	*CALD children*	*Indigenous children*	*Refugee children*
ECLS for children at risk	✓	×	×	×	×
Inclusion Support Program[c]					
Inclusion Support Agencies	✓	✓	✓	✓	✓
Bicultural Support	×	×	✓	✓	✓
Equipment Support	×	✓	×	×	×
Inclusion Support Subsidy	×	✓	×	×	×
Community Early Learning Program	×	×	×	✓	✓

[a] Children who belong to more than one category may access support in each category depending on the service they are attending. [b] Includes children with a development delay or undergoing assessment for a disability. [c] The families are also eligible for ECLS.

Funding is limited and needs to be tightly focused

These programs for children with additional needs should be funded at a level that at least allows these children to participate at the same rate as their peers. The estimates set out below for the funding for these programs is based on meeting this level of demand where this information is available. They are highly tentative due to a lack of information on the cost of meeting the needs of children who have yet to access ECEC services. The estimates are likely to be conservative if the programs are successful in attracting children who are currently excluded. Success in providing more inclusive and targeted services will cost more because more children will use these services, but the benefits flowing from improved child development are likely to justify some increase in expenditure. Hence, if the ECEC budget is able to be increased, this money would be well spent on expanding the reach of these programs.

The design of the ISP and CELP is such that it can be scaled up to meet demand, and a share of the cost of these programs is in higher numbers of children accessing the ECLS (for CELP services this depends on the transition rate). The 'at risk' subsidy is a demand driven program, and the cost of this program will depend on the extent to which the states and territories utilise the opportunity to place at risk children in ECEC services.

The funding level should be reviewed annually to assess existing or emerging service gaps, whether the service level is achieving the objectives, and if not whether this is due to inadequate funding or delivery problems. The case for expanding funding for the ISP and/or the CELP needs to be based on these programs achieving their objectives. In the absence of additional funding, expanding these programs would require cost savings in other areas of the ECEC funding envelope.

Preventing cost shifting and 'mission creep' is critical for managing the affordability of these programs. The change in requirements around the 'at risk' program should help ensure that this use of ECEC services is a complement to, rather than a substitute for, state and territory services to children who are at risk of abuse or neglect. The requirement for new CELP services to transition to ECLS, should also reduce the potential for CELP to be used to fund a range of services that do not involve non-parental care.

There are other sources of 'mission creep'. The Commission was informed about the problems faced by some OSHC services which have been asked to provide services to children older than 12 years of age with disabilities where these children were not able to access the Outside School Hours Care for Teenagers with Disability Program. This is a separate program that is funded by the Australian Government, and families are currently eligible for the CCB and CCR programs. Mainstream OSHC services for primary school age children should not be required to provide services to older children. While this may not be a common problem, the Network of Community Activities reported:

> Whilst Network supports the right of children 12-18 years to access a service we believe that the services providing this access are inadvertently complicit in shielding Government from the lack of adequate service provision for this age group. As a result we are seeing an increase in numbers of teenage children accessing services designed for primary age children. This access is placing unrealistic pressure on services, staff, children and families. (sub. DR892, p. 12)

Providers of specialist OSHC services also raised the issue of access to the IPSP. However, such specialist services should be resourced at a level to meet the needs of the children attending their services. Similarly, while providing medical and therapy services in an ECEC service could greatly enhance the outcomes for some children, these should be funded from the relevant programs and not from the ECEC budget. This division of responsibility will not always be possible, particularly for CELP services, but should be an objective to ensure that the ECEC services are able to be provided to as many eligible children as possible.

An estimate of the likely funding required to support reasonable ECEC services to children with additional needs for 'at risk', ISP and CELP is provided below. These estimates are tentative and, for CELP in particular, the full extent of need is likely to be revealed only over time as the program is rolled out.

'At risk' children funding

Risk of neglect or abuse may be a short-term problem due to changing family circumstances such as major health problems in the family or relationship breakdown, or a longer-term problem where children may be known to, or managed by, the state or territory child protection services. Government services that identify such children may seek to place them in an ECEC service for short term emergency care, and there can be considerable benefit to the child attending the ECEC service on a longer term basis.

Providers may also identify children in their service who they regard as at risk, and seek to keep the child in the service (or for longer hours) than families are willing to pay for.

There are concerns that the current arrangements can be both onerous and subject to misuse (chapter 13). Responses to the draft recommendations, which aimed at addressing the problem of over use, pointed to the potential for these recommendations to increase rather than reduce the administrative burden of the program.

Subsidised at 100 per cent of the benchmark price for 100 hours a fortnight

The current SCCB arrangements meet the full cost of the service on the basis that any out-of-pocket cost can present a barrier for these children to access services. They were also not subject to any cap on hours, although most children used less than 100 hours a fortnight (chapter 13). The Commission proposed in the draft report that ECEC services for 'at risk' children be funded under mainstream funding arrangements, but at 100 per cent of the benchmark price regardless of family income, for up to 100 hours per fortnight. This addresses one potential option for price gouging. No concern was expressed in response to the draft recommendation to limit subsidised hours to 100 hours a fortnight.

A consequence of this proposal is that it either leaves families with a co-payment or the provider out-of-pocket where its fees are higher than the benchmark price. This potential problem was raised, among others, by the Australian Community Children's Services:

> … the recommendation to base all subsidies on the 'deemed cost' of efficiently running an education and care service is likely to result in a fee 'gap' to be paid by a vulnerable family if a service charges more than the deemed cost. For these families, any cost is likely to create a barrier to attendance. The cost of including vulnerable children in a service will be higher because of the intensity and scale of their needs. … the process could be improved by … recompensing education and care services for the costs involved in assessments, applications and additional service provision for children and families with multiple layers of disadvantage or risk factors. (sub. DR567, p. 5)

Nevertheless, others supported the 100 per cent 'deemed cost' approach, although the ACT Government (sub. DR905) qualified its support: 'provided that these deemed costs are established on a state and territory basis' (p.27). An advantage of setting the subsidy at the benchmark price rather than paying full fees, is that it removes the need to limit SCCB children to 18 per cent of the total CCB subsidy, which was introduced to reduce the capacity of providers to 'game' the system and help control the cost of the program. Some providers have found this constraint binding where the population they serve has a high rate of problems arising (chapter 13). Setting the subsidy to the benchmark price will reduce the incentive for providers to use the arrangements to boost revenue, and so reduce the need for a limit. More rigorous governance around eligibility should mean the cap can be removed without unduly impacting on the cost of the 'at risk' child support program.

Eligibility for ‘at risk’ funding involves the state and territory agencies

The Commission’s recommendations seek to tighten the eligibility criteria for the proposed special ECLS, mainly by removing the category of ‘financial hardship’ as a justification for receiving fully subsidised ECEC services. The assessment criteria for ‘at risk’ remained the same, allowing a child to be assessed as ‘at risk’ by a qualified childcare worker, social worker, teacher, or medical professional for the first 13 week period.

The main difference between the current arrangements and those recommended by the Commission is that providers would be required to notify the relevant state or territory agency so that a case worker could be assigned for the child and family if they did not have one. This raised concerns about overburdening the child protection systems. As the Victorian government explained:

> This would create an additional administrative burden on both ECEC services and Victorian child protection authorities already under significant demand pressures. (sub. DR899, p. 4).

The Queensland government also raised the potential for this requirement to increase the workload for Child Safety Officers. Its submission also pointed out that there are differences between the jurisdictions as to what constitutes ‘at risk’ for child protection services (sub. DR893, p. 15).

A broader issue that was raised is that notification may deter services from seeking ‘at risk’ status for a child in their care, such as Gowrie SA explained:

> Experience has shown that in many cases, with the most vulnerable families, when a notification to child protection authorities is made, the family leaves the service resulting in the ongoing support from the service no longer being available or accessed. (sub. DR552, p. 2)

The aim of the Commission’s recommendations is to better integrate the ECEC service component with other services that the family and child may need. It is not the aim to make this contact part of the child protection system, but rather to draw in state and territory community services, such as child and maternal health services. This requires the cooperation of state and territory governments, which have responsibility for at risk children.

Early Childhood Management Services called for a taskforce to consider reforms to the provision of SCCB for at risk children:

> Given the multitude of complex processes attached to this funding stream, we believe it requires a much more in-depth and full investigation to provide a system that meets the needs of children at risk. (sub. DR849, p. 3)

The Commission agrees the problem of getting at risk children into ECEC services will not be solved by the funding alone — it will require a more proactive approach to identifying vulnerable children and working with families to facilitate their accessing a service. This requires action and resourcing by the state and territory governments. Protecting the most vulnerable children from abuse and neglect is a much larger issue than access to ECEC services and, given the concerns raised in submissions, may well benefit from a more comprehensive review than this inquiry allows.

Pending coordinated action on this front, the Australian Government should continue to subsidise services to at risk children at 100 per cent of the benchmark price to replace SCCB.

Duration of funding is six weeks followed by up to 26 week blocks

In providing ECEC assistance to families of children at risk, the Commission recommends:

- reducing the initial period of assistance from 13 to 6 weeks, with a less onerous application process that is largely about engaging the state and territory agencies where the child has not been directed to the service by an agency
- an assessment requirement for an extension beyond the initial 6 weeks, for each subsequent blocks of up to 26 weeks as long as the child remains at risk.

As with most programs, there is a trade-off between how many children can access a program and the generosity of the support provided. Moreover, the more generous the support, the more attractive the program, and the greater the temptation to providers and families to access and stay on the program. This makes rigour in assessing eligibility particularly important.

The assessment process for continued subsidies for a child assessed as at risk was seen as a burden by some providers, who argued that the source of risk tended to be long term, so the subsidy should be provided for a longer duration. For example, the Australian Community Children's Centres recommended:

> Allowing for a twelve-month period of subsidy from approval of eligibility, because the types of risk factors or vulnerabilities involved are not matters that are resolved quickly or in a 13-week period. Intergenerational poverty, unemployment and family violence, for example, are not likely to be resolved in a few months. (sub. DR567, p. 5)

While it is no doubt true that children often remain vulnerable, the majority of children are only in the program (as it currently stands) for the initial 13 weeks. In addition, while retaining these children in the ECEC service has merit, there is a limit to how much support the ECEC program can provide for these families, and the Commission sees value in families making some co-payment for the services used by their child once through a period of major problems. With high subsidy rates for low income families, the main barrier to a child staying in a service when no longer at risk is likely to be the activity test required to access ECLS. To address this problem, an activity test exemption for the full 100 hours a fortnight should be provided to all families where a child has been in the program for more than the initial 6 week period (for say a further period of 18 months after exiting). This may assist in reducing what Early Childhood Management Services have described as a 'revolving door' process, which it rightly describes as 'inefficient and expensive' (sub. DR849, p. 19).

Applications beyond the 6 weeks are to be made by the state and territory agency

The program's effectiveness requires the engagement of state and territory governments. They should be interested in using this limited ECEC resource as part of their strategy to assist at risk children. State and territory governments will need to establish suitable, resourced, contact points that ECEC services can notify so that their child protection agencies are not overburdened.

The state and territory agency that assigns the case worker should be well placed to provide the relevant information required in an application for an extension of assistance (although this could require greater information sharing across agencies within a jurisdiction), and should take on the burden of applying for an extension of the 'at risk' subsidy. This will reduce the burden on providers who could be informed that an extension has been applied for, and the outcome of the application. Approval should be automatic if the child is involved in statutory services (which would include a child protection order).

Approaches should be trialled to establish effective administration processes for assigning a case worker, making an application, and notifying the ECEC provider of the outcomes of an application before processes are rolled out to all ECEC services.

Data sharing between the Department of Human Services and the relevant state and territory statutory agencies should facilitate the assessment of applications.

If the child is not involved in statutory services, the requirement for a case worker, and the need for an application for extension up to 26 weeks, can provide benefits to the child if it engages follow-up services for the family. A proactive approach that engages the state or territory in the child's situation is a better way to provide suitable governance than making the application onerous for providers as way of managing costs. Once a child no longer needs on-going involvement with a community services case worker or 'at risk' funding, the recommended change in the activity test should make it easier for ECEC providers to retain the child in their service.

The issues of providing a safe and healthy childhood for all Australian children goes well beyond the access to ECEC services. Maternal health, child nutrition, parental engagement, and preventing domestic violence are as, if not more, important for childhood development. Addressing these entrenched issues as well as responding to the outcomes in terms of early intervention and child protection goes well beyond the scope of this inquiry. This area, like the provision of integrated services for families and children, will no doubt be considered as part of the White Paper on the Reform of the Federation, which aims to achieve greater clarity in the responsibilities (and funding) for these types of services.

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 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.

Funding estimates

The budget for SCCB for 'at risk' children in 2012-13 was $86.2 million. The average annual cost per child in this program in this year was around $6 500, but the per child cost ranged widely due to differences in the hours per week, the number of weeks, and in some case the fees charged.

In 2011-12, a little over 13 000 'at risk' children received SCCB. Around 38 000 children had substantiated cases of neglect and abuse in that year (chapter 13). This suggests that many children who might benefit miss out. In addition, it is unclear how much these children with substantiated cases overlap with the 13 000 children that receive SCCB. As 61 per cent of the children are on SCCB for up to the 13 week period only (chapter 13), either the targeting is fairly poor, or children are at risk for only a fairly short period. Without being able to identify which is the case it is difficult to estimate the extent to which there is a 'gap' in the current funding arrangements. In addition, there is benefit in interventions for children and families prior to actual abuse and neglect occurring, and funding should not be limited only to children for whom there are substantiated cases.

The cost of the program depends on the number of children who would benefit from the service, and on the average time that they would remain at risk and need the full subsidy. It is not clear that the average of 17 weeks is representative of the actual need. Also, the scope to identify and include many at risk children in an ECEC service may be limited. Some may already be in a service and not require this program (which is not to say they might not benefit from other programs to address the source of risk), but others may be hard to identify or to encourage into using an ECEC service even at no cost to the family. Hence projections of overall numbers of children and the extent of use are fraught.

Some parts of the recommended approach to supporting 'at risk' children are likely to lower the cost of the program:

- Reducing the period before a formal application from 13 to 6 weeks will tend to reduce the cost, as it appears that the period used relates strongly to the period allowed prior to a formal application. This change may also reduce the incentive of providers to apply which would further reduce the cost.
- Requiring that states and territories be advised so a case worker can be assigned may be seen as an impediment and may reduce the applications and hence program cost.

Other parts of the recommended program are likely to increase the cost of the program.

- Engaging state and territory governments in the governance arrangements may increase the use of the program as they are best placed to identify children at risk who would benefit from attending an ECEC service. They are also better able to make an application, and so more extensions beyond the first 6 weeks could be sought than under current arrangements.
- Allowing automatic approval of the longer period where children are known to the state and territory child protection authorities could result in more extensions, which would increase the cost of the program.
- Removing the 18 per cent limit would tend to increase the cost as some services have a higher population density of children who are at risk of neglect or abuse and the constraint limits the number of children in the program.
- Exempting the families of children who have been assessed as at risk for a 26 week period (or longer) from the activity test for 18 months once they exit the program will

increase the cost, although to the extent this reduces the 'churn' this will be partially offset. This will increase costs for ECLS, potentially reducing the cost of the program.

Given the importance of ECEC for at risk children, the aim is not to limit access to the program, but to improve its targeting. The net effect on the overall program cost is highly uncertain, but with better targeting the returns on any increased use are likely to be high so the program funding should be demand driven. It is likely that it will take time for the program to be well utilised, and it is unlikely that the cost will increase substantially, even given the probable numbers of at risk children. For the purposes of budget allocation, the Commission suggests assigning a budget of $100 million, which would allow for an expansion from current levels.

The final outcome will depend on the cooperation of the states and territories in being willing to provide a case worker for children identified as at risk, and the provider's and family's attitudes to the program.

The Inclusion Support Program

Inclusion of children with disabilities, behavioural issues, and different cultural backgrounds to the majority of children, at an ECEC service can be challenging. While some providers have both the capability and willingness to provide an inclusive service, others lack the capability and/or confidence to do so. Some children do require additional support, either in terms of an additional staff member, language services, or in specialist equipment, but for many it is only about the ability of a provider to organise their program to address the issues raised by including children with additional needs (chapter 13).

There was strong support from many organisations and families for the concept of a demand-based funding program for children with disabilities as proposed in the inquiry draft report. However, in response to further evidence and analysis, the Commission has concluded that the current approach remains more appropriate for the near future.

This is in part because the ECEC market has yet to develop to the point where services would compete to provide additional child-based services if funded more generously, nor to plan the professional development needed to offer an inclusive service (box 15.4). It is also because attaching the funding to the child can undermine the inclusion principle, and many services (and educators) have yet to develop the capacity to plan and manage most children's additional needs as a normal feature of service delivery. This inclusive approach, where additional staff are there to make the program work for all the children in the room rather than being dedicated to the needs of one child, is also more efficient, as the National Inclusion Support Agency Alliance (sub. DR745) explain:

> If funding is provided purely on a child-based structure, we estimate that the need for funding will be 2-3 times the current ISS expenditure as SECLS would be provided for all children with a diagnosis, regardless of need….Funding based on the assessed need of the entire care environment at a point in time is considered far more efficient and effective. (p.3)

Box 15.4 ECEC market failure in meeting additional needs

In competitive mature markets government can purchase community service obligations to achieve equity objectives. In such markets, providers are willing to provide the services as long as the price meets their full costs (including a profit margin). This requires the provider to be able to assess the cost of providing the services and can access the inputs required to do so. The ECEC market does not reflect these characteristics in regard to including children with disabilities, behavioural issues, and culturally diverse and non-English speaking backgrounds:

- The capability needed to include an additional needs child depends not just on the nature of the child's need, but on the context, most notably the capabilities of the service (for example, if a service is in an area with a high Chinese population it may be very easy for a child from this background to be included, but more difficult in a service where no one speaks Mandarin).
  - This makes setting a price that relates to a specific disability or need very difficult — it may be too high for integrating some children with the specific need, and too low for others.
  - A price based on an 'on paper' diagnosed need creates opportunities for providers to 'cherry pick', that is include only those children for whom the cost of providing services is lower than the additional fee received. This leaves some services facing high costs to integrate children, and difficulty for families in finding places for children for whom providers may view as higher cost than the compensation available.
- Services are often unaware of what they can do to include a child with additional needs, and fearful of the impact on other children. It is only through including the child that they realise that not only can they cope, but that the inclusion can be rewarding for the other children in the service. This is the fundamental objective of the inclusion approach, and as capabilities develop the overall average cost of inclusion should fall.
- While there are 'economies of scale', that is, once a service has the capability to include one child with additional needs they are better able to include a second child, (often at a much lower, if any, additional cost), there are concerns with 'specialisation' of services. Foremost, specialisation undermines the objective of inclusion, which is to enable children to attend a service of the parent's choice, and to expose these children and their peers to each other. Although the Commission did not recommend moving to specialist services, there was a strong response that this would be a retrograde step.
- Reflecting the limited capabilities of many providers to undertake inclusion planning, few would have the capability to write a grant application without considerable support. They would also struggle to identify what training would be most useful to staff.
- Inclusion support training is not mandatory in current training programs for certificate III and diploma in early childhood education. Moreover, there are relatively few professional development training programs available in this area so the level of training and experience is still relatively low in the ECEC workforce.

There are, however, several areas where the current Inclusion and Professional Support Program (IPSP) could be strengthened. As discussed in chapter 13, these are:

- ISA funding levels remaining at 2006 levels despite a substantial growth in the number of ECEC services and changes in the distribution and nature of the populations using these services

- a need for more outreach services to engage CALD families that may have developmentally vulnerable children to access ECEC services
- insufficient training at certificate III level and a lack of focus on training in inclusive practices and managing the needs of children with disabilities and behavioural issues in professional development programs
- a substantial decline in the hours of bicultural support that can be provided to assist a new family to manage the settling in of their child starting at an ECEC service
- restrictions on the hours of additional staff support that can be provided by ISS, and a subsidy rate that has not kept pace with staff costs and is now well below the hourly rate for a certificate III educator.

In addition, as discussed in chapter 8, the need for the services provided by the Professional Support Coordinators (PSCs) is declining and providers should be stepping up to the task of managing the professional development of their staff. The Commission has recommended that the PSCs, along with funding for training related to the implementation of the NQF, be phased out (recommendation 8.2). Given this, the new Inclusion Support Program (ISP) should retain the current sub-programs in the Inclusion and Professional Support Program (IPSP) with the exception of the PSCs, and the Indigenous Professional Support Units (IPSU) which will have an expanded role in the CELP.

The ISP will consist of:

- Inclusion Support Agencies (ISA)
- Inclusion Support Subsidy (ISS)
- Bicultural Support
- Specialist Equipment
- National Inclusion Support Subsidy Program (NISSP).

The PSC's responsibilities for training program development should be transferred to the ISAs, and the focus of subsidised training should be on professional development in inclusive practices. The ISAs should also take on management of access to bicultural support and specialist equipment. With the exception of these additional tasks, the recommendations relate to ensuring that the components of the ISP are adequately funded to enable more children with additional needs to access ECEC services and to ensure that the level of support when they do is sufficient to provide a quality service.

As the ECEC market matures, and the provision of an inclusive service becomes the norm, the need for on-going professional support should decline. Hence the ISA program should be reviewed in five years.

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.

Funding estimates

The estimates of the level of funding required to offer support for inclusion are speculative and have to be based on assumptions about what is a realistic objective for inclusion and whether this could be achieved. The funding estimates below are based on estimates of the increase in funding required to offer a quality service to the current number of children, and the potential increase in the number of children in response to this increase in quality (or from addressing cost and capacity barriers for providers).

As discussed in chapter 13, the attendance rates for children with disabilities and CALD children are below the rates for the population. Just bringing their attendance rates up to the population rates would require an expansion in funding in the ISP. While it is likely to be desirable to bring these rates of attendance up above that of the population, this may require more proactive initiatives than offering an inclusive service. Given this, the funding estimates are based on the assumption that the rate of attendance of CALD children and children with a disability rises to the population rate (table 15.3). Overall, this is an increase of 43 000 places, on a total of around 970 000 children aged between 0 and 5 years using LDC and HBC services, or 4.4 per cent. If only CALD children are likely to need bicultural support, the increase of 20 000 implies an increase of about 11 per cent in the number of children who require this service.

It is likely that these shortfalls are similar in proportional terms for school aged children and can be applied to OSHC use.

Table 15.3 **ECEC attendance relative to population**

Children 0-5 years

	ECEC attendance	*Population share*	*Number attending ECEC*	*Number of additional places*	*Change in number of places required*
	%	%			%
Children with a disability	2.9	4.0	21 700	8 000	37
CALD children	18.5	21.2	139 000	20 000	14
Indigenous children	2.9	5.0	20 500	15 000	73

Inclusion Support Agency funding

ISAs assist services to develop the capabilities, planning and strategies to include children with additional needs, and assisting services to draw on the Bicultural Support and the Specialist Equipment programs and the ISS. While the expectation is that services will increasingly be able to provide inclusive services without any additional support, there appears still some way to go in achieving this objective. The ISAs will require an increase in funding over the next 5 years to build the capacity of providers to deliver inclusive services.

The budget for the ISA's was $30.4 million in 2012-13. Around 95 per cent of funding was allocated to Inclusion Support Facilitators who provide expert advice, and 5 per cent to Flexible Support Funding.

As a guide to an appropriate budget for the ISAs, the number of children in ECEC services grew by 22 per cent between 2006-07 and 2011-12. For LDCs the growth was 25 per cent, 11 per cent for FDC, and 22 per cent for OSHC (chapter 3). The funding for ISAs should at least keep pace with the number of children while ECEC services build their capacity to offer inclusive services. Applying an estimated overall per child funding shortfall of 22 per cent implies that the budget for ISAs should be increased to $37 million. Given that the ISAs task is to build the capacity of services to provide an inclusive service, the number of services which have the capability should be rising. So although there is expected to be an increase in the numbers of children using ECEC services, the Commission has not included a growth in children adjustment in estimating the funding required for the ISAs.

More also needs to be done to promote professional development that has an inclusion focus. The $200 million LDC Professional Development Program (redirected funding from the Early Years Quality Fund) has a focus on quality and equity, so should direct resource to training for inclusive practice. Nevertheless, having a budget for professional development should assist the ISAs in their aim of building capacity in ECEC services as it would enable a proactive rather than just reactive approach to capacity building. For this reason the Commission suggests allocating $10 million to subsidise training in areas relevant to providing inclusive services.

Bicultural Support

Bicultural Support funds a translator to work with a service and family for up to a fixed number of hours to assist the family with paperwork and understanding the parents responsibilities associated with using the service and to assist in settling the child into the service. The service can be provided for any CALD family with a child starting at an ECEC service who needs this assistance. The bicultural support budget was $2.4 million in 2012-13 and can provide only 12 hours of assistance per client rather than the initial 40 hours (chapter 13).

The Bicultural Support budget should be restored to be able to provide up to at least 20 hours of support to families who need interpretive assistance and cultural guidance when their child starts at an ECEC service. To be able to offer 20 hours would require around a 66 per cent increase in funding As the number of children utilising this support will need to rise to get CALD children up to the population attendance levels, funding will need to expand to accommodate the extra children. Adding these two factors suggests that the budget will need to be increased to $4.5 million.

The Inclusion Support Subsidy

Both prior to and following the draft report, participants have argued that the funding available under ISS is inadequate. The current rate is below the costs of hiring an additional educator, even at a certificate III level, and the hours of subsidy are limited to 5 hours a day (3 for OSHC, 8 for vacation care) (chapter 13).

The Commission agrees with participants that the current rate, and the way it is set, is problematic for some services and could pose a barrier to services being willing to include a child with additional needs. As the qualification level of the staff required is a certificate III, a more appropriate funding level would be the award wages for a certificate III. This would automatically update the funding level as awards change.

In addition, as the hours of staffing support are tailored to the needs of the individual service (by the NISSP), there is less of a case to have stringent limits on hours than in a one-size-fits-all system. There may be some services where 6 or 7 hours a day is needed to enable the service to deliver an inclusive service, and/or to be able to employ additional staff. However, as a cost control for the program, the hours of staff subsidy provided should still be restricted to when the child is in attendance. The implications for the cost of increasing the subsidy for additional staff from $16.92 an hour to a certificate III rate ($23.31) is to raise the cost by 38 per cent. Increasing the hours from 5 to 7 hours a day is a cost increase of 40 per cent. Combined they imply a rise of 93 per cent. As an approximate guide a doubling the budget of ISS is likely to be required to provide adequate support to those children with a disability requiring additional staffing to be able to participate in a mainstream ECEC service. A further increase in funding will be needed to accommodate additional children, if the proportion of children with disabilities attending ECEC services is to rise to their population share. The combined cost implication is to increase the budget from the current level ($50.6 million in 2012-13) to $134 million. Of this increase around $98 million would allow more generous support for the children who are currently using ECEC services, and $36 million is the cost of expanding the number of children to reach the population share ratio.

Table 15.4 sets out the funding estimates for the ISP. While the estimates are tentative, expanding the ISP funding to around the $190 million level would restore the effectiveness of the ISAs and provide more adequate support for inclusion of children with disabilities and from CALD backgrounds. It should be noted that the inclusion of additional children induced by the support would add to the cost of ECLS. If the average ECLS is $5000 per additional child then the additional cost to ECLS of bringing the 0 to 5 age group up to population use rates is $140 million. How long it will take for the use rates to adjust is not known.

Table 15.4 **Funding estimates for the Inclusion Support Program**

	Budget 2012-13	*Estimated funding gap for current services*	*Increase in numbers to achieve population ratio*	*Increase in funding required to meet gaps*
	$ million	%	%	$ million
Inclusion Support Agencies	30.4	22	-	37
Training[a]	0		-	10
Inclusion Support Subsidy	50.6	93	37	134
Bicultural Support	2.4	66	14	4.5
Specialist Equipment	0.2	0	37	0.3
NISSP[b]	2.0	0	37	2.8
Total	**85.6**			**188.6**

[a] This transfers PSC training funding to the ISAs. [b] This assumes that the NISSP workload will rise in line with the number of children using ISS, which may be generous.

Source: Productivity Commission estimates.

The Community Early Learning Program

There are some communities where ECEC services are unlikely to be established without proactive assistance, and there are communities where to attract families the service has to be tailored to the community's needs. As ECEC services in these communities can provide considerable child development benefits, the Commission recommended a community focused program to support the provision of services that are culturally appropriate in these types of communities. The target communities are those where children are at a higher risk of being developmentally vulnerable that would not be provided with culturally appropriate ECEC services by the market. While these communities tend to be in rural and remote areas, there can be culturally and socioeconomically defined communities located in urban and inner city areas where families are unable to access ECEC services that will meet their needs.

Indigenous communities and refugee communities are those that are least likely to have access to culturally appropriate services. The draft report suggested that the program called the Disadvantaged Communities Program be established. While there was support for the program, the name came in for criticism, with the Secretariat of National Aboriginal and Islander Child Care (SNAICC) (sub. DR855) pointing out that focusing on the positives — a strength-based approach — was important for Indigenous communities. As the objective is to promote community engagement in and support for early learning for the children in the community, the suggested name for the program is the Community Early Learning Program (CELP).

The BBF Programme currently block funds services in rural and remote areas, with around 80 per cent providing services for Indigenous children. A recent review of the BBF Programme recommended assisting services to transition to mainstream funding through achieving the NQF where possible (chapter 13). As discussed in chapter 14, child-based mainstream funding is a more sustainable long term funding model for ECEC providers than block funding. Block funding is dependent on renewal (often annual), and the uncertainty of funding makes longer term planning difficult for providers. Funding is also usually based on historical levels and may not be indexed sufficiently to reflect changes in underlying costs and/or changes in demand. This later situation is particularly problematic in growing communities. For example, the Victorian Aboriginal Education Association Incorporated explained:

> With the exception of Consumer Price Index (CPI) increases, the block allocation to the MACS has not increased since 2003. MACS have received infrastructure funding specifically to expand the capacity of the services to offer places, but not a funding increase for number of licensed places. For example Lulla's has received infrastructure funding so that it is now a 70 place centre, but still only receives funding for 17 places. (sub. DR785, pp. 4–5)

For these reasons, the Commission sees moving services onto 'mainstream' child-based funding to be important for their sustainability, even if they continue to require some additional support over the long term due to their specific circumstances. As discussed in chapter 13, there are several barriers to block funded services transitioning to mainstream child-based funding.

- The nature of the service may not align with the NQF requirements — although this problem can be overcome with sufficient flexibility in the NQF to allow for culturally appropriate service delivery to be recognised (chapter 7).
- Providers may struggle to improve quality to satisfy the NQF — but this is a case for assisting them to meet a suitably adjusted NQF, not an excuse for them not to have to do so.

- Services can have a higher cost base due to their location or the nature of the population of children attending, or because the service plays an integrating role for other child services — but justified higher costs can be accommodated by a program that continues to provide some additional support after the service has graduated to mainstream child-based funding.
- Families may be less likely to satisfy the activity test due to the absence of a labour market and/or the nature of the disadvantage of the community — this is a case for considering exclusions to the activity test rather than for block funding of the services.
- Families have little capacity to pay or reliability in paying — payment of ECLS direct to providers resolves a major issue of payment, while the higher rates of subsidy under ECLS for low income families, as long as they are exempt from the activity test, should resolve much of the affordability problem.
- Services may find it harder to employ and retain appropriately trained staff — this suggests a need for on-going support for professional development.

Some of these issues will be resolved by the proposed changes to mainstream funding arrangements set out above and by the ECEC regulations (chapter 7). But some require additional attention to overcome the barriers to providing an ECEC service in communities that currently rely on a BBF service or do not have a service at all.

The generally poor developmental outcomes for Indigenous children in remote areas but also in outer regional areas suggests that their needs are not being met through mainstream services or in many places, or by Indigenous specific services (Forrest 2014). The CELP program will largely focus on providing ECEC services in communities with high concentrations of Indigenous, or refugee people, who find it difficult to access culturally appropriate ECEC services. For this reason, new services funded by CELP should not be limited to outer regional and remote locations, but to communities which satisfy the following two conditions:

- there is a strong cultural identity and community engagement that means that ECEC services need to be delivered in ways that might not meet the usual NQF (and culturally appropriate ECEC services are not otherwise available)
- the children in the community have a high probability of being developmentally vulnerable.

There should be a wide diversity of services funded under this program in terms of size, the hours of service, and how it is delivered, but it will be focused on centre-based services (including mobile services). CELP will have three elements:

- Establishing and transitioning services
- Integrated services
- Professional support.

There are some services that are currently block funded under the BBF Programme that may struggle to transition to ECLS, even with the additional on-going support that can be provided under CELP to cover higher average costs of supply. The Department of Education will need to determine the benefits of continuing to block fund these services, but has the scope to do so under the CELP. To encourage services to transition, families should be subject to the same level of co-payment that they would face in a transitioned service.

Establishing new services and transitioning services to mainstream funding

One of the main concerns the Commission has about the current BBF Programme is that it has effectively been closed for some years — no new services can be opened, nor current services expanded even though needs and locations of demand are changing. For those services that receive funding there is little incentive to consider either closing (if they have very low utilisation), or expanding to accommodate more children, as the funding appears relatively fixed regardless of demand. Simply expanding the number of block funded services would lock these services into the same system, with very little flexibility to adjust to changing needs, and no market-based incentives for the services to improve the quality or reach of their services.

Given the substantial unmet need in some communities, a program that could establish and then transition services as they mature and can move to child-based funding (with additional on-going support if required) is a more sustainable solution for meeting needs. As services transition to mainstream funding arrangements, this frees up resource to support new services in other communities.

To avoid a repeat of history, for new services to be approved they should have a five year business plan that enables them to move from block funding to ECLS as their main source of funding. Proposals for services for Indigenous communities should demonstrate that they incorporate the lessons on what works, which are likely to be as relevant to refugee communities (chapter 13). UnitingCare Australia summarise the research:

> They need to integrate a community controlled approach, promote leadership, economic participation and build social capital, be strengths-based, holistic and adapted to local needs and contexts. (sub. 872, p. 27)

To ensure that services are delivering, their progress should be reviewed in their third year, and funding wound back at this point if the service is not meeting the needs of the community. Ideally, by year five, the service would be fully funded by ECLS, giving it an on-going source of funding that grows with the success of the service in attracting and retaining children.

CELP services should be allowed slightly different rules in regard to meeting the NQF (if required) that recognise cultural and community-based approaches to raising children. Facility requirements, educational qualifications, and other aspects of the ECEC services that are specified in the NQF should be interpreted in the light of community expectations and aspirations without sacrificing quality (chapter 7).

Realistically, many services will continue to need some support from CELP due to higher costs, and challenging populations for maintaining utilisation rates (chapter 13). This could be provided on an ongoing basis as a per-child loading, or for funding a specific staffing requirement. For example, the funding might cover having a nurse in several times a week to manage health issues, or a mini-bus to transport children. Those services receiving continued funding support from CELP should have their need reassessed every 3 years. This assessment should include a review of efforts made to maintain attendance, and provide scope to close services that do not have sufficient community support (as evidenced by attendance).

To allow CELP services to transition an exemption for families on income support from the activity test is required. In communities with high rates of unemployment, many families will be on Newstart, which is defined to meet the activity test. Nevertheless, there may be some communities where a blanket activity test exemption for ECLS is preferable.

The number of new services that can be added each year will depend on the funding available and the ability of the program to provide the necessary support and oversight. Some funding for capital may be required, but the focus should be on operational support. As described in chapter 13, new ways to fund capital such as social impact bonds offer an alternative to government grants, allowing government to focus on operational funding (which provides the funding for servicing a bond raised to pay for the capital).

Where services do remain block funded, co-payments should be introduced for families as recommended in the BBF Programme review. While usually small, these can be an important part of bringing families in these communities in as purchasers of ECEC services rather than as recipients of welfare.

Promoting integrated services

Moving to child-based funding should facilitate the integration of ECEC services with other services. As explained in chapter 13, integrated service delivery can be a more effective and efficient way to deliver family and child services in Indigenous and other highly disadvantaged communities. ECEC services can provide a useful introduction to a service environment for some families, while for others it may be other services, such as child health services, that provide an entry point for accessing ECEC services (Brennan 2013).

Access to mainstream funding arrangements offers greater financial stability for integrated services, although some block funding (for the integration 'glue') may be needed. The CELP should only fund coordination of services where the ECEC service forms the core component of the services. Information management, with family and individual records being kept and relevant information shared to different services, is central in ensuring that services are coordinated, and families can and do access the services they need to improve their health, educational, employment and social outcomes. This management task is crucial, and requires additional resource. As a guide, the Minderoo Foundation provides $350 000 a year for the Challis Early Learning and Parenting Centre in Armadale to fund the coordination of pre-natal to end of education services in this community in Western Australia. This coordination task is undertaken by the Challis Lower Primary School (sub. DR907). A good information management system also provides the data to assess the performance of the investment and improve the coordination and delivery of services.

Professional support for establishment, operation, and transition

The BBF Programme review identified the need for capacity building as essential for these services to achieve the NQF (chapter 13). It was also supported by participants to this inquiry, such as The Gowrie (QLD) who argued:

> To distinguish the new 'Disadvantaged Community Program' from existing programs there needs to be a much greater emphasis on outcomes, capacity building within the service and the community, and well documented and executed plans for the graduated transition to the single per-child funding scheme. (sub. DR860, p. 6)

This will require an investment in building the capacity of local staff and management who can connect to the community, but lack the necessary expertise to operate a business and comply with regulatory requirements, as well as having a working understanding of child development and education. Save the Children explain its strategy as:

> … local staff upskilling. We see this as essential to providing culturally appropriate services, for sustainability, and also to build the capacity of the community to take ownership of the service. (sub. DR896, p. 12).

The Indigenous Professional Support Unit (IPSU) currently provides support to many of the Indigenous focused services in the BBF Programme, as well as providing guidance on inclusion in regards to Indigenous children in mainstream services. The capacity of this unit could be expanded so they could provide assistance to CELP services in the establishment and transition phases, and post-transition if required.

Given the large share that Indigenous specific services will make up of the CELP, the IPSU could be reconfigured as the Indigenous Professional Support Agencies (IPSAs). It could continue to provide inclusion support advice to all ECEC services as part of their role, but have an expanded role in supporting the CELP agencies (an extension of their current support for BBF services). The ISAs in areas where there is a refugee CELP service may be able to be tasked with (and funded for this service) to prevent duplication.

Services other than non-parental care and early learning should be funded from other source

In the Commission's view the ECEC funding should be dedicated to non-parental care and early learning and not be diverted into parenting and other undoubtedly valuable but non-core services. Currently the Home Interaction Program for Parents and Youngsters (HIPPY) and some BBF services are funded under the ECEC budget, but do not fit into this category.

HIPPY is described in chapter 5, and while reporting some success, is just one of a number of programs that engage with parents so that they can provide a more positive early learning foundation for their children. The program has a budget of $100 million over 4 years, out to 2016, and the Commission has recommended that the program not be funded from the ECEC budget once this contract expires (but should seek a more appropriate funding source) (recommendation 5.1).

The BBF Programme has been funding a small number of mobile services that would not fit the category of ECEC services as they do not provide non-parental care. These services are a historical legacy, and as the National Association of Mobile Services explains:

> Twenty six of the forty six [26/46] BBFP funded Mobile Services have a multi-strategy, educationally focused service delivery model that primarily doesn't involve non-parental care and, as such, **will never be candidates for a 'child based' subsidy system.** (sub. DR914, p. 16)

Government has three options in regard to these programs. The first is to not renew the funding beyond the current commitments. This will require these services to seek other source of funding to continue operating. The second option is for some or all of the funding for these services to be rolled over under current funding arrangements, and funding slowly reduced with natural attrition. The third option is for government to dedicate some of the ECEC funding to these parental care and support programs, which should see competition for the funding that is made available. The Commission would recommend the first option, as these programs would be better managed and funded by the Department of Social Security or state and territory agencies with a parental care and community support mandate.

The BBF activities are on annual contracts, so the same treatment as recommended for HIPPY would see funding from the ECEC budget for these activities cease as these contracts expire. The Department of Education will need to identify which activities would fall into this category. In 2012-13, $3.2 million was budgeted for the Stronger Futures Creches and Indigenous Playgroups and $6.2 million for other creches, but it is unclear how many of these are effectively LDCs. The management of crèches funded under the Stronger Futures Northern Territory National Partnership and Indigenous Playgroups has been transferred to the Department of Prime Minister and Cabinet but the budget allocation still appears to be under the BBF Programme.

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 will 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.

Funding estimates

The budget allocation for the BBF Programme was $78.8 million for 2012-13, of which $59 million was for operational support. The main elements are:

- Multifunctional Aboriginal Children's Service ($15.7 million in 2012-13)
- OSHC ($7.7 million in 2012-13)
- Mobile services ($11.4 million in 2012-13)
- Flexible services ($14.7 million in 2012-13)
- Improved Standards Initiative ($18.9 million in 2012-13).

The IPSU funding under the IPSP was $3.6 million in 2012-13.

The funding for the Indigenous Early Childhood Development Children and Family Centres ($55.6 million in 2012-13) was a National Partnership that was not continued (chapter 4).

There are around 172 000 Indigenous children aged between 0 and 12 years, and around 86 000 aged 5 years and under, with around 21 per cent living in a very remote or remote area, 22 per cent in outer regional area and 57 per cent living in a major city or inner regional area (chapter 13). For children aged 0–5 an increase in ECEC attendance of over 70 per cent is required to bring these children up to population average levels, with only around 20 500 attending LDC or FDC.[3] The deficit in ECEC attendance is likely to be greater in remote and outer regional areas, but could still be substantial in inner regional areas and cities.

The BBF Programme caters to around 17 700 children aged 0–12 years, of which an estimated 80 per cent are Indigenous (chapter 13). It is estimated that around 15 000 places are required for the 0 to 5 years age group, just to bring the attendance up to the population rate for Indigenous children. But a higher attendance rate is likely to be desirable in these communities. CELP should be a program that expands over time, in part as considerable resource are involved in the start-up phase for a program and for any new service. It is important that the program is seen to have on-going funding as it will provide the support that some services will continue to need even when they have transitioned to ECLS, as well as the funding for integration management.

There will be a cost to ECLS as services transition from CELP. The average cost of the BBF Programme per child is $4 500 ($78.4 million for 17 700 children). The cost to ECLS for each child who transitions may well be higher if the change in the service means the service is available for longer hours, but the best guess is that it will be around the same level. Many in the target communities will be on the highest ECLS rate, and some already make a co-payment for BBF services, so it is difficult to assess how much the effective subsidy for services will change for the families involved. As moving to mainstream funding is not driven by cost-shifting objectives, it is likely that most if not all of the BBF Programme funding will be replaced by ECLS over time. This is also likely to be the case for the 'new' CELP services as they transition. Hence the cost of the program, and the cost to ECLS in the out years, will depend entirely on the number of services, the number of children, and the hours of attendance. These in turn depend on the level of CELP funding provided to establish new services.

To make inroads into unmet demand for services, the CELP will need to be funded to at least $200 million a year. How this is allocated between establishing new services, on-going support, integration services, and the IPSAs will change over time. In the first years the emphasis will need to be on the IPSA to assist the BBF services in transitioning, and in establishing new services. If cooperation for the establishment of integrated services is successful, then a greater share of the budget will go to this type of service over time. In the longer term, much of the budget will be for on-going support and integration and the demand for IPSA services may decline.

[3] The administrative data is highly uncertain, but reports that 32 000 Indigenous children attend LDC and FDC and 10 000 in OSHC. The estimates presented here rely on data from the ABS and Review of Government Services set out in chapter 13 due to concern about the accuracy of the flag that identifies Indigenous children in the administrative data.

A budget of $200 million should allow for at least 30 new services to be started each year and about 300 to be in transition (including the current 300 or so BBF services), dropping down to a steady 150 services in transition once most of the 300 or so BBF services have transitioned. In the long run, the program should be able to wind back the number of new services established each year, but will have a growing number of services that receive some on-going support, particularly if more services take up the integration role.

As services transition there is a cost implication for ECLS. In the first year of the program this will be low, but in the following 3 to 5 years will rise as the BBF services transition. The rise in ECLS will then slow, as the first year of CELP services transition followed by a steady number. A rough guide is that ECLS will rise by around $10 million in year 2, $20 million in year 3 and $20 million in year 4 as the BBF services transition. In year 5, the first new services should start to transition, which could add around $4 to $5 million a year to ECLS.

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.

Figure 15.1 summarises the three additional needs programs. Together the funding is estimated as $490 million, with an additional $190 million for ECLS should the programs be successful in raising the number of children with additional needs closer to the same share attending ECEC services as the broader population. These funding estimates assume that the programs are fully operational. The CELP and ISS funding is likely to be lower in the first year or so of implementation.

Figure 15.1 **Overview of the additional needs programs**

Program	Impact	ECEC cost
'at risk' funding • 100% ECLS • State and territory agency involvement • 6 weeks followed by block of up to 26 weeks	• Better targeting • More complementary services provided to families and children • Lower application costs for providers of including 'at risk' children	• Estimated **$100m** • Impact on ECLS is highly uncertain
Inclusion Support Program • ISA - increased funding – professional development – Training programs – Outreach – Manage access bicultural and equipment support • ISS – funding at certificate III level for up to 7 hours a day • Bicultural Support funding to provide at least 20 hours assistance for a client • Specialist equipment • NISSP to manage ISS application	• Increase in number of ECLS services that offer an inclusive service • Improvement in support for children with 'high needs' • Increased access to ECEC services for CALD children and children with a disability (including where diagnosis is pending)	• Estimated at **$190m** • ISAs $37m • ISS $134m – $98m to improve support – extra $36m to expand the number of children supported • Bicultural support $4.5m – $4.0m to improve support – extra $0.5m to expand to more children • Specialist equipment $0.3m – extra $0.1m to expand the number of children • NISSP $2.8m – $0.8 m to expand number of children • Longer term ECLS **$140m**
Community Early Learning Program • New services (mainly indigenous communities) • BBF services in transition (and new services over time) • Ongoing assistance for CELP services after transition • Assistance for the integration function • Indigenous Professional Support Agencies	• Growth in the number of culturally appropriate services and growth in the number of children attending • More sustainable funding for services in disadvantaged communities • Promotion of integrated service approaches	• Estimated at **$200m** • BBF in transition $78.4m • At least 30 new services a year providing services to 900 or more additional children year year • Longer term ECLS **$50m**

15.3 Preschool program funding

In chapter 12 the Commission argued that ensuring universal access to a preschool service at low cost (or more ideally, fee free) should be a high priority for all governments. Total government spending on preschools is estimated to be around $1 360 million in 2012-13, of which $447 million was funded by the Australian Government under a National Partnership Agreement (NPA), and a further $319 million through CCB and CCR subsidy to parents. The state and territory funding contribution was $594 million.

While preschool is a state and territory responsibility, the Australian Government has been a major funder through the NPA, and through the CCR and CCB because around 42 per cent of children receive their preschool service in a LDC. As described in detail in chapter 12, this share varies substantially between the states and territories, ranging from just under 70 per cent of children in Queensland receiving preschool in a LDC, to under 5 per cent in Western Australia. States and territories also vary widely in whether they pass on the NPA funding to LDCs, and also to non-government preschools, and the level of funding they provide (which ranges from $1.56 million in Queensland to $211 million in Western Australia). The out-of-pocket costs to families also varies widely, and is higher where there is a greater reliance on delivery of preschool in LDCs. This wide range of approaches to delivery of preschool services, but more importantly to how they are funded, is less than ideal.

The Australian Government funding under the NPA has the objective of achieving universal access to 15 hours of preschool a week over 40 weeks (600 hours). Apart from achieving this, an ideal preschool system would:

- allow families to choose where their child receives their preschool service
- provide the same out-of-pocket cost for families regardless of where they choose, for comparable services
- be managed, if not fully funded, by states and territories.

From the perspective of the Australian Government, its funding should not be a substitute for state or territory funding. This means that states and territories should fund preschool by the same amount per child, regardless of where it is delivered. If this was the case, the Australian Government could provide states and territories with a per-child subsidy to assist with this cost. Should the states and territories fully fund preschool regardless of where it is delivered, families would not be required to pay the provider the normal ECEC fee for the preschool hours of an LDC program, and so would not be eligible for any subsidy (ECLS). Families should only have to pay the same co-payment as families using preschools outside of LDCs. This would be the ideal approach as it would treat LDCs and other preschool providers, and families using preschool services, equally.

Given the distance between this ideal and the current arrangements, there will need to be considerable change to achieve this outcome, and this change is likely to be strongly resisted by some states that currently spend relatively little on preschool services (Queensland (0.5 per cent of the total expenditure), followed by New South Wales (13 per cent), then Victoria (30 per cent), then the Australian Capital Territory (54 per cent) in 2012-13). Nevertheless, clarity about the responsibility for delivery and funding of preschool needs to be pursued, and should form part of the White Paper on the reform of the Federation and subsequent reforms.

In the meantime, change to the current funding arrangement is needed to encourage this reform and to at least partially correct its more egregious aspects. The main change is to ensure that Australian Government funding is passed on by the states and territories to the preschool regardless of where it is delivered; that is, the funding follows the child. In addition, to prevent double dipping, families should receive a lower subsidy for the hours of preschool provided by the LDC that has been funded directly (box 15.5).

Box 15.5 **Adjusting ECLS for preschool hours in a LDC**

There are several ways to adjust ECLS for preschool hours to adjust for the Australian Government preschool funding being passed by the states and territories to the LDC provider of preschool services. One way is to adjust the subsidy rate downwards for families for the preschool hours, so a family that normally gets a 60 per cent subsidy rate might get a 40 per cent subsidy rate. As the provider is getting the other funding for the preschool hours they should lower the fees for these hours of service to compensate families. This works best if the states and territories fully fund the preschool hours so the provider only charges families the preschool co-payment, and the ECLS subsidy rate is reduced to 0 per cent for these hours. It is much more complicated where the states and territories only pass on the Australian Government funding, and would rely on providers undertaking a fee adjustment.

An alternative approach is for the Australian Government to discount the benchmark price to reflect the amount of funding provided for this preschool element. The appropriate discount to the benchmark price would need to be determined by the Department of Education. If average NPA funding is around $1500 a child for the 600 hours of preschool per year, a discount on the benchmark price of $2.50 an hour for the preschool hours would remove the double dipping (be cost neutral for the Australian Government). Families that use LDC only for the preschool hours for preschool age children would be exempt from the activity test, so they would pay whatever subsidy rate applies to their family income level times the benchmark price less this adjustment.

For example, if the benchmark price for the LDC is $7.80 an hour, a family on an income of under $60 000 would pay 15 per cent of $7.80 less $2.50, which is $0.8 an hour for the preschool service. They will pay less if the LDC fees are less than the benchmark price and more if they are higher than the benchmark price.

Source: Productivity Commission estimates

Discounting the benchmark price for preschool services may discourage dedicated preschools from moving to become LDCs in order to access ECLS. The Commission's recommendation that the daily and weekly hours requirement be removed provides a greater possibility that preschools will seek this option, however, the retention of the weeks per year of service requirement will remain disincentive to many dedicated preschools to rebadge as a LDC. The requirement for weeks of operation does not prevent dedicated preschools, including those attached to schools, from offering an OSHC service. Families using the preschool's OSHC service would be eligible for ECLS for the non-preschool hours for the school term as long as they meet the activity test, as is currently the case with OSHC for primary school aged children.

The current ISS does not extend to the preschool hours within a LDC on the basis that Australian Government funding has already been separately provided for this purpose. Although the states and territories do have programs to support children with additional needs to access preschool (chapter 13), these are unlikely to be available for preschool within LDCs. As LDCs' need for ISS in relation to a child will not differ between the hours the child in ‘at preschool’ in the LDC service and the other hours they are in the LDC, the ISS should apply to the child’s attendance at the LDC regardless of whether they are in a preschool program in the LDC.

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 service provided by a long day care centre by an equivalent amount to the per child preschool funding.

16 Potential impacts of recommended changes

Key points

- The Commission has assessed the impact of the Early Care and Learning Subsidy (ECLS) on families, providers and government using a behavioural micro–simulation model.
- ECLS entails a maximum subsidy rate of 85 per cent for families on gross incomes of less than $60 000 and the minimum subsidy rate of 20 per cent at $250 000.
  - Families would be eligible for 100 hours a fortnight of subsidised care per child if each parent works, trains or studies at least 24 hours a fortnight or satisfies exemption criteria
  - Families who receive Parenting Payment are eligible for 20 hours a fortnight of subsidised ECEC if they do not meet the activity test.
  - For 2013-14, ECLS is estimated to be slightly more expensive than current subsidies ($5.9 billion compared to a budget estimate of $5.7 billion). However, when changes in income tax receipts and other social security payments are taken into account, the estimated increase in fiscal cost is $68 million in 2013-14.
  - ECEC use under ECLS is estimated to rise by 35 million hours (or 3 per cent in 2013-14).
  - Labour supply use under ECLS is estimated to rise by 32 million hours (or 1.2 per cent in 2013-14).
  - GDP is estimated to rise slightly (1.3 billion in 2013-14). This estimate does not capture the wider welfare benefits to society associated with increased ECEC use, particularly by targeted groups, nor the improvements in the accessibility and flexibility of ECEC services or changes in unmeasured and unpaid activities.
- There are uncertainties surrounding the impacts of ECLS.
  - If the increase in work hours is greater than estimated, ECEC costs, GDP, income tax receipts and welfare payments would also be greater than estimated.
  - The risks associated with ECLS estimates should be compared to the current system where the fiscal cost of ECEC is rising rapidly and has been difficult to project.
- The Commission has also assessed a range of alternative approaches and has found:
  - Applying activity tests that more strictly limit hours of ECEC subsidies reduce the fiscal cost and increase labour supply, but have the least desirable outcome for ECEC use (either the lowest growth in use or even reductions) and the least desirable ECEC impacts tend to be concentrated in low income families
    - … applying activity tests that are closely tied to work hours is currently impractical
    - … if those practical problems are resolved in the future, such an approach (combined with appropriate exemptions for targeted groups) may offer substantial benefits.
  - Exempting target groups from activity tests dramatically increases the fiscal cost and the use of ECEC services, but results in little additional workforce participation.
  - Providing higher subsidies for lower income families will have a larger impact on fiscal cost, ECEC use and labour supply than increasing subsidies for higher income families.

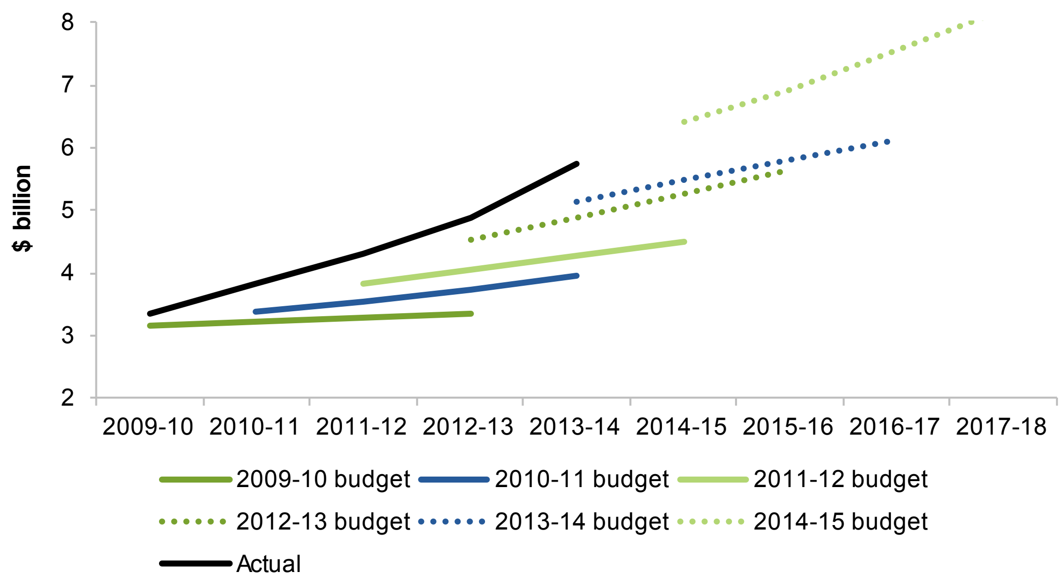
The Commission's recommendations represent significant changes to Australia's Early Childhood Education and Care (ECEC) system. The recommended changes would affect all participants in the ECEC system — users (children and families), service providers (both businesses and workers), and governments (as funders and regulators). This chapter examines the likely immediate and longer term impacts of the Commission's recommended changes on these three groups. It also discusses the estimated cost of implementing ECLS and the trade–offs between workforce participation, ECEC use and fiscal outcomes under alternative scenarios.

16.1 Uncertainty in the cost and use of ECEC services

Under existing legislation, the two main ECEC subsidies — child care benefit (CCB) and child care rebate (CCR) — are demand driven. Any child who uses approved care and whose parents meet the (very permissive) eligibility criteria are entitled to ECEC subsidies. As such, the fiscal cost of ECEC is determined by the personal choices of hundreds of thousands of families each year and the fee decisions of thousands of ECEC providers.

These factors make it very difficult to estimate the future cost of the current ECEC subsidy arrangements. This is illustrated by budget forward estimates which have consistently and substantially underestimated the cost of ECEC subsidies to taxpayers (figure 16.1 and chapter 11).

Figure 16.1 **Government estimates for child based assistance[a]**



[a] Actual and Government projected expenditure on CCB, CCR and JETCCFA.

Source: Portfolio Budget Statements available from (Department of Education 2014k)

Recent ECEC trends that have contributed to the unexpectedly rapid growth in ECEC expenditure include:

- ECEC fees increasing much faster than the inflation rate and wages
- despite the increase in fees, there has been an increase in the use of ECEC, including
  - an increasing share of children attending approved ECEC services
  - rising average hours of attendance per child at ECEC services.

The Commission has recommended substantial changes to the way that ECEC subsidies are determined, which will not only impact on family budgets, but will alter the incentives for families to use ECEC services. The response of families to the recommended policy changes is inherently uncertain.

The current budget allocation for ECEC was around \$6.7 billion for 2013-14 (which includes transfers of \$0.4 billion to the states and territories). The Australian Government has committed to \$31 billion over the next 4 years (roughly \$7.7 billion a year — but increasing each year). Given the terms of reference requirement to examine options within the current funding envelope, this forms a guide to what would be available.

16.2 Recommended approach to funding the system

Table 16.1 sets out the main recommended changes to the current system. While the modelling focuses on the funding changes, there are a number of other recommendations made in this report that should improve the ability of providers to respond to current and changing patterns of demand. As these changes should make supply more responsive and lower costs for providers and users of ECEC services (or at least lower the growth in costs), this should work to offset adjustment costs and the effects on fees from changes in demand. The implications of these changes are not explicitly included in the modelling, but are discussed where most relevant.

Table 16.1 Comparison of the current and recommended funding systems

Target group	*Current system*	*Recommended system*
Families using approved ECEC providers		
Majority of children	CCB – means tested, adjusted for number of children and type of service, maximum subsidy $3.99 - $5.74/hr (85% for school aged children) CCR – 50% of out-of-pocket up to $7500 Available for approved LDC, FDC, OSHC, vacation care, capped OCC and IHC No activity test for up to 24 hours of care per week, 15 hours of care per week for CCB beyond this. Up to 50 hours of care a week	ECLS – means tested, benchmark rate based on median fee (adjusted for age and care type), max subsidy 85% for families with income of $60 000 a year or less and a min subsidy of 20% for families with incomes of $250 000 a year or more. A linear taper determines the subsidy rate for families in between these incomes. Available up to 100 hours a fortnight of care provided by approved centre based and home based services that satisfy the NQF (including nannies) for families that satisfy the activity test of 24 hours a fortnight. Available for up to 20 hours a fortnight for families receiving Parenting Payment who do not satisfy the activity test. Families where parents are on disability and/or carer payment are not subject to the activity test
Grandparent primary carers	GCCB – full fees covered for up to 50 hours per week if on income support, no activity test (those not on income support would need to meet CCB and/or CCR activity tests to receive subsidies)	ECLS as above, but not subject to the activity test
Jobless families in study or looking for work	JETCCFA $1/hour parent contribution plus CCR – net cost $0.50 per hour Up to 24 hours/week if undertaking approved activity or up to 50 hours a week if undertaking at least 15 hours of approved activities.	ECLS as above, study and looking for work satisfy the activity test
Children with additional needs		
'at risk' children	SCCB – covers full fees for up to 24/7 care. Assessment by providers, reassessed at 13 weeks by Department of Human Services	100 per cent of the benchmark rate subsidised. Assessment can be made by providers, but child must be referred to state or territory child agencies within a week Reassessed at 6 weeks and then every 26 weeks on application by the nominated state or territory agency

(continued next page)

Table 16.1 (continued)

Target group	*Current system*	*Recommended system*
Children with additional needs (including disability, developmental vulnerabilities, Indigenous, CALD and refugee children)	Inclusion Support Subsidy – • LDC, OCC and flexible services $16.92 per hour up to 25 hours/week • FDC and IHC tier one subsidy of $4.49 per hour or tier two subsidy of $9 per hour up to 50 hours a week • OSHC $16.92 per hour up to 10 hours a week before school, up to 15 hours a week after school vacation care up to 40 hours/week • Other IPSP – support to providers to build capacity	Increased funding for: the Inclusion Support Subsidy for additional staff resources for services to include children with disabilities and vulnerabilities (based on Cert. III at $23.31 an hour). ISAs (facilitators and flexible funding) support to providers to enable inclusion Specialised equipment support Bicultural support
Other CALD communities	IPSP – support to providers to build capacity includes Bicultural Support - access to an interpreter	ISAs – support to providers to build capacity Increase in the Bicultural Support Subsidy
Children in highly disadvantaged communities (including Indigenous children)	BBF – blocked funded programs Indigenous Children and Family Centres (under a NPA)	CELP – block funding while services transition to ECLS, promotes service integration and provides professional guidance and support to improve service quality. ISP – support to providers to build capacity
Preschool		
All children in the year before school	States and territories receive around $1700 per eligible child under a NPA, but different arrangements apply in each states and territory (depending on how preschool services are delivered) as to how this funding is spent.	All preschool funding to be managed and funded by states and territories regardless of where it is delivered (including in LDCs), with per child funding contribution from Australian Government and adjustment to ECLS for funded preschools in LDCs.

Note: Child Care Rebate (CCR); Child Care Benefit (CCB); Grandparent Child Care Benefit (GCCB); Long Day Care (LDC); Family Day Care (FDC); Outside School Hours Care (OSHC); Occasional childcare (OCC); In-home-care (IHC); Special Child Care Benefit (SCCB); Early Care and Learning Subsidy (ECLS); National Partnership Agreement (NPA); Budget Based Funded (BBF) Program; Inclusion Support Program (ISP); Inclusion and Profession Support Program (IPSP); Jobs, Education and Training Child Care Fee Assistance (JETCCFA), Inclusion Support Agencies (ISAs).

Source: Chapters 4, 12, appendix B.

16.3 Estimated cost of the funding options

The key areas of cost to government under the recommended approach to ECEC are:

- the cost of ECLS
- the cost of meeting the additional needs for eligible children
- the cost of enabling universal preschool
- the cost of administration and support to assist providers to adjust to changes in regulation, and the on-going costs of maintaining the Australian Early Development Census (not estimated).

Chapter 15 has already assessed the likely cost of the second and third cost areas. The Commission has not been able to obtain sufficient information to estimate the administrative costs of current or recommended arrangements. As such, the remaining cost that needs to be estimated is for ECLS.

The cost of the Early Care and Learning Subsidy

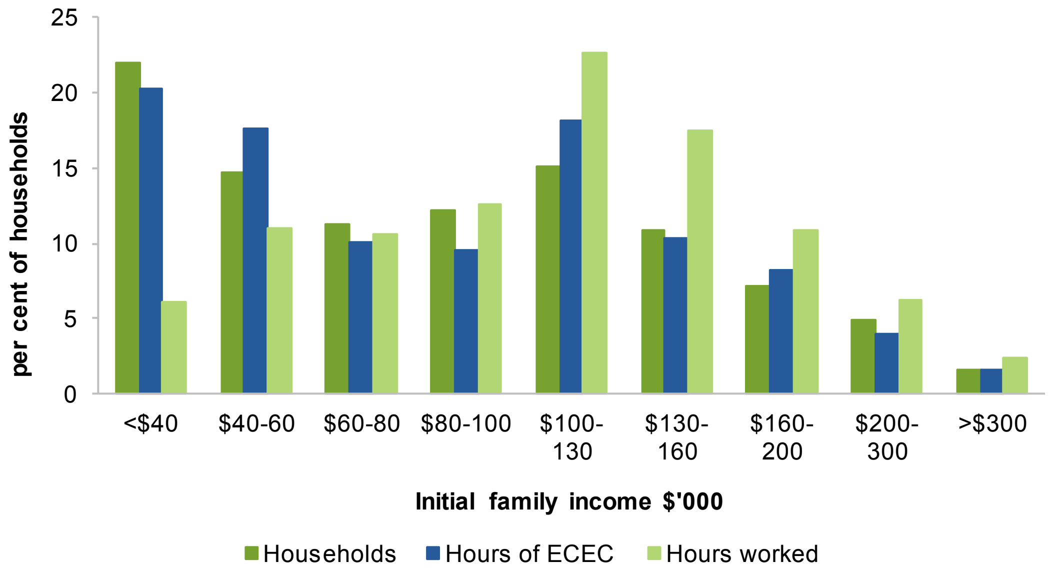
In order to estimate the cost implications of introducing ECLS, the Commission has used the behavioural micro–simulation model developed for this inquiry. A brief description of the modelling approach is given in box 16.1. The technical supplement provides a more detailed description of the model used.

One of the features of the micro-simulation model is that it allows policy impacts to be compared by different family characteristics — in particular, family gross income. The initial (before policy change) distribution of households, hours of ECEC used and hours worked by family income is contained in figure 16.2. While the largest proportion of households and the largest proportion of ECEC hours used came from the lowest income class (those with family incomes below $40 000), the largest proportion of hours worked was for the income class $100 000 – $130 000.

The model represents a number of different types of ECEC. Under ECLS, mainstream ECEC services are grouped under approved centre-based care (CBC) or home–based care (HBC). CBC encompasses LDC, occasional care, OSHC, vacation care and mobile care services, and HBC encompasses FDC and those who currently provide in-home care or nanny services. The recommended system would apply an age-based benchmark rate for CBC to reflect the very different costs of providing services to 0 to 2 year olds, 3 to 4 year olds and school aged children. There is potential to also vary these benchmark rates by location, but this has not been applied for the modelled estimates.

Figure 16.2 **Initial shares of households, hours worked and ECEC use**

2013–14



Source: Productivity Commission estimates.

The cost of ECEC services for additional needs children

While mainstream services make up the majority of Government ECEC expenditure (currently they receive 86 per cent of all child-based assistance) the recommended changes will affect the expenditure on services for children with additional needs. An estimated $490 million in the current budget is allocated to the 'at risk' children program, the Inclusion Support Program (ISP) and the Communities Early Learning Program (CELP) (chapter 15).

As outlined in chapters 13 and 15, the Commission is recommending changes to the way support for additional needs children is provided and funded. As funding can be reallocated from the Community Support Programme, Special CCB Inclusion and Professional Support Program, and the Budget Based Funded Program, there is no real net impact on ECEC expenditure in program funding. There is an additional cost due to an increase in the use of ECLS associated with the increase in ECEC participation and the transfer of current non–mainstream services to mainstream funding (expected to be $190 million).

The expenditure comparison compares the cost of the current system in 2012-13 to the expected cost of the Commissions' recommended reforms as if they had been implemented and were fully functional. The Commission considers that the reforms would be fully functional when additional needs children are attending ECEC services at the same rate as children without additional needs. Even if the additional needs programs are expanded as recommended, it will be some years before that goal can be achieved.

The estimates indicate a budget of $680 million, of which $490 million is for specific programs.

Box 16.1 The behavioural micro-simulation model

The Commission developed a behavioural micro-simulation model to analyse childcare funding options for this report. The model is based on household data and childcare usage information from the ABS Survey of Income and Housing and administrative and childcare fee data from the Department of Education's administrative data sets.

Behavioural micro-simulation models are often used to analyse the impacts on labour supply of changes in policies where the response depends on the complex interactions between household characteristics and the tax and transfer system. These models have to incorporate enough detail about families and individuals and the policies that affect their behaviour to identify how choices in regard to workforce participation change with the policy settings. For ECEC policy, the critical policy parameters are income tax, Medicare levy and government transfer payments relating to the number and age of children, the type of ECEC being used and other payments affecting (and dependent on) family income.

Micro-simulation models apply a policy change to each family based on their unique circumstances, then add up the changes in each family's behaviour to estimate the aggregate change. The Commission's model combines features of two models that have been used in the past to analyse childcare policies: the Melbourne Institute Tax and Transfer Simulator (MITTS) model as adapted by Doiron and Kalb (2005) and an econometric model developed by Gong and Bruenig (2012b) for sole parents.

In the Commission's model, each household (couple or sole parent family) is assumed to maximise utility derived from disposable income net of out-of-pocket ECEC fees, work preferences for caring by mothers and the value attached to formal childcare. The changes in labour supply are the result of decisions about whether to work (a 'participation elasticity') and how many hours to work (an 'hour's elasticity'). Households choose their hours of labour supply and childcare demand based on the benefits and costs of the choices before them. The demand for childcare services is a derived demand to the extent that it depends on the labour supply choices made, but it is also a function of the value attached to childcare. The impacts of policy changes are estimated by comparing outcomes with and without a policy change.

Since the model only accounts for household decisions about demand for ECEC services and labour supply, it represents only one side of these markets — the supply of ECEC services and the demand for labour are not accounted for. Households are assumed to face fixed ECEC fees (box 16.2) and wage rates. Should policy changes result in large increases in ECEC demand and labour supply, ECEC prices would be expected to increase and wages to fall respectively, especially in certain regional or occupational markets. For these reasons, estimated responses are best thought of as shifts in ECEC demand and labour supplies, rather than final market outcomes.

The inclusion of childcare fee data enhances the testing of labour market responsiveness to changes in the fees of different forms of childcare. The model accounts for possible changes in out-of-pocket fees at a regional level and by: type of care (that is, centre–based care — long day care, outside school hours care and occasional care — and home–based care — family day care, in-home-care and nannies); and age category of the child (that is, childcare for 0–4 year olds or outside school hours care for 5-12 year olds).

Box 16.2 Comparing ECEC fees in the model to reported fees

One of the critical components of the recommended ECLS arrangement is to base fees on a benchmark rate (median fees have been used). As such, the fiscal cost and policy outcomes will be influenced by the distribution of ECEC fees paid by families, rather than the individual fees paid for each child.

The Commission has incorporated a distribution of ECEC fees into the micro-simulation model that replicated the best information available on fees for 2013-14 at the time the model was developed. However, two factors have made this task difficult:

- ECEC fees have been increasing faster than inflation for an extended period of time
- there is a time lag between when fees are charged, when that fee information is collected, and when the fee information is available for use.

Late in the inquiry process, aggregate fee information from the first two quarters of 2013–14 was published (Department of Education 2014a, 2014c). The release of this information provides an opportunity to compare how closely the estimated fees used in the Commission's modelling are tracking with the most recent fee information (table 16.2) and the possible implications of those deviations.

Table 16.2 Comparing ECEC fees

<table>
<tr><th></th><th colspan="2">Median</th><th colspan="3">Average</th></tr>
<tr><th></th><th>Model</th><th>By service (Jul–Dec 2013)</th><th>Model</th><th>By hours (Dec 2013)[a]</th><th>By service (Jul–Dec 2013)</th></tr>
<tr><td>LDC (0-35 months)</td><td>$7.41</td><td>$7.41</td><td>$7.58</td><td rowspan="2">$7.60</td><td>$7.77</td></tr>
<tr><td>LDC (36+ months)</td><td>$7.20</td><td>$7.22</td><td>$7.20</td><td>$7.57</td></tr>
<tr><td>FDC</td><td>$6.94</td><td>$7.55</td><td>$6.64</td><td>$7.90</td><td>$8.07</td></tr>
<tr><td>OSHC</td><td>$6.00</td><td>$6.17</td><td>$6.26</td><td>$6.15</td><td>$6.64</td></tr>
</table>

[a] Average by hours not published by age range.

Source: Productivity Commission estimates; Department of Education (pers. comm. 2014; 2014a).

The recently released fee information closely matches the fees assumed for LDC in the Commission's model. However, recent fees for OSHC and FDC are higher than have been modelled. If nothing else changed, the maximum additional fiscal cost due to higher fees should be no more than $73 million in 2013–14 under existing policy arrangements or $72 million under the recommended ECLS. This estimate assumes no reduction in ECEC use due to higher fees. It is calculated by multiplying the additional hourly care price by the estimated hours of care and the average subsidy rate.

To enable comparisons with forward estimates of ECEC costs, the micro–simulation model was calibrated to the estimated fiscal expenditure on CCR and CCB in 2013-14. To the extent that the higher reported fees for OSHC and FDC are consistent with budget estimates, then increased fiscal costs can be considered part of the increase in expenditure already included in the budget. Otherwise, both the existing budget estimates and the estimated cost of ECLS would be understated by a similar amount (possibly up to $73 million) in 2013-14.

The cost of universal preschool

The Australian Government's contribution to universal access to preschool is estimated to be around $1700 for each child attending preschool in 2012-13 (chapter 12).

The main driver of the total cost of universal access to preschool is the number of children who would be eligible to attend. While there are differences in the cut off age for starting school across the states and territories, and some children who have been identified as 'at risk' or developmentally vulnerable are eligible for two years of preschool, most children in preschool are 4 years old (chapter 12). There were nearly 300 000 children aged 4 years in Australia as at 1 July 2014 and (based on enrolments for the previous year) it is estimated that over 95 per cent of these children were enrolled in preschool. This number is expected to grow by around 5000 a year up until 2020 (just under 1.6 per cent a year) and then 2500 a year until 2026 (a growth rate just under 0.8 per cent a year) (Department of Health 2013).

There is potentially a small saving to the ECEC budget from the measures designed to reduce the 'double dipping' on Australian Government preschool funding and CCB and CCR payments for preschool hours delivered in LDCs. Overall around 18 per cent of preschool funding, around $320 million, comes from CCR and CCB (chapter 12). A rough estimate of the saving that might be available if the universal access payment is passed on to LDCs by preschools and the benchmark rate adjusted downwards for these hours accordingly is around 20 per cent[1], which for 2012-13 would have been around $63 million.

Total ECEC funding

The Commission has estimated the cost of the preferred model of funding mainstream ECEC services at $5.9 billion in 2013-14. When the costs of additional needs programs and preschool are included, the total direct cost is around $300m over the funding envelope (table 16.3). The Commission considers that the net fiscal change is the best measure of the budgetary impact of the recommended reforms. When changes in projected income tax revenue and welfare payments are taken into account, it is likely that there will be a marginal increase of around $68 million in the budgetary cost in 2013-14. The sensitivity analysis undertaken by the Commission indicates that this estimate is not significantly different from zero and in fact, a small fiscal saving is possible (figure 16.3).[2]

1 This comes from lowering the benchmark rate by $2.50 per hour to reflect the funding being passed through from the universal access funding, and applying the average subsidy rate of 62 per cent.

2 The Commission estimated a confidence interval for the net fiscal impact, with around 70 per cent of the range for 2013-14 being above zero (that is additional fiscal cost) and 30 per cent of the range being below zero (which would indicate a fiscal saving). The methodology used to estimate the confidence intervals is outlined in the accompanying technical supplement to this inquiry.

Table 16.3	**Comparing funding of the recommended reform to current budget estimates**
	2013-14 $ billion

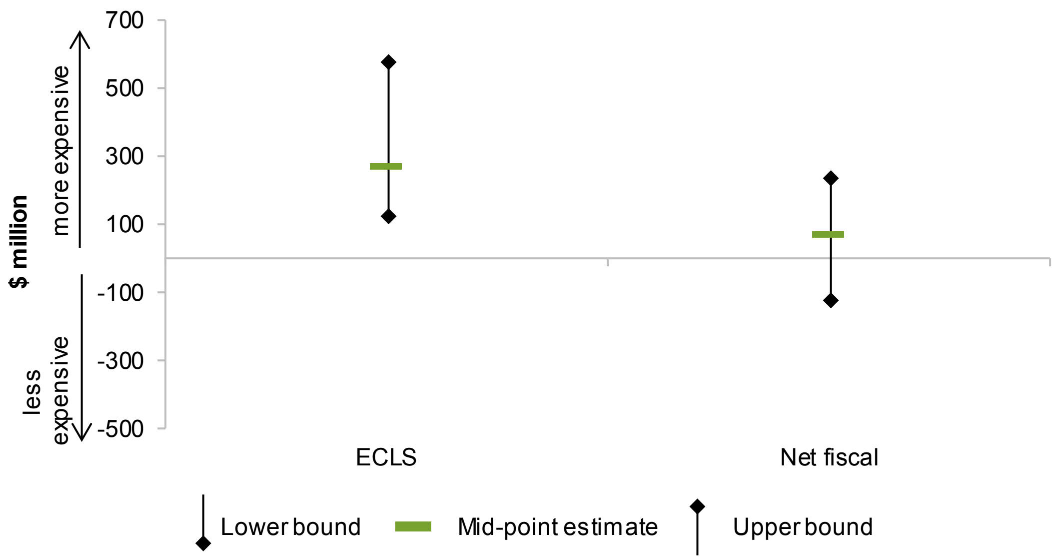
	ECLS	*Additional needs and other programs*	*Preschool*	*Total*
Current	5.7	0.6	0.4	6.7
Recommended	5.9	0.7[a]	0.4	7.0

[a] This includes the estimated increase in ECLS use particularly associated with increased rates of ECEC use by children with additional needs and those currently attending Budget Based Funded services that the Commission recommends be gradually moved to mainstream funding. As such, this additional cost would not immediately arise with the introduction of ECLS, but at an indeterminate point in the future.

Source: Productivity Commission estimates.

Figure 16.3 **Change in the cost of ECLS and overall fiscal cost**

Sensitivity analysis for 2013–14



Source: Productivity Commission estimates.

16.4 How the cost to families is estimated to change

The change in the out–of–pocket cost to families using ECEC services depends on the change in the subsidy rate that they get (table 16.4) compared with the current system. It also depends on the fees of the ECEC provider used and whether these fees are above or below the benchmark rate for that type of care. Families who use services that charge fees below the benchmark rate of care would be entitled to a subsidy of the families' eligible proportion of the benchmark rate — but no more than the actual fees paid.

Table 16.4 **Subsidy rate by family income under ECLS**

Annual family income	*Subsidy as per cent of benchmark rate*
$60 000 or below	85
$74 615	80
$103 845	70
$133 075	60
$162 305	50
$191 535	40
$220 765	30
$250 000 or above	20

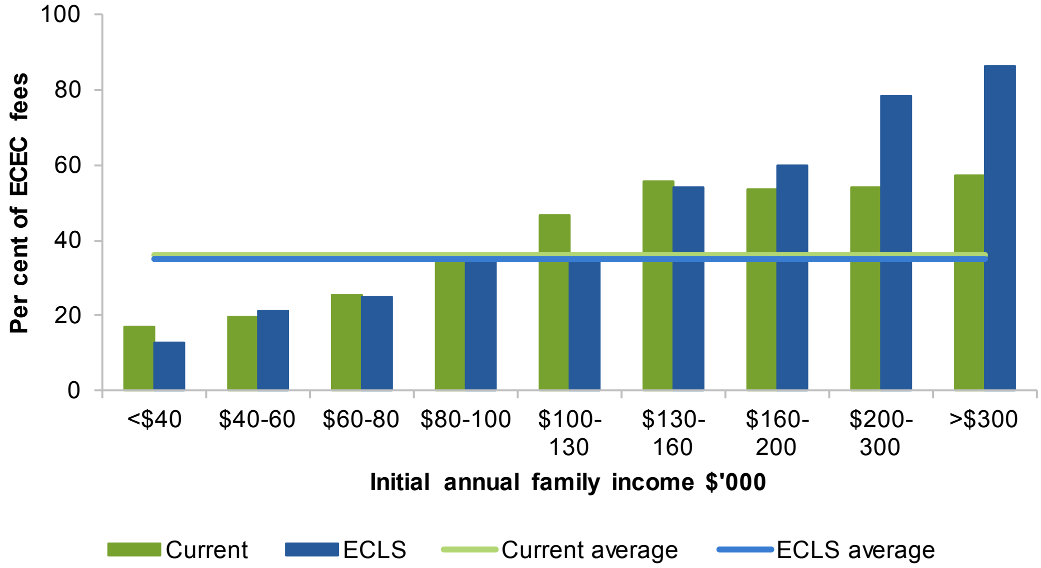
Figure 16.4 shows the estimates of the subsidy rate for families in different family income brackets under the current system and the recommended system. The estimates are based on the average out-of-pocket costs as a share of ECEC fees in this income bracket, reflecting their use patterns (which is affected by the number of children) and if families have chosen to use an ECEC service that charges fees that are substantially above or below the median fees.[3] Overall, the recommended approach is estimated to marginally reduce the share of out-of-pocket costs faced by families in aggregate, but the impact on families in different income ranges varies. The recommended approach is estimated to typically reduce the share of ECEC costs that families with initial incomes below $100 000 would pay. Conversely, families with incomes over $160 000 would typically bear a higher proportion than currently of their ECEC costs.

The distribution of out–of–pocket costs under ECLS for some income groups have also been estimated, highlighting the wide variation that is likely to occur (figure 16.5). It should also be noted that families are allocated to an income bracket based on their family income before the policy response. As the recommendations will induce changes to workforce behaviour, some families will move between income groups under ECLS.

3 The comparisons are complicated as rising workforce participation means that some families move into a higher income bracket, and the number of families changing income brackets varies across the options. Hence the number of families in each bracket also differs across options.

Figure 16.4 **Estimated share of ECEC fees paid by families**

2013–14[a,b]

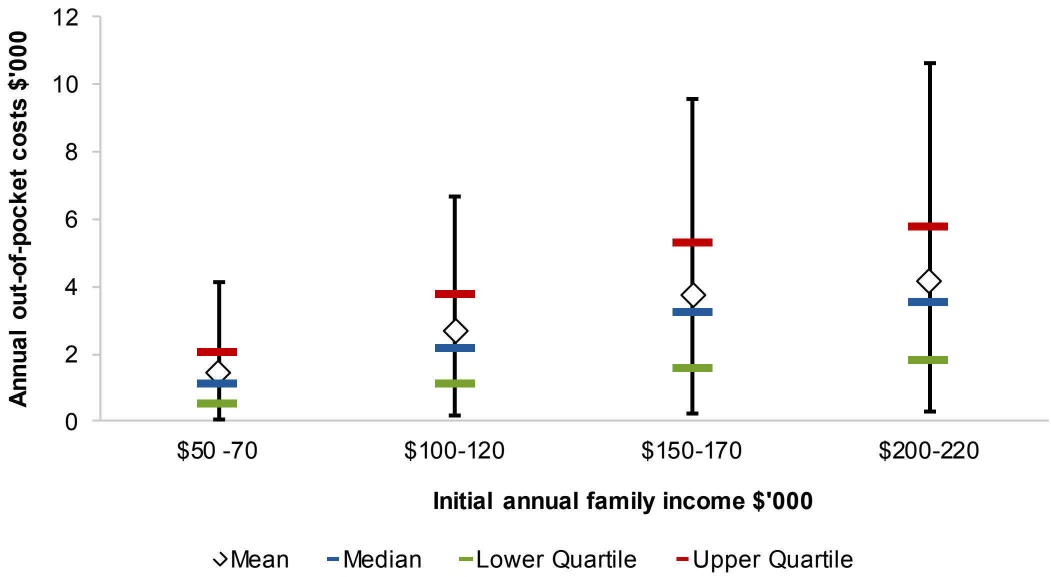


[a] The actual share paid by families is higher than subsidy rate as for some families the fees will exceed the benchmark rate which is based on the median fees. [b] The model estimates differ slightly from the estimates from the administrative data. This reflects the difficulties matching the administrative data with the Survey of Income and Housing data on which the micro–simulation model is based.

Source: Productivity Commission estimates.

Figure 16.5 **Estimated range of out–of–pocket costs under ECLS**

For selected income groups 2013–14



Source: Productivity Commission estimates.

These differences in the share of ECEC fees families face under the recommended policy reflect both the nominal subsidy rates under ECLS, but also the ECEC fees charged. For example, based on the distribution of fees included in the micro–simulation model, an estimated 5 per cent of households would not have to pay out–of–pocket fees under ECLS because the fees are substantially below the median. The out-of-pocket share is also higher for an income bracket if more families in that income bracket currently use services that are higher cost. The estimates assume that the current pattern of behaviour continues and providers do not adjust their prices (that is, it is assumed for simplicity that services can expand without driving up fees). In practice, some families may be less willing to bear the full additional cost of premium services and will adjust their demand. If there is an overall shift away from the premium end of the service spectrum this will help to offset the likely increase in fees for the options that see a substantial growth in demand for ECEC services. These responses add to the uncertainty of any estimates of out-of-pocket costs, but the effect of assumptions about supply response are likely to be small relative to other sources of uncertainty in the estimates.

Implications of varying the maximum or minimum subsidy rate

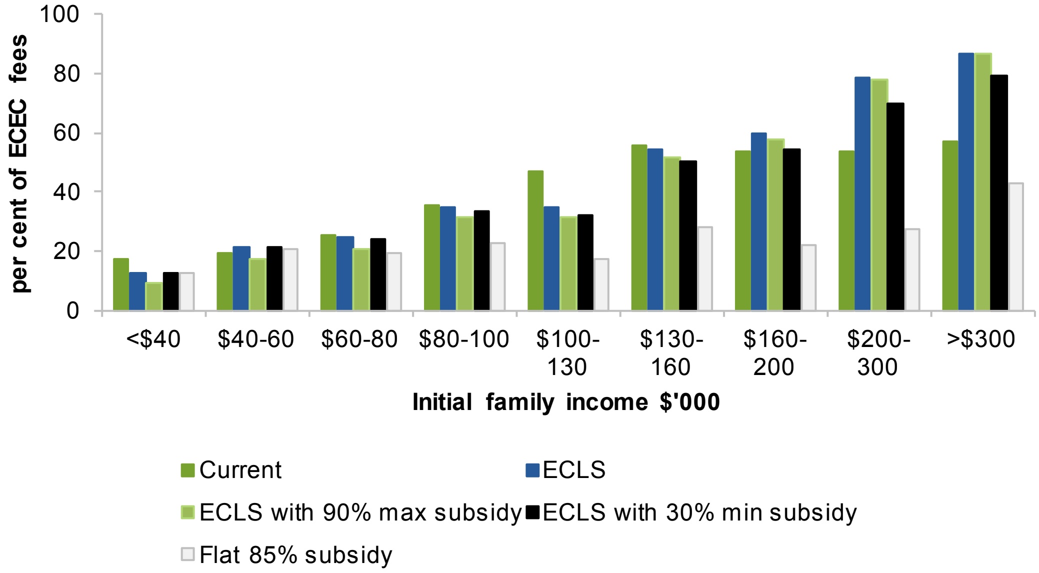
As part of the inquiry process, the Commission examined a number of alternative policy settings that varied from ECLS:

- the maximum subsidy rate is increased to 90 per cent from the recommended 85 per cent
- the minimum subsidy rate is increased to 30 per cent from the recommended 20 per cent
- the minimum subsidy rate is increased to 85 per cent from the recommended 20 per cent (effectively a flat 85 per cent subsidy for all eligible families)

Each of these variations is more generous to families than ECLS. This is indicated by the lower out-of-pocket costs for families in figure 16.6. The change to the maximum subsidy rate would benefit low income families the most, but families with incomes below $250 000 would also have their out-of-pocket costs reduced. Similarly, changing the minimum subsidy rates would decrease the out-of-pocket costs for families with incomes over $60 000. Each of these alternatives were estimated to entail substantially higher costs for taxpayers than the recommended ECLS — both in terms of higher ECEC expenditure and higher overall net fiscal outlays (figure 16.7).

Figure 16.6 Affordability of ECEC for families under different scenarios

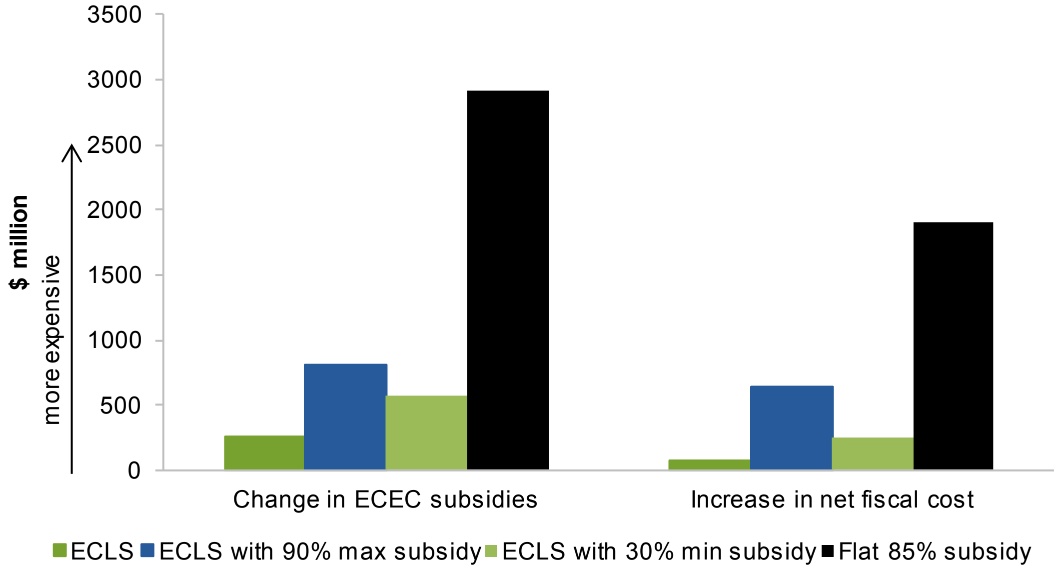
Out–of–pocket costs as a per cent of ECEC fees in 2013-14



Source: Productivity Commission estimates

Figure 16.7 Affordability of ECEC for taxpayers under different scenarios

Change in ECEC subsidies and net fiscal cost compared to current policies 2013-14



Source: Productivity Commission estimates

Implications of changing the treatment of the benchmark rate

Two parts of the ECLS design that impact on the affordability of ECEC are: the subsidy that applies for those families with fees that are below the benchmark rate and the choice of the benchmark rate. Goodstart (sub. DR875) recommended a variation to the ECLS design that they considered would be more equitable and improve affordability for more families.

> Goodstart believes the proposed approach is inequitable and impractical. ECEC funding and additional investment should be allocated to maintain affordability for as many families as possible.
>
> This would be achieved by setting a higher benchmrk price than the median as the deemed cost, but also expecting co-payments from all families according to their income, except those in identified vulnerable circumstances (such as children at risk).
>
> As such, a family's assessed ECLS percentage rate (based on their income), should be applied to whichever is lower: the deemed cost or the fee. (p. 16)

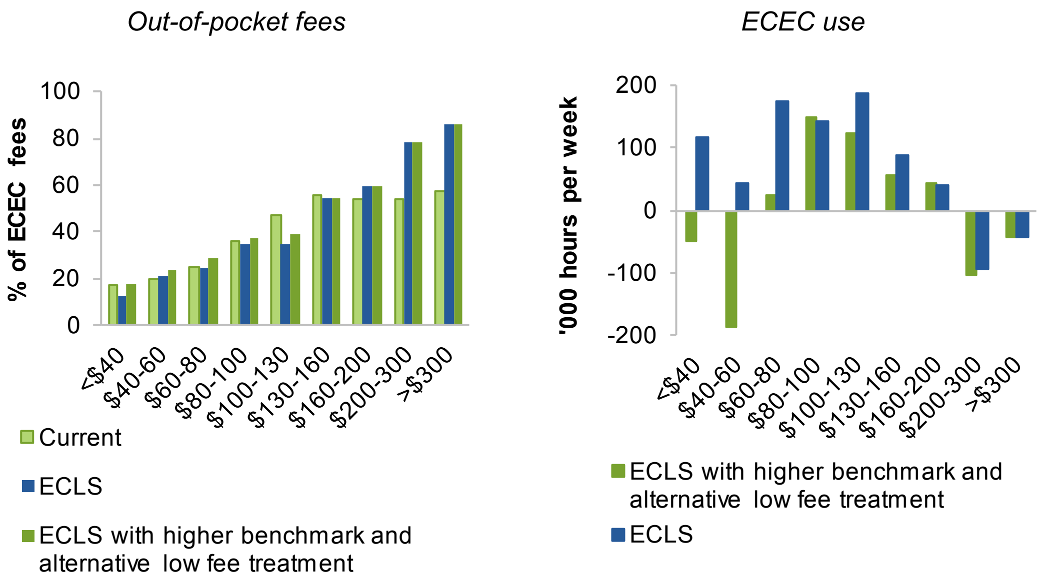
The Goodstart proposal comprises two elements: a higher benchmark rate; and an alternative approach for setting subsidies when the fees charged are below the benchmark rate.

One of the scenarios examined by the Commission involved applying a higher benchmark rate (based on the 75th percentile of fees by service type), a maximum subsidy rate of 85 per cent and a minimum subsidy rate of 20 per cent (a variation from ECLS that would increase the fiscal cost) and with subsidies based on the minimum of the benchmark rate and the actual fees charged (which would lower the fiscal cost). That scenario was estimated to require around $130 million dollars less in ECEC subsidies than ECLS. However, this saving largely occurs because of the substantially lower subsidies for families with lower incomes.

The estimated impact of such lower effective subsidies to lower income families would be a substantial reduction in ECEC use (figure 16.8). While higher benchmark rates would assist low income families attending high priced services, the modelling undertaken by the Commission suggests that the approach runs the risk of substantially worsening the situation for most low income families relative to current policies and relative to the Commission's recommended ECLS.

Figure 16.8 **Out–of–pocket ECEC fees for lower income families**

Impact of higher benchmark rate and basing subsidies on the lower of actual fees or the benchmark rate



Source: Productivity Commission estimates.

Re-estimating the inquiry draft report scenario

The main reason the Commission is recommending a different design of ECLS for the final report from that recommended in the draft is the concerns that participants raised regarding the impact on ECEC use by low income families because of the work test proposed in the draft report (chapter 15). However, participants may be interested in comparing how the recommended and alternative approaches explored in the final report compare to the draft report approach.

The parameters underlying the Commission's model have been re-estimated since the draft report, to reflect families choices about work participation and ECEC use given the prices and incomes that prevailed in a more recent period (2011–12). The model was also modified to more closely reflect the use of ECEC services recorded in administrative data. As such, comparing estimates generated under the draft version of the model with those generated under the final report version could be misleading.

The scenario that the Commission considered to be preferred in the draft report entailed:

- a maximum subsidy of 90 per cent for all families with incomes of $60 000 or less
- a minimum subsidy of 30 per cent for all families with incomes of $300 000 or more
- subsidies based on a benchmark rate (assumed to be equal to median fees)
- to be eligible for the subsidy, families needed to work, train or study for 24 hours a fortnight.

Using the micro–simulation model that has been re–estimated for the final report, the preferred scenario from the draft report would increase ECEC subsidies by nearly $1.3 billion in 2013–14 (in comparison, the increase for ECLS is estimated to be $266 million). When savings in family tax and social security payments and increases in income taxes are accounted for, the net fiscal position for 2013–14 was estimated to be $660 million worse than the current budget projection, slightly less than the $750 million estimated in the draft and the estimate for ECLS of $68 million.

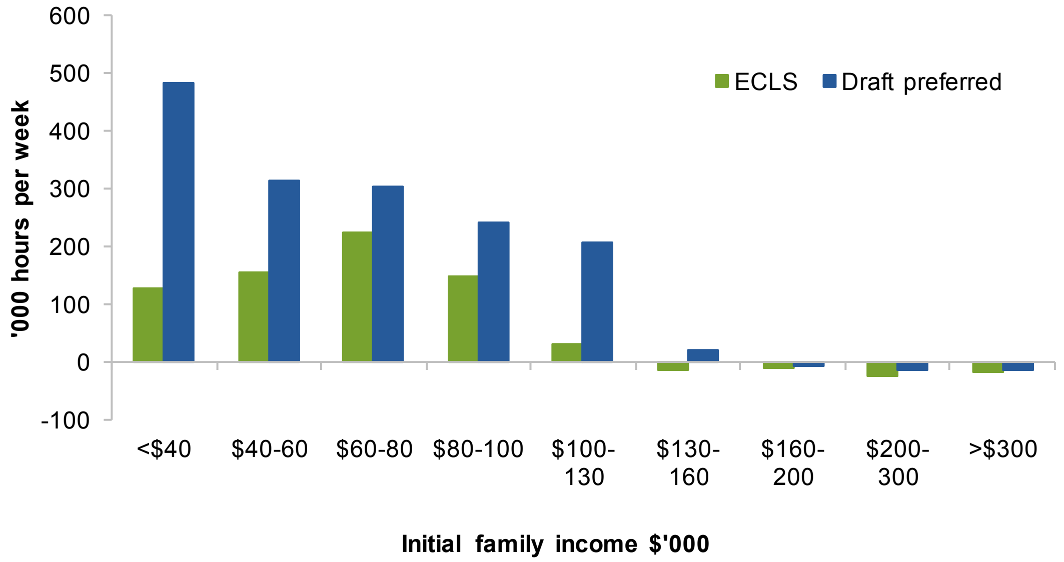
The preferred scenario from the draft report would be expected to increase workforce participation by more than ECLS (figure 16.9), with significantly larger increases in labour supply expected from low and middle income families. While those with initial family incomes in excess of $160 000 would still be expected to withdraw labour in aggregate under the preferred draft report scenario, the reduction in labour is estimated to be less than under ECLS.

The preferred scenario from the draft report as re-estimated would also increase ECEC use by more than ECLS (figure 16.10). However, there is an important income group that the Commission has estimated would use more ECEC under ECLS than under the preferred scenario for the draft report — families with initial incomes below $40 000. Children from low income families are less likely to attend ECEC and preschool than the wider population and the children of parents with no workforce attachment have the poorest developmental outcomes (chapter 5). Children from low income families are also over-represented among those identified as developmentally vulnerable in the Australian Early Development Index. The Commission considers that the recommended ECLS would provide additional and critical child development benefits — such benefits would be less likely to occur if the approach recommended in the draft report was to be adopted.

These groups are estimated to use more ECEC under ECLS than under the preferred draft report scenario because ECLS includes an exemption from the activity text for families with a Parenting Payment recipient. Under ECLS, these families would be eligible for 20 hours per fortnight of subsidised care for each child without passing the activity test. Under the draft report scenarios, they would have been ineligible for subsidised care if they did not pass the activity test.

Figure 16.9 **Comparing estimated labour supply by income for ECLS and preferred draft report scenario (as re-estimated)**

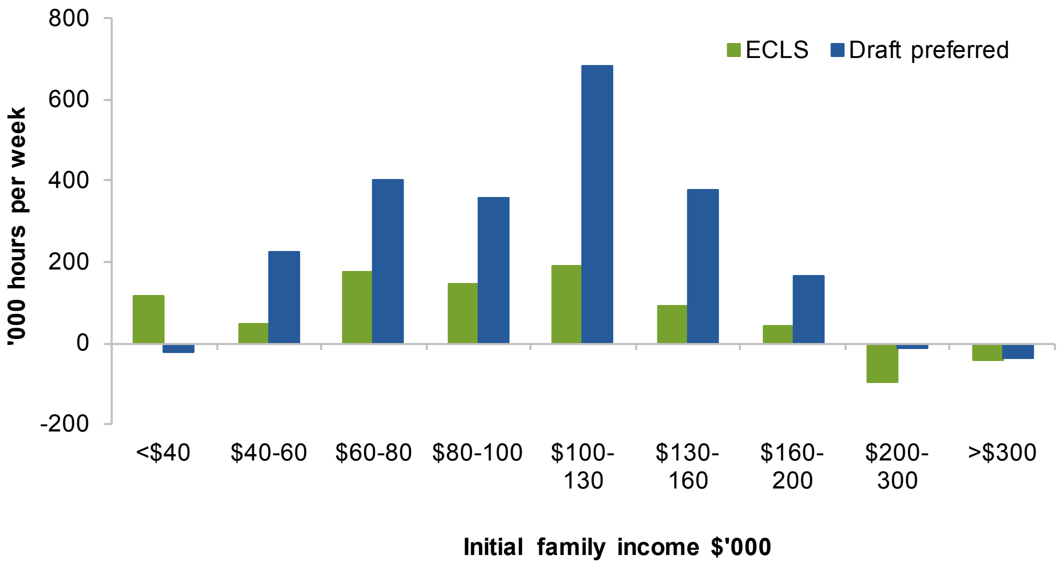
Change from current policy: '000 hours per week



Source: Productivity Commission estimates.

Figure 16.10 **Comparing estimated ECEC use by income for ECLS and preferred draft report scenario (as re-estimated)**

Change from current policy: '000 hours per week



Source: Productivity Commission estimates.

16.5 Estimates of the effect on workforce participation

Workforce participation of families with young children is closely tied to the use of ECEC services — families change both their hours of work and use of services as the out-of-pocket cost of using ECEC services changes. Workforce participation, both in terms of the number of mothers working and the hours of work, rises in aggregate relative to the current system for all the funding options modelled. This suggests that current arrangements may not be delivering the greatest possible incentives to work. As discussed in appendix E, this is due to high effective marginal tax rates arising from the design of the current system, although the cap on CCR has yet to directly affect many families (it may be that parents are already responding to this cap by limiting the number of days worked — chapter 11). Perhaps more importantly, the recommended system requires an activity test for most families to be eligible for ECLS, whereas the current system allows up to 24 hours a week to be eligible for CCB even if each parent does not satisfy the activity test.

When examining workforce participation (and ECEC use), the change in hours that families would want to work (or use ECEC) has been estimated. The introduction of ECLS is estimated to increase the labour supply of mothers by 1.2 per cent — the equivalent of around 600 000 hours a week or 16 000 full–time equivalent workers.

The modelling suggests that the redistribution of current funding can deliver an increase in labour force participation, as additional funding to lower income families induces a greater labour force response than the withdrawal of funding from higher income families.

Alternative means of boosting workforce participation by varying ECEC subsidies

The Commission explored alternative parameter settings for ECLS that would potentially encourage greater labour force participation. The main variations from the activity and eligibility criteria used for ECLS are:

- lowering the threshold for the work, study or training from at least 24 hours per fortnight for each parent to at least 16 hours per fortnight for each parent
- not providing an exemption from the activity test for families receiving Parenting Payment
- increasing the hours of subsidised care for which families receiving Parenting Payment are eligible (from 20 hours to 40 or 100 hours of care per child per fortnight)
- having no activity test (all families eligible for 100 hours of subsidised ECEC per child per fortnight – but subject to means testing)

In general, the analysis indicates that applying a more stringent activity test will result in the largest increase in labour supply — while having exemptions from activity tests will result in the smallest increases in labour supply (table 16.5). However, changing activity tests has trade-offs for other factors that the Commission was required to address, notably that:

- more stringent eligibility criteria tends to reduce the fiscal cost — but also reduces the affordability of using ECEC
- more stringent eligibility criteria results in smaller increases in ECEC use
  - the Commission was particularly concerned at the substantial reduction in ECEC use by children from families eligible for Parenting Payment Single when eligibility for ECEC subsidies was based on participating in work, training or studying.

Table 16.5 **Estimated labour supply impact of variant policies**

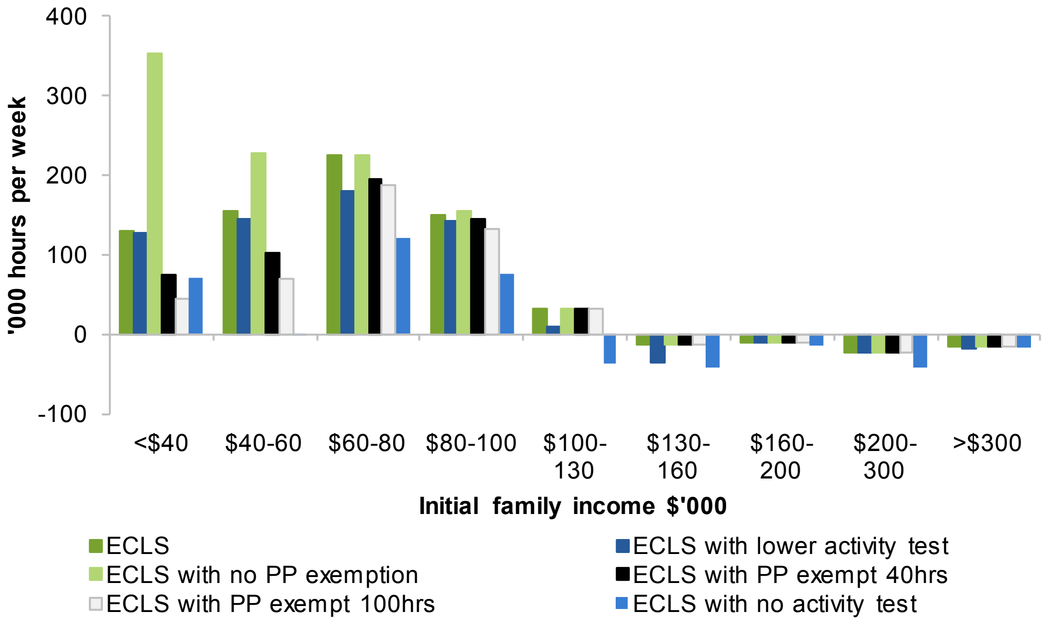
Policy variant	*Increase in hours worked*	*Increase in hours of ECEC*	*Increased fiscal cost*
	million hours per week	million hours per week	million dollars 2013-14
ECLS	0.62	0.67	68
ECLS with an activity test of 16 hours of work, training or studying	0.52	1.07	399
ECLS with no Parenting Payment exemption	0.93	0.25	-330
ECLS with Parenting Payment exemption for 40 hours per fortnight	0.48	0.87	267
ECLS with Parenting Payment exemption for 100 hours per fortnight	0.40	1.15	425
ECLS with no activity test	0.12	1.70	1043

Source: Productivity Commission estimates.

The largest changes in labour supply under ECLS and these variations are estimated to come from families whose initial family incomes are below $100 000 (figure 16.11). This group includes all families that receive Parenting Payment. As such, the variations to eligibility criteria only affect families in this income range. In addition, families in this income range tend to receive the largest amounts in other government payments (such as Family Tax Benefits Part A and B) and therefore may have very high effective marginal tax rates. Accordingly, these families are more likely to change their behaviour in response to changes in the activity test threshold. For initially low income families, their labour supply is estimated to increase the most when they are only eligible for ECEC subsidies if they pass the activity test (No PP exemption scenario), although this scenario is estimated to result in the smallest increase in ECEC use by low income families.

Figure 16.11 **Estimated change in labour supply under alternative scenarios**

Change in aggregate hours supplied compared to initial supply by family incomes



ECLS – recommended subsidy; Lower activity test – ECLS but with an 16 hour activity test; No PP exemption – ECLS but with no exemption from the activity test for families receiving Parenting Payment Single or Parent Payment Partnered; PP exempt 40hrs — ECLS but with PP recipient families eligible for 40 hours of subsidies a fortnight; PP exempt 100hrs — ECLS but with PP recipient families eligible for 100 hours of subsidies a fortnight; No activity test – ECLS but all families eligible for 100 hours of subsidies a fortnight.

Source: Productivity Commission estimates.

Likely impact on workforce participation over time

Over time, the recommended arrangements will be more effective in translating ECEC funding to workforce participation. First, the subsidies are greatest for those who are more sensitive to out-of-pocket costs, and least for those who are more likely to work anyway. Second, by basing the means test on family income the effect on the effective marginal tax rate faced by the second earner is reduced.[4] Third, the subsidies require an activity test for most — families that use subsidised ECEC services have to be in work or study for 24 hours a fortnight, or looking for work.

One of the key design features of ECLS is to base the subsidies on a benchmark rate of care rather than the actual fees paid by families to encourage restraint in ECEC fee

4 Universal non-means tested support has the least effect on the effective marginal tax rates, so the design is limited by the need for means testing.

increases into the future. Any slowing in the growth of ECEC fees will have positive effects on workforce participation. The Commission recognises that some costs of providing ECEC services will increase, and hence fee growth is unavoidable — in fact the recommended approach will automatically increase subsidies to reflect fee increases that are widely adopted in the sector. However, it may encourage providers to carefully consider the inclusion of new or additional services that would raise costs. In addition, it will encourage providers to examine their costs and procedures carefully to identify potential efficiencies before increasing their cost above the benchmark rate.

The modelling of the ECLS assumes no change in the price trends in ECEC. This reflects a deliberate choice by the Commission about the appropriate uses and limits of the micro–simulation model (box 16.3). To the extent that service providers may moderate fee growth above the benchmark rate, the modelling will underestimate the growth in workforce participation.

Box 16.3 **Appropriate use of the Commission's model**

The Commission has chosen to only use the micro–simulation model to present static comparisons of alternative policies, with impacts in 2013-14. 'Comparative static' analysis compares what would happen if alternative policies operated in a given year.

The Commission's modelling does not include any potential changes in ECEC supply which might occur in the future. Such supply-side responses are not a part of traditional micro-simulation models, which represent only the behaviour of households in response to changing incentives. Any supply-side response would have to be assumed and imposed outside of the modelling framework.

The micro–simulation model could be used to extrapolate comparative static results for any given year, but such results would require arbitrary assumptions to be made and would reduce the reliability of those estimates.

Micro–simulation models are based on observed choices made by families. The design and calibration of the Commission's model is based on data from the latest Survey of Income and Housing (2011-12), brought forward to 2013-14 using the latest Department of Education administrative data. As a result, the behaviour in the model reflects the preferences observed in households from the 2011-12 data.

While the model could be used to look at impacts in future years, the reliability of those estimates would depend on how similar household responses are over time. Recent evidence of simultaneous growth in childcare use and fees indicate that household responses are changing rapidly, raising doubts about the how reliable such estimates would be.

The Commission considers that estimating impacts in future years will be considerably less reliable than the 2013–14 estimates. In addition, without detailed information about future preferences or supply response, any estimates of future years would need to be based on the expected growth in child numbers and/or aligned with budget projections of the current policy. As such, the Commission considers that such estimates offer little or no useful information beyond that produced for the 2013–14 estimates.

What else can be done to boost workforce participation?

While it is possible to encourage additional workforce participation by varying ECEC subsidy arrangements, there are alternative approaches that can and should be explored.

As highlighted in appendix E, many mothers face very high effective marginal tax rates (EMTRs) because of the interaction of the income tax system and social security arrangements. Out-of-pocket childcare costs adds to this effect and discourage mothers from working, and if they do work, can financially disadvantage those who choose to work more than a few days per week. There is only so much that changes to ECEC assistance and accessibility can do to improve workforce participation. 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.

Another factor that can influence workforce attachment of mothers is how willing children are to attend ECEC services. Older children attending outside school hours care may feel that they have outgrown the need for care, and may also have attended the same outside school hours care service for five or six years in a row. As such, these services face a much higher risk that children will be bored and/or unwilling to attend. Failure to offer children rich and engaging experiences can compromise parents' (but typically mothers) ability to participate as fully as they wish in the workforce.

While it may not increase aggregate workforce participation in the short run, workforce participation of mothers could be improved if there was greater uptake of flexible work arrangements by men (and particularly fathers). This would involve a shift in social norms, but — as outlined in chapter 6 — there are social and economic benefits that could flow from sharing the parenting load and pursuing more flexible working arrangements, including:

- mothers retaining more of their human capital and increasing their likelihood of career progression and higher salaries throughout the remainder of their working lives
- a reduction in the disparity in lifetime superannuation savings between men and women
- improved opportunity for bonding between fathers and their children.

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).

16.6 Estimates of changes in use of ECEC services

The change in the use of ECEC services tends to be closely related to the changes in workforce participation. It is affected by the number of families needing care in order to work and by the hours of care they require. In general, fewer families with higher average work hours have a smaller impact on the use of services than more families with lower average work hours. This is because families need care for the time it takes them to get to and from work. The modelling takes account of the relationship between hours of work and hours of care. This includes consideration of the days of care as well as hours required.

Table 16.6 summarises the changes in the use of ECEC services. The model tracks the type of ECEC service used by families based on their current observed preferences. As the use of nannies is not included in the administrative data, a hypothetical base for use of nannies had to be constructed from available data. The estimates are based on the assumption that where nannies are more cost-effective, notably for families with multiple children and several under school age, families are more likely to use a nanny once this service is eligible for an ECEC subsidy. As a result, there is rapid growth in the use of nannies, but off a very small base. (Clearly it will take some time for the market to adjust, so the estimates should be seen as representative of the mix that could emerge over three to five years.)

Table 16.6 **Estimates of the impacts on use of ECEC services**

2013-14 as a representative year

	Total hours/week	*Change in hours/week*	*LDC share of total hours*	*FDC share of total hours*	*Nanny share of total hours*	*OSHC share of total hours*
	million/wk	%	%	%	%	%
Current	21.2		75.3	12.1	0.0	12.5
ECLS	21.9	3.2	75.7	11.4	0.4	12.4

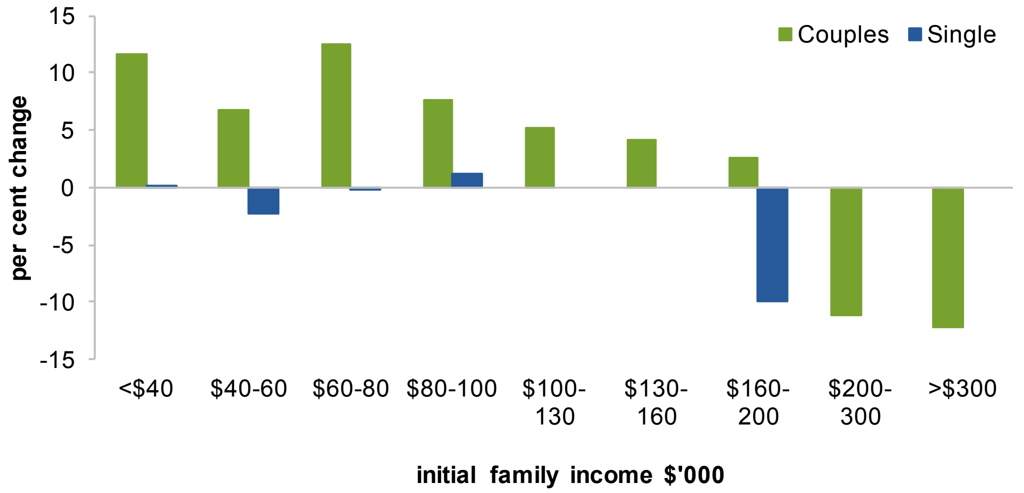
Source: Productivity Commission estimates.

Apart from impacting on the mix of care types used, the recommended reforms will also impact on the use of ECEC by different types of families. The Commission has estimated that couple families are the most likely to increase their use of ECEC under the Commission’s recommended approach (figure 16.12). ECEC use by single parent families was projected to decline.

The impact on single parent families eligible for income support appears to be linked to the proposed introduction of a more stringent activity and eligibility criteria (table 16.7). When the Commission examined alternative formulations of the activity and eligibility test, single parent families only increased ECEC use in scenarios that were estimated to have relatively fewer mothers entering the work force. These variant scenarios entailed higher fiscal costs.

Figure 16.12 **Change in ECEC use by family type and income use**

Estimated per cent change in use from current approach to ECLS[a]



[a] The reduction in ECEC use by single income families with initial incomes in the range of $160–200 000 is based on a single representative family with the characteristics from the Survey of Income and Housing.

Source: Productivity Commission estimates

Table 16.7 **Change in ECEC use by family type and income support status**

Per cent change in ECEC use compared to current policy

Policy variant	*Single parent family not eligible for income support*	*Single parent family eligible for income support*	*Couple family not eligible for income support*	*Couple family eligible for income support*
ECLS	0.6	-1.2	4.3	8.1
ECLS wtih activity test of 16 hours of work, training or studying per fortnight	0.6	-0.7	6.3	12.4
ECLS with no Parenting Payment exemption	0.5	-7.5	4.2	2.9
ECLS with Parenting Payment exemption for 40 hours per fortnight	1.6	0.7	4.3	12.5
ECLS with Parenting Payment exemption for 100 hours per fortnight	2.0	4.3	4.4	15.3
ECLS with no activity test	2.0	4.3	7.8	17.2

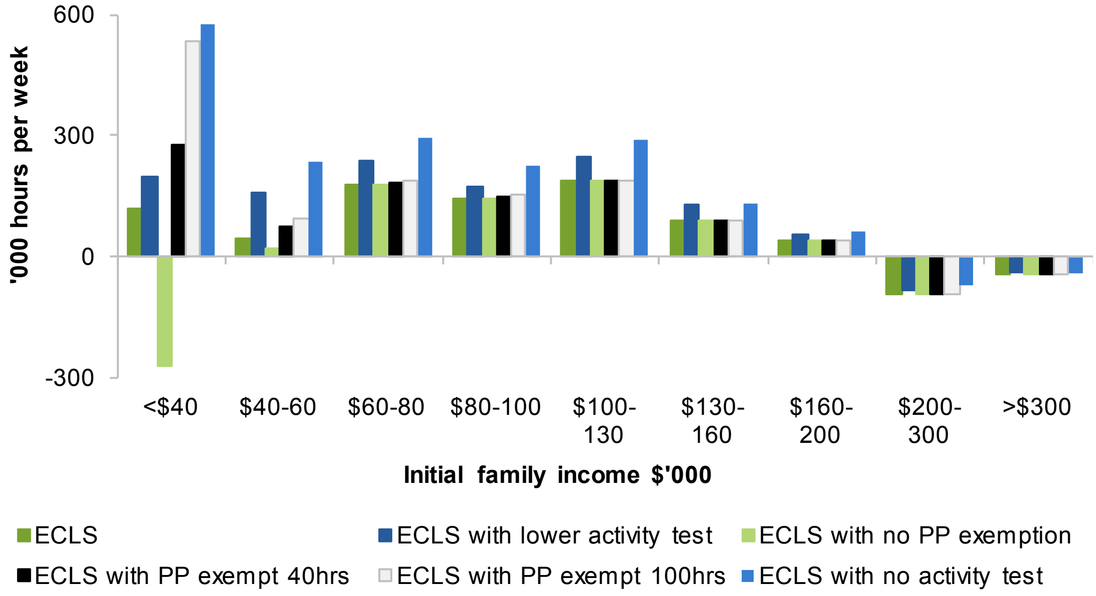
Source: Productivity Commission estimates.

As with labour force changes, variations in estimated ECEC use are most pronounced among lower income families (box 16.4, figure 16.13). The largest increase in ECEC use occurs when ECEC subsidies are unrelated to hours of work and/or when those exempted from the work test are eligible for more subsidised ECEC hours per week.

The comparison of changes in ECEC use and labour supply by family income highlights the key trade-offs faced by policy makers. Implementing eligibility criteria that tightly links hours of ECEC subsidies to hours of work are estimated to reduce the fiscal cost of ECEC, have the greatest increase in labour supply but also result in the smallest increase (or largest decrease) in ECEC use. These trade-offs are most prominent for families with initial incomes below $80 000.

Figure 16.13 **Estimated change in ECEC use under alternative scenarios**

Change in aggregate hours used compared to initial use by family income



ECLS – recommended subsidy; Lower activity test – ECLS but with an 16 hour activity test; No PP exemption – ECLS but with no exemption from the activity test for families receiving Parenting Payment Single or Parenting Payment Partnered; PP exempt 40hrs — ECLS but with Parenting Payment recipient families eligible for 40 hours of subsidies a fortnight; PP exempt 100hrs — ECLS but with Parenting Payment recipient families eligible for 100 hours of subsidies a fortnight; No activity test – ECLS but all families eligible for 100 hours of subsidies a fortnight.

Source: Productivity Commission estimates.

Box 16.4 **The National Commission of Audit recommendations for childcare assistance**

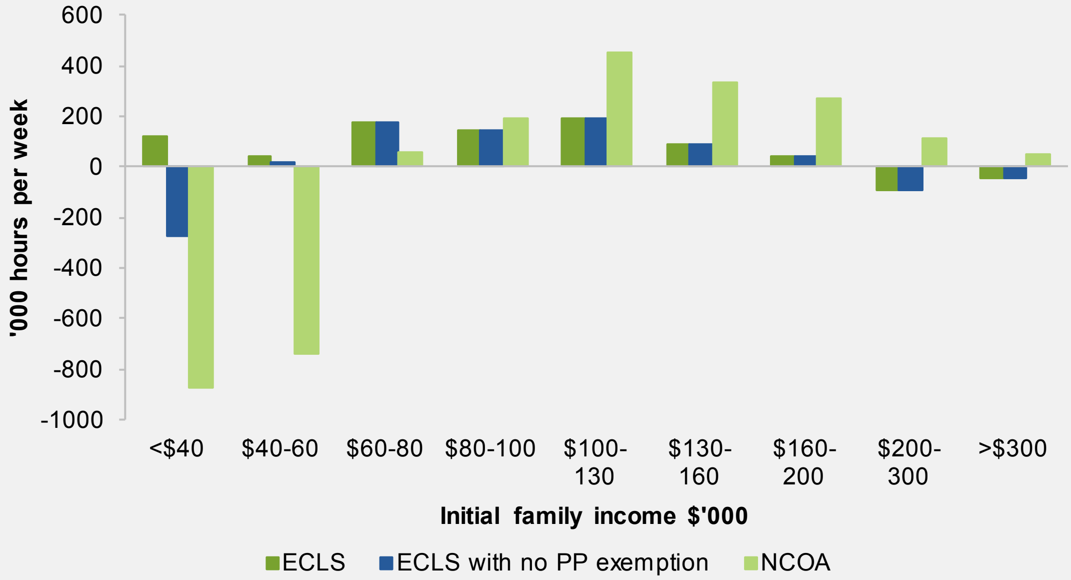
A number of recent reports have examined Australia's ECEC subsidies. These include the Henry Tax Review (2009), the National Commission of Audit (NCOA (2014) and a report prepared by PriceWaterhouseCoopers (2014). These reports are examined in appendix J.

The NCOA report (2014) suggested that a strict work test be implemented to determine the hours of ECEC subsidies to which families would be entitled. They suggested limiting the subsidised hours of care to the actual hours of paid work (plus a small amount for travel time).

When the estimates based on the NCOA are compared to ECLS and variant ECLS scenarios where Parenting Payment recipients are included in the eligibility requirements, the NCOA scenario has by far the largest increase in labour supply (980 000 hours a week more than ECLS and 680 000 hours a week more than not exempting Parenting-payment recipients). However, the reduction in ECEC use by lower income families is stark (figure 16.14). It is these low income families where the spill over benefits from ECEC use for child development are potentially greatest.

Figure 16.14 **A strict activity test for ECEC subsidies will reduce the share of low income households using ECEC**

Percentage of ECEC used by income group



ECLS – recommended subsidy. No PP exemption – ECLS but with no exemption from the activity test for families receiving Parenting Payment Single or Parenting Payment Partnered; NCOA — replication of the subsidy approach recommended by the National Commission of Audit.

Source: Productivity Commission estimates.

(continued next page)

Box 16.4 **(continued)**

The estimated impact on ECEC use in the NCOA scenario is not driven exclusively by the tight eligibility criteria. It is also impacted by the maximum NCOA subsidy rate being lower than ECLS (and specifically recommended to be 80 per cent of the fee by NCOA); a proposed annual per child subsidy cap ($12 000 for families on the maximum rate declining to $7 500 to families on the base rate); and the income at which the minimum subsidy rate begins. NCOA was not explicit about what income the minimum subsidy should begin, but they did suggest that the proposed approach be revenue neutral. Given the substantial estimated cost savings from the tighter work test and the lower initial subsidy rate, the income at which the minimum subsidy rate is estimated to begin is $600 000. This very high minimum subsidy threshold contributes to the estimated increased use of ECEC by families with initial incomes over $60 000.

As outlined in chapter 15, it would appear extremely difficult to implement a work test that was linked to actual hours of work at present. Without tax data on the hours worked, subsiding actual hours of paid work would be complex and costly to administer as it would require parents to provide evidence to Centrelink on hours in paid work or the time spent looking for work or training. For those parents whose hours of work change frequently, the task would be onerous.

If such practical difficulties could be overcome, there could be merit in exploring implementing an activity test that tightly linked hours of subsidised ECEC to parents work hours — although exemptions for targeted families would need to be considered to address child development objectives.

ECEC workforce impact

There will be a change in the demand for ECEC workers associated with the change in the number of children and hours of ECEC services, as well as the mix of service types. The introduction of the NQF has already seen considerable change, and some providers are still adjusting to the changed requirements for the 50:50 ratio of certificate III to diploma educators (chapter 8). In addition, some states will not reach the staff ratios required by the NQF for children aged 25 to 35 months and over 36 months until 2016.

The Commission’s recommendations will allow more flexible staffing qualification requirements for younger children (below 3 years), but do not involve adjusting the staff ratios for centre-based care. Given this, there will continue to be a rising demand for ECEC workers in some states, even if there is no change in the number of children using ECEC services. However, flexibility in the application of qualification requirements for children under 3 years will mean that the mix of qualifications may change. As a Certificate III is easier to obtain than a diploma, the recommended changes should ease pressures on providers in finding staff. However, growing demand for ECEC services, demand for qualified ECEC workers is likely to be maintained.

The indicative workforce implications of the preferred mainstream funding approach is set out below. It reflects the change in the estimated number of full-time equivalent workers for the base year and does not take account of any growth in the child population. Overall, to meet the increased demand for ECEC services under the proposal the full-time equivalent number of educators would need to increase by around 4 per cent. This would include:

- an increase of 5 per cent in centre-based care educators
- a decline of around 3 per cent in family day care educators, although this decline is likely to be more than offset by a large increase in the use of home-based care from qualified nannies
- an increase of 2 per cent in OSHC educators.

While ECLS is estimated to increase the size of the ECEC workforce, measures to increase the flexibility of staff requirements for diploma qualified workers and ECTs should assist with (existing) staff shortages, particularly for rural and remote services as well as services in NSW that experience the greatest difficulty in recruiting ECTs (chapter 8).

The extent to which flexibility for staff qualifications working with children aged 36 months in centre-based services will change the demand for certificate III relative to diploma qualified staff will depend on how services respond. For example, moving to a ratio of one diploma to three certificate III qualified staff would reduce the requirement for diploma qualified staff by around 8 000 full-time equivalent workers and should ease staff shortages.

The Commission also recommends that the number of children for which an early childhood teacher (ECTs) must be employed be assessed on the basis of the number of children in a service aged over 36 months. Under this proposal the requirement for ECTs is estimated to decrease from around 12 per cent to 6 per cent of full-time equivalent workers in centre-based care — or roughly 3600 full time equivalent ECTs.[5]

Any change in ECEC fees that would flow from these recommendations have not been included in the modelling of ECLS. In addition, such declines would be offset by the broader growth trend. Moreover, given the strong negative response to the Commission's recommendation for the change in qualification ratios, there appear to be many families willing to pay higher prices for programs delivered by higher qualified staff, so educators with diplomas and ECTs will still be in high demand.

16.7 Estimates of the fiscal impact for government

The fiscal cost differs from the funding cost as it accounts for how changes in workforce participation affect:

- income tax, the Medicare levy and other tax receipts — as hours of work rise government collects tax on the extra hours worked (if income is above the tax free

5 This analysis takes account of the more stringent ratios for ECTs in NSW relative to the NQF.

threshold). Mothers may pay tax at a higher rate than is currently the case if they have moved into the next tax bracket

- Family Tax Benefits — as the family income rises with more hours worked, the amount received in Family Tax Benefits will fall for the families that have been eligible for these payments
- other social security payments — as families move into the workforce and expand their hours of work, their amount of Newstart Allowance and Parenting Payments declines.

The modelling estimates the effect of changes in the mainstream ECEC funding arrangements on workforce participation by families and hence can track the changes in these taxes and social security payments. In addition to these workforce participation related effects, the recommendation to remove the Fringe Benefits Tax exemptions for not-for-profit providers would provide a fiscal saving.[6] This is not included in the fiscal cost estimates.

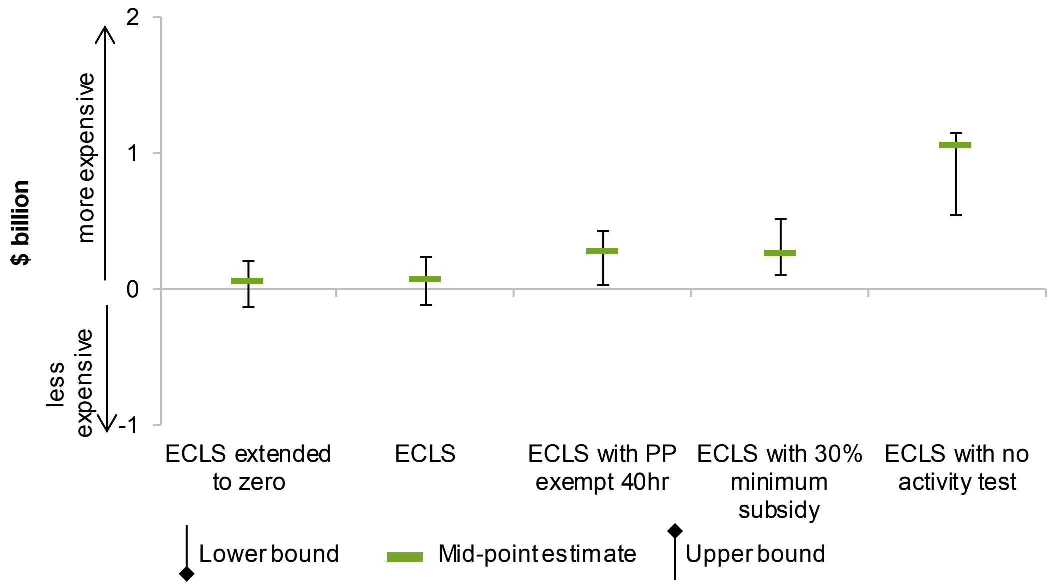
It is important to note that the estimates of fiscal impact are intermediate in nature — that is, they flow on from the decisions about workforce participation induced by the changes in the ECEC funding arrangements. At this stage the modelling does not take account of the effect of this change in labour supply on wages, which will also flow through to the final fiscal impact of the recommended changes. As the change in the ECEC system induces changes in the demand for labour as well as the supply of labour, the net effect on wages is uncertain. The more sensitive (or elastic) labour demand is to wages the less likely that a substantial increase in the labour supply can be absorbed without a fall in some wages. This would work to raise the fiscal cost as lower wages flow through to tax revenue and family payments. However, with relatively low unemployment, and increase in labour demand (as non-market activities are brought into the market), the wage impact is likely to be very small unless the labour supply change is large. The longer-term implications on government revenue are considered below.

The Commission has estimated that the overall fiscal impact of introducing ECLS would be a cost of $68 million in 2013-14. The estimates are indicative only, and the extent of uncertainty is reflected in the range around the mid-point estimates (figure 16.15). This uncertainty is not just present in the estimates for ECLS. The Commission also estimated ranges around the likely fiscal costs of some variants of ECLS. Many of the ECLS variants have error bounds that significantly overlap, raising the possibility that some of the variants explored by the Commission may be less expensive than ECLS.

6 To the extent that this exemption has allowed not-for-profit providers to be less efficient there will be little impact on fees. If these providers have been cross subsidising, then their fees may have to rise in some locations, but can fall in others. If they have been using these indirect subsidies to cover higher bad debts, the recommended changes should reduce their willingness to carry customer debts.

Figure 16.15 **Range of possible estimates of the fiscal cost of alternative ECEC subsidies**

$ billion, 2013-14



ECLS extended to zero — ECLS but with the minimum subsidy reducing to zero for families with incomes of $308 462 — families with incomes below $250 000 have same subsidy as under ECLS: ECLS – recommended subsidy; PP exempt 40hrs — ECLS but with Parenting Payment recipient families eligible for 40 hours of subsidies a fortnight; 30% minimum subsidy — ECLS but with a minimum subsidy rate of 30 per cent; No activity test – ECLS but all families eligible for 100 hours of subsidies a fortnight.

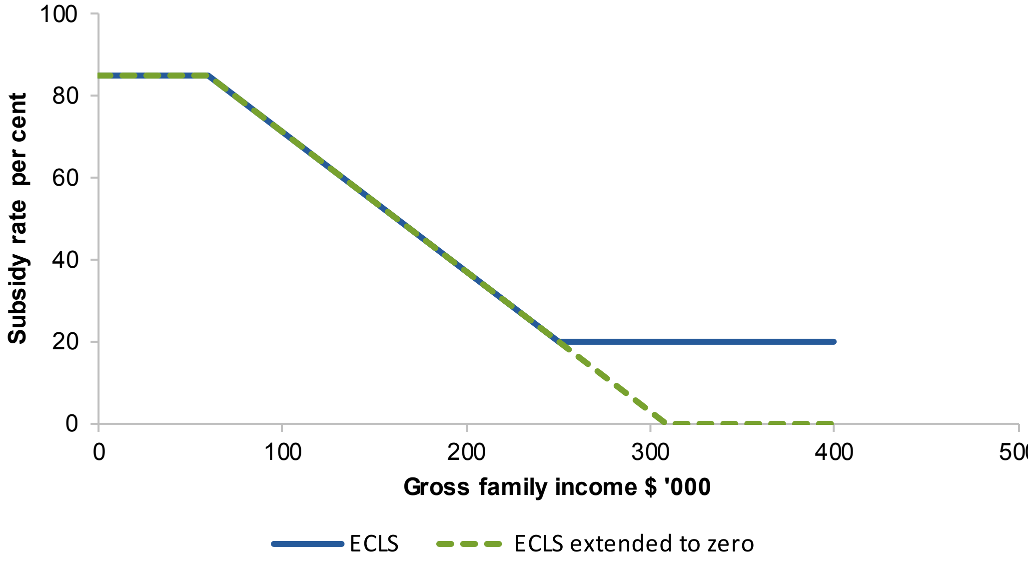
Source: Productivity Commission estimates.

Options for constraining the fiscal cost

One of the strengths of the recommended ECLS is that it is conceptually simple. If governments are concerned about the fiscal cost, they have the ability to reduce income thresholds and/or subsidy rates.

In their submission, UnitingCare Australia (sub. DR872) has suggested that the most appropriate way for the Government to further constrain fiscal costs would be to reduce subsidies for very high income families. As part of the analysis for this inquiry, the Commission examined a scenario that explored lower subsidies for higher income families. The scenario has the same initial income and maximum subsidy rate as the recommended ECLS, but progressively reduces the subsidy to zero for families with gross family incomes of $308 462 or more. The very exact upper threshold ensures that only families with incomes above $250 000 receive a lower subsidy than under ECLS (figure 16.16).

Figure 16.16 **Subsidy rates under ECLS and the low minimum subsidy scenario**



The scenario where ECLS is extended to zero (where those with family incomes of $308 462 and above would receive no subsidies) is estimated to have fewer hours labour supply than under ECLS (323 000 hours for the year), fewer hours of ECEC used (566 000 hours for the year) and incur a lower fiscal cost ($18.2 million less than ECLS in 2013-14).

While the aggregate cost for providing subsidies for very high income families is a small proportion of the overall fiscal cost of ECEC, these figures appear to indicate a very disproportionate rate of subsidy for these families. But extreme caution is urged in relation to these estimates. The families in the model with a gross family income that exceeds $250 000 are based on survey information from 22 families. This small number of higher income families increases the risk that the families included in the model do not accurately represent the distribution of circumstances among high income families — and hence the risk that the model will not accurately represent the behavioural change among these families.

16.8 Longer term impacts

The effect on Gross Domestic Product

With an ageing population there has been considerable interest in getting women to participate more fully in the workforce to help address future workforce shortages. Several recent studies (Daley 2012a; Ernst & Young 2013) have pointed to potentially large increases in GDP as a result of a rise in female workforce participation.[7] Australia has a relatively low rate of participation for women during their child bearing years compared to most other OECD countries, and a higher rate of part-time work (chapter 6). Hence, designing ECEC policy to encourage greater workforce participation is generally regarded as a desirable outcome.

It should be noted that GDP estimates do not reflect the contribution to society from those who are not in the workforce. 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 will be an overestimate.

The effects of the recommended policy changes on GDP are uncertain and complex (box 16.5). The Commission has only been able to estimate the ‘first round’ effects of a change in the supply of labour induced by changes in the ECEC subsidies that families will be able to receive. This approach effectively assumes that the increase in labour supply is seamlessly absorbed by the markets (demand for labour is perfectly elastic), which is the approach taken by most studies that have estimated the GDP effect. As mothers of young children make up only a relatively small share of the workforce, the percentage change in their supply of hours is much larger than the effect this has on the total supply of hours.

Most studies assume that the productivity of the additional labour is similar to that of the current labour supply. This may not be the case and, if it is not, an adjustment for the effect on productivity is required where the new labour entering the market has different educational attainment levels and years of experience. Given that the recommended ECEC system aims to encourage women with relatively low wages before ECEC costs back into the workforce it would, if successful, see the average productivity of this additional labour be lower than the rest of the labour market. This is because higher wage (and productivity) women are more likely to be already working. If the policy reduces subsidies for these higher wage women and they reduce their workforce participation, this adds to the lower average productivity of the net increase in the labour supply. In the longer run, as women work more and gain experience and access to better jobs this productivity impact should decline.

Some recent reports have estimated substantial potential GDP gains could be made from increasing ECEC use and from female labour force participation (appendix J). The estimated increase in GDP found by the Commission is much smaller than these other contemporary studies. For example, the resulting increase in GDP from introducing ECLS is estimated to be $1.3 billion in 2013-14 (or 0.1 per cent of GDP). The Commission’s

7 The Ernst and Young and Grattan studies do not consider the cost of ECEC services that might induce this ‘potential’ increase in the female labour force participation. In contrast, the Commission estimates are for the impact of the recommended and costed policy options on female workforce participation.

estimates are for a single year and reflect the efforts of the Commission to explore policy options within existing budgetary parameters. To the extent that the fiscal constraints have been met, then this GDP estimate can be considered to be an improvement from re-organising existing (or committed) budgetary expenditure (table 16.8).

Table 16.8 **Estimated first round GDP effect and net fiscal change**
Change from current policies in 2013-14, $m

	Increase in GDP	*Additional fiscal cost (negative is a saving)*
ECLS	1259	68
ECLS with no exemption for Parenting Payments	1964	-330
ECLS with 30% minimum subsidy	1933	252
ECLS with 90% maximum subsidy	1249	648
ECLS with no activity test	-271	1043

Source: Productivity Commission estimates.

Families living in poverty

Single parent families and jobless families are much more likely to be in poverty than couple families where one or both parents work. McLachlan et al. (2013) reported estimates that 25 per cent of single parent families had incomes below the poverty line, as did 45 per cent of single parent families on Parenting Payment. As single parent families make up around 15 per cent of families this is a significant number of families.

To the extent that the changes in the ECEC system encourage parents, whether single or in couple families, to participate in the workforce and/or work more hours and this leaves them with more money after ECEC expenses, the system should reduce the number of families living in poverty. This has immediate benefits, but also longer term benefits.

The estimates of the changes in workforce participation and income suggest that there may be some benefit in terms of longer term poverty alleviation. Relative to the current system, an estimated 1 800 more mothers from families with an income below $40 000 will be working, as will 3 900 more mothers in families with gross family income between $40 000 and $60 000.[8] However, the number of single parents in the labour force is estimated to decline by 2 400 persons. For this group, there appears to be a significant trade-off between the parents participation in the labour force and the use of ECEC — largely due to the activity and eligibility requirements.

8 This understates the effect for the families on income less than $40 000 as some of these will move into the $40 000 to $60 000 income group as a result of working. Similarly, there will be families in this income range that have moved into the next income group as a result of greater participation.

Box 16.5 Micro–simulation results and market outcomes

The recommended reforms are projected to increase labour supply by about 16 000 full-time equivalent workers (just under 0.2 per cent of the current workforce) and increase ECEC use by 3 per cent, while remaining approximately fiscally neutral (with the fiscal cost expected to increase $0.1 billion in 2013-14). GDP could increase by up to $1.3 billion per year.

The micro–simulation model includes many simplifying assumptions. In particular, it is assumed that prevailing wages and ECEC fees do not change. In the GDP calculations above, parents were assumed to work as many hours as they choose at their current wage (without additional unemployment); and households can obtain as much formal childcare as they require at the current supply price. These assumptions are also included in similar models developed by Gong and Breunig (2012) and Doiron and Kalb (2005).

The results are best considered as changes in 'labour supply' and 'childcare demand' A more comprehensive model would allow wages to adjust to increases in labour supply, and childcare prices to adjust to increases in demand. Only including labour supply and childcare demand means that short-run GDP and fiscal estimates based on labour and childcare market outcomes are likely to be overstated, and are best thought of as upper bounds.

Given the potential for wage reductions as new entrants bid down the price of labour, and the likelihood of increasing marginal costs in childcare supply the Commission explored the sensitivity of results to alternative assumptions.

Three alternative sets of assumptions were modelled. The alternatives were all applied to the ECLS, and included combinations of a 0.3 per cent decrease in the wages that primary carers face and a 3 per cent increase in the fees for childcare supply.

Sensitivity of results to alternative assumptions for wages and fees

Wage change (%)	*Childcare fee change (%)*	*Labour supply change ('000 FTEs)*	*Net fiscal position change ($ billion)*	*GDP change (%)*
0.0	0.0	16	-0.1	0.083
-0.3	0.0	13	-0.2	0.058
0.0	+3.0	13	0.1	0.077
-0.3	+3.0	11	-0.1	0.051

Child development outcomes

Over time the recommended changes in the ECEC system should result in a higher share of children from disadvantaged and lower socio-economic backgrounds attending ECEC services. As discussed in chapter 5, use of ECEC services in the years before school can have an impact on later educational performance. However, the magnitude of this effect is highly uncertain, and contingent on the quality of the ECEC service and the nature of the child's disadvantage.

The greatest certainty on development benefits relates to the preschool years. Approximately 288 000 children are already enrolled in a dedicated preschool or attend preschool in a LDC setting. Some preschools in LDCs receive universal access funding passed on by their state or territory government, but others receive only the standard CCR and CCB assistance (chapter 12).

The Commission is recommending continued funding for nationwide preschool programs in the year before school, regardless of the setting in which it occurs (with funds following the child). As there is near universal uptake of the preschool year at present, this is expected to be maintained with the continuation of funding.

Similarly, expanding access to ECEC services for children in highly disadvantaged communities should provide benefits over time. These benefits will be contingent on the children being able to access primary and secondary schools that continue to support their development. The ECEC component should be seen as part of a broader strategy to improve the life outcomes for Indigenous children and children in highly disadvantaged communities. As recommended in chapter 13, integrated approaches may be more effective and efficient in delivering services to disadvantaged communities, and better ways to accelerate and support the greater integration of services are needed.

Attendance at ECEC services can also assist in the identification of at risk children, learning difficulties and even physical impairments that — if left untreated — could impair future educational outcomes. In this regard, the estimated reduction in attendance at ECEC for children from single parent families when activity and eligibility requirements are imposed highlights the potential for inferior developmental outcomes — a factor that influenced the recommended approach to ECLS eligibility.

Even if ECEC attendance is substantially increased for children with the greatest development needs, the long-term outcomes are contingent on other education policies. Given the current uncertainty about school funding, and in particular funding to the most disadvantaged schools, the extent to which the full benefits from improved ECEC can be achieved is also uncertain. Hence, although there should be some long term benefits from the recommended changes, measurement of these outcomes is too uncertain to project any long-term employment or social outcomes. The method for making such projections is well known (appendix J) although they are always highly dependent on the assumptions made. Before such an estimate can be made, considerably more needs to be known about how the changes would affect child development, particularly for children with additional needs, and how these changes would enable them to lead a more productive (and happier) life. Without this information, any estimates would just be at best an informed guess.

The longer term impacts of changing workforce participation

Time away from the workforce while raising children can have long-term effects both on the workforce participation rates of women (including average hours when they do work), and on the wages they receive when they work.

A number of studies have estimated the wage growth penalty to time out of the labour force. Estimates for Australia range between 5 and 12 per cent and this wage penalty is often sustained over a decade or more (appendix J). The cumulative effect of this is that both wages and lifetime income will be lower as a result of time out of the workforce.

To the extent that the wage a person receives reflects their productivity (contribution to GDP) then the long term change in productivity resulting from mothers spending less time out of the workforce could be considerable. To estimate this effect with any confidence requires knowing the initial wage of the mothers whose workforce participation changes, and further information on the impact of duration out of the workforce on this wage penalty (and if it varies with the initial wage). A rough estimate can be made based on the estimated cost of the gender wage gap. Cassells et al. (2009) estimated that 7 per cent of the $93.4 billion shortfall in GDP due to the 17 per cent gender wage gap was due to was due to a difference in the number of years spent in work. This suggests that GDP in 2009 would have been higher by $6.5 billion if women had been able to remain engaged with the workforce while they had children (appendix J).

Retaining mothers in the workforce may also have an effect on the long term labour supply as the work pattern of mothers while their children are young affects their labour force participation as their children grow up. There is a strong rise in the labour force participation of women after the age of around 35, and an increasing share working full time (Gilfillan and Andrews 2011). As there has also been an increase in participation across birth cohorts over time, with women from younger birth cohorts much more likely to work than women from older birth cohorts at all ages, the net effect of the ECEC system on participation at older ages for the current cohort of women with young children is less clear. Hence, the main participation effect is likely to be while their children are young and ECEC enables them to work.

16.9 Trade–offs will be required

The terms of reference directed the Commission to examine a range of options for reform of the ECEC sector. In particular, the Commission was tasked with identifying a system that:

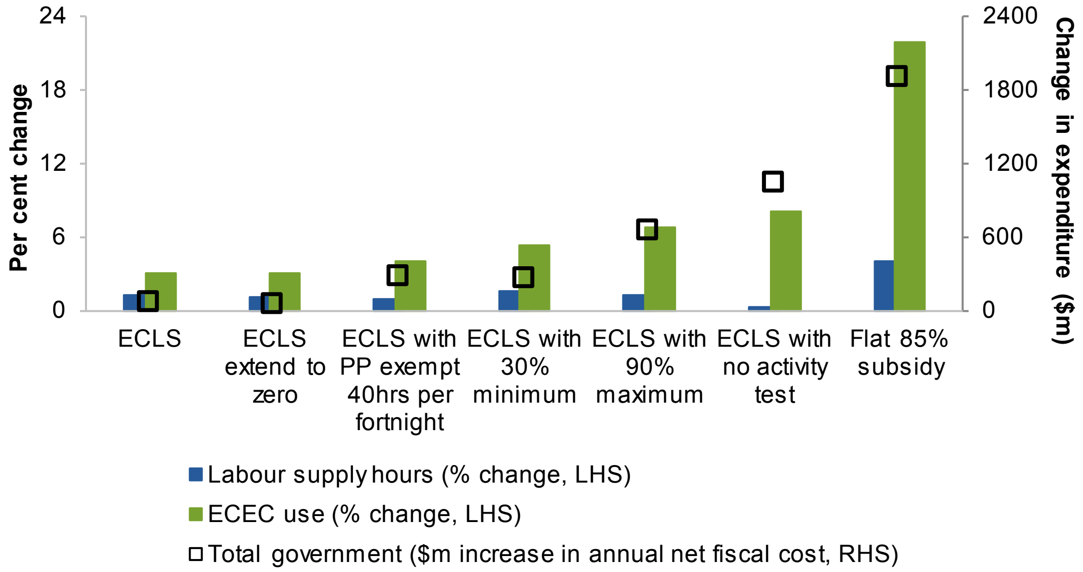
- supports workforce participation, particularly of women
- addresses children's learning and development needs, including transition to schooling
- is more flexible to suit needs of families, including families with non–standard work hours, disadvantaged children and regional families
- is based on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

The analysis in this chapter has highlighted the tension that can exist between three of these objectives — notably workforce participation, child development and fiscal sustainability (figure 16.17). It is also likely that tensions would also exist between these three objectives and flexibility, but the Commission's model is too rigid to assess that possibility.

The Commission considers that the recommended ECLS represents an improvement for workforce attachment and child development and it is fiscally sustainable. There was a range of alternative approaches considered by the Commission — including those that were estimated to increase workforce participation and/or ECEC use by more than ECLS (figure 16.17). However, most scenarios entailed significantly higher fiscal cost.

The Commission also examined a number of scenarios that would provide fiscal savings. Some of those alternatives were estimated to raise workforce attachment substantially – however, they all involved substantial reductions in ECEC use, particularly among low income families (the scenario modelled on the National Commission of Audit recommendations is a prominent example).

Figure 16.17 **Exploring trade–offs between scenarios**



Source: Productivity Commission estimates.

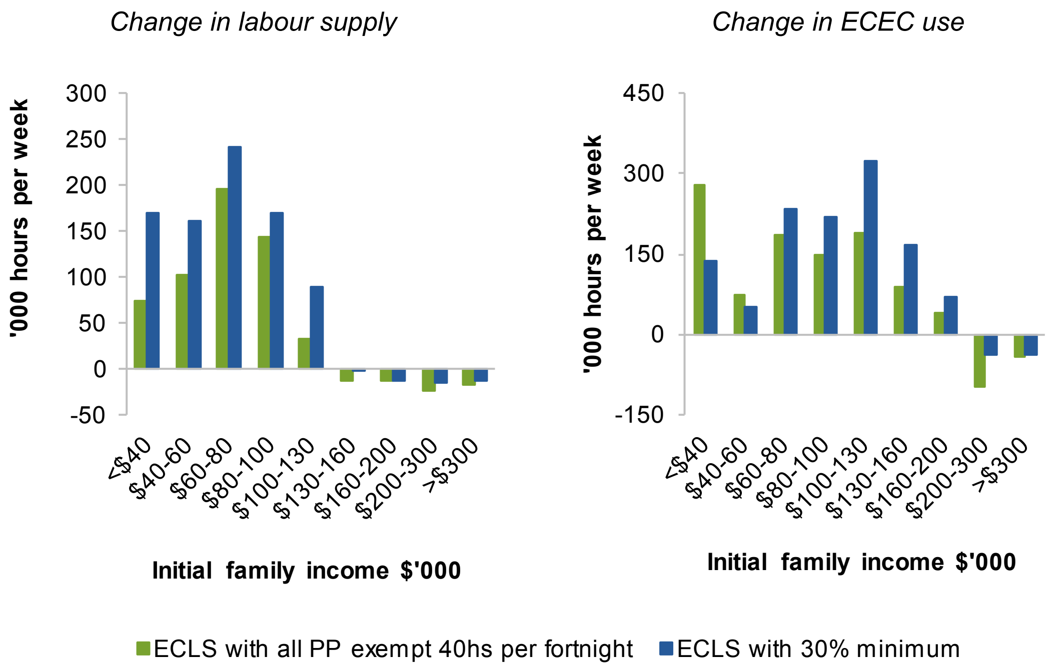
In very few circumstances was there an outcome that could be identified as being clearly superior in all aspects. For example, comparing the scenario of ECLS with all Parenting Payment recipients exempt from the activity tests for 40 hours (rather than 20 hours) per fortnight with the ECLS with a 30 per cent minimum subsidy, it would appear having a 30 per cent minimum subsidy is superior to increasing the hours of the exemption as:

- of the two scenarios, it has the smaller increase in fiscal cost

- it has the larger increase in labour supply and
- it has relatively higher ECEC use.

However, under the high minimum subsidy scenario, the growth in labour force is superior across all income groups, while the scenario exempting Parenting Payment recipients from the activity test has substantially larger take up of ECEC among the lowest income families — potentially indicating superior child development outcomes (figure 16.18).

Figure 16.18 **Distributional impacts also matter**



Source: Productivity Commission estimates.

In deciding on what formulation of ECLS would be recommended, the Commission examined changes in employment, ECEC use, fiscal cost and affordability for families for a range of alternative policy settings. These results were compared at the aggregate level, by income groups, family status (single versus couple families) and by income support status. For objectives such as child development, the Commission responded to advice from the community and the ECEC sector about how best to target assistance to maximise the likely benefits. Similarly, the need for flexibility and the implications for ECEC availability in regional and remote areas was considered. Accordingly, the system design and the choice of parameters for ECLS necessitated the Commission making value judgements about what set of trade–offs would be expected to produce the 'best outcome'.

In recommending ECLS, the Commission did not choose a policy approach that maximised workforce attachment, an approach that maximised child development or one that saved government the most taxpayers' dollars. ECLS involves a nuanced balance of these objectives. Consideration was given to short term fiscal and economic objectives as well as longer term child development and social objectives. The choice was made with the understanding that Australia already has quality ECEC services that are available and used by many Australian children.

While the Commission is satisfied with the recommended ECLS, it is also clear that the community and policy makers may assign different weights to the trade–offs considered by the Commission. In that respect, the analysis in this chapter and in the accompanying technical supplement to this report will provide insights for alternative assistance settings.

17 Transition and implementation

Key points

- The Commission's recommended reforms will involve significant transformational changes for families, providers and governments. Implementing most reforms will require consultation with providers and families and cooperation between governments.
- Families and providers will face a range of transitional issues from the recommended reforms.
  - The Early Care and Learning Subsidy (ECLS) will be paid direct to providers rather than to families. To qualify for ECLS, families will need to provide information that satisfies the means and activity tests to the Department of Human Services.
  - Of the families who currently access the Special Child Care Benefit, only those with children assessed as 'at risk', and not families experiencing financial hardship, would receive ECLS covering the full benchmark price. Unemployed parents yet to access the Newstart Allowance will be exempt from the activity test for three months.
  - Providers will face adjustments in response to changes in demand for their services associated with the move to ECLS and a benchmark price.
  - Providers who currently are not approved providers, such as nannies and Budget Based Funded (BBF) services, will need to satisfy the National Quality Framework and become approved providers in order for their customers to receive ECLS.
  - Providers who currently receive funding under the Inclusion and Professional Support Program and the BBF Programme will need to adjust. Support will be given to providers to transition where possible to child-based funding.
- Governments too will face transitional issues.
  - The Australian Government will need to collect information from families for the means and activity tests, upgrade and streamline its administrative systems, determine the benchmark price for ECLS, set criteria and mechanisms for allocating funds to support children with additional needs, collect relevant information for determining preschool funding to the states and territories, and link specific administrative data sets.
  - All governments will need to reach an agreement on implementing recommended changes to preschool funding and to the National Quality Framework/National Quality Standard, including altering its scope to include some new services and tailoring requirements to suit particular types of services.
- Some of the recommended reforms will be able to progress independently, while for other reforms sequencing will be critical. Reforms that the Australian Government can implement immediately include: increasing funding to the Inclusion Support Program, uncapping occasional child care, removing outside school hours care child-based reporting, and removing the employer-provided Fringe Benefits Tax concession.
- As the recommended reforms are substantial and the outcomes are not guaranteed, a critical element of implementation will be evaluating the changes.

17.1 Why we need to think about transition and implementation

The Commission's recommendations for the early childhood education and care (ECEC) system in this report involve long-run arrangements which differ from the current assistance and regulatory arrangements in several ways. In particular, some existing funding programs will be cut, some will evolve, and others will substantially change. Requirements under the National Quality Framework (NQF), including the National Quality Standard (NQS), will be removed or simplified. Some changes to state and territory, and local government regulation will also be needed.

The recommended reforms will involve 'significant transformational change' (The Gowrie Queensland, sub. DR860, p. 4). They are about:

- getting price signals working in a market where the Australian Government will remain a major funder through enabling families to choose services that best suit their needs
- enabling the market to mature and become less dependent on 'management' by government
- setting a regulatory framework that is effective and efficient
- building the skills and capacity of providers to offer inclusive services to children with additional needs.

Markets take time to develop, and getting stable and sound policy settings is a key to markets being able to adjust. Hence, a clear commitment by government to policy settings is essential. An implementation timetable is also needed, with changes sequenced to minimise disruption to providers and families. Given the different nature of the recommended reforms, how they are rolled out will vary. Some will be able to progress independently of the others, while for other reforms, sequencing will be critical. Most of the reforms require some cooperation with state and territory governments, and all require consultation with providers and families. Evaluation of the recommended reforms will also be needed.

This chapter sets out the main transition issues that the Commission considers will be important. They will not be the only ones, but they aim to help providers and families better understand the type of changes that are needed to move to a more accessible, flexible, affordable and financially sustainable ECEC system. Participants have highlighted some transition issues associated with the Commission's recommended reforms (box 17.1).

Box 17.1 **Participants' views on some transition issues**

A major risk involved in the transition to the proposed new funding arrangement for mainstream services is that organisations may need support to understand their business models and change them accordingly. … The risk in not providing such support is that those who don't have the required skills and knowledge to adapt to the change will no longer be providing ECEC services, which will result in a reduction of services available to families. (H&CS Workforce Council, sub. DR754, p. 13)

The risks are many including lack of understanding by families of the benefits of change and what it means for them, lack of buy-in from key stakeholders, ensuring economic modelling 'fits' the recurrent funding envelope and effective systems to manage the per child subsidy scheme. (The Gowrie Queensland, sub. DR860, p. 4)

For child care other than home based care the main issue will be ensuring families stay abreast of the changes. Once there is clarity on the changes, the Government will need to allow legitimate timeframes so their offices have the appropriate time to get their systems in place, and to communicate with families about the new entitlements. There have been historical problems with the CCMS [Child Care Management System] and their staff lack knowledge when you contact them with a question. Often software providers know more than CCMS staff. For home based care, as long as [CCB/CCR] is still paid to the approved service this will respond to the majority of the issue. Services will then need to ensure fees paid by families to educators are somehow processed through the service. (YMCA of Brisbane, sub. DR727, p. 5)

The remainder of the chapter looks at transition issues in four key areas of the Commission's recommended reforms:

- funding for mainstream ECEC services (section 17.2)
- funding for children with additional needs (section 17.3)
- funding for universal preschool access (section 17.4)
- changes to the NQF requirements (section 17.5).

The chapter also discusses broader administrative matters that the Australian Government should consider (section 17.6), sets out a pathway to implementing the Commission's recommended reforms (section 17.7), and discusses the need to monitor, evaluate and report on the recommended reforms (section 17.8).

Although not discussed in this chapter, implementation of the recommended reforms will need to take account of government reviews currently in train (box 17.2).

Box 17.2 Current reviews relevant to implementation of the recommended reforms

- The Australian Government is proposing to deliver a White Paper on the Reform of the Federation at the end of 2015. Among other things, the paper is to consider the 'practicalities of limiting Commonwealth policies and funding to core national interest matters' and 'reducing or, if appropriate, eliminating overlap between Local, State and Commonwealth responsibility or involvement in the delivery and funding of public programmes' (Abbott 2014). The Australian Government is also proposing to deliver a White Paper on the Reform of Australia's Tax System. The terms of reference have not yet been announced.
- The *National Partnership Agreement on Universal Access to Early Childhood Education*, which supports the provision of 15 hours of kindergarten per week for 40 weeks a year for children in the year before school, ceases in December 2014. The Australian Government has announced that it will provide further interim funding for the 2015 calendar year (Ley 2014c). A review of the National Partnership Agreement was completed and discussed at the August meeting of the Council of Australian Governments Education Council but is yet to be released (Harrington 2014).
- A review of the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care* is underway to assess the extent to which its objectives and outcomes have been achieved. Among other things, the review is considering: whether the range of services covered by the National Quality Framework should be expanded to include Budget Based Funded and other services, whether legislative requirements can or should be tailored to particular service types and settings such as Outside School Hours Care, and future arrangements for funding the regulation of the National Quality Framework.
- A review of Australia's welfare system (the McClure Review) was commissioned in December 2013 to identify improvements to ensure the social support system is sustainable, effective and coherent and encourages people to work. An interim report was released in June 2014 (RGWR 2014b), which among other things, considered welfare support for families with children.
- The Prime Minster commissioned the *Indigenous Jobs and Training Review* (the Forrest Review) to provide recommendations to ensure services are properly targeted and administered to connect unemployed Indigenous people with real and sustainable jobs. The final report was released in August 2014 (Forrest 2014).
- The Department of Education has commissioned an evaluation of the Inclusion and Professional Support Program, which is expected to conclude by end of October 2014.

17.2 Implementation of funding changes for mainstream services

The Commission recommended a number of reforms to the funding of mainstream ECEC services through the Early Care and Learning Subsidy (ECLS) to assist families with children (chapter 15). It also recommended the establishment of a capped Viability Assistance Program to assist providers in rural, regional and remote areas that experience temporary financial difficulties due to fluctuating demand.

Transition for families

The recommended ECLS will be available for all families that meet means and activity tests where their provider is an approved service (and meets the NQF). The activity test requires parents to be working, studying, training or volunteering for more than 24 hours a fortnight with exemptions applying to non-primary carers and families on Parenting Payments.

The Commission's recommendations to relax some of the requirements to be an approved provider (mostly those that restrict practices, such as hours of operation) should see some providers change their service offerings, making sessional ECEC more affordable for families. These changes may not suit some families. However, on balance, more rather than less choice is likely.

Most families who currently receive the Child Care Benefit (CCB) and/or Child Care Rebate (CCR) will be able to claim ECLS. This includes those families who have an in-home care place and those that use occasional care where these providers are an approved service. These families will need to update their information to Centrelink/Department of Human Services with respect to their income, hours of work, and other criteria to meet the activity test. (Changes to the Department of Human Services' payment system are discussed below.)

There will be some low income families receiving the CCB and/or CCR whose incomes will be above the threshold eligible for the Parenting Payment (around $55 000 for single parents with one child) and whose work hours are less than the 24 hours a fortnight required by the activity test. Unless these families can expand their hours, they will not have access to ECLS. The impacts on families in this lower income group should be monitored to ensure that the reforms do not impose undue hardship on those families affected or lead to the withdrawal of their children from ECEC.

Families currently using ECEC services that are not approved (including registered care providers) will need to encourage their provider to become approved in order to receive ECLS. Once the provider becomes approved, families will need to apply for ECLS providing relevant information, as noted above.

Transition for providers

The main change for approved providers of mainstream ECEC services is that they will receive the subsidy directly for all services to children who have a Centrelink customer reference number.

Providers will need to issue invoices to families and to the Department of Education setting out particular details. Invoices to families must show the fees charged, the subsidy paid (both the benchmark price and the subsidy rate), as well as the residual 'co-payment' required of the family. Invoices to the Department of Education must be on a regular basis, list for each child the days and hours of service, the total fees charged, and the subsidy applied. Copies of invoices to the families must also be available on request.

Providers will need to make changes to the way they report information to the Department of Education's Child Care Management System (CCMS), which should be improved to reduce the burden on providers. (Changes to the CCMS are discussed below.)

New approved providers

There will be a major transition for those providers who currently are not approved providers —— mainly nannies, occasional care services, Budget Based Funded (BBF) services, and registered care providers. These providers will have to satisfy the NQF and become approved providers if their customers are to receive ECLS for their services. The NQF requirements will be tailored to different service types. This transition may take some time, but it is likely that many of these providers will have an incentive to make this transition in order to enable the users of their services to access a subsidy (if they meet the eligibility tests).

Coordinators already support family day care (FDC) educators and some nannies. It is anticipated that existing and new coordinator services will be able to provide ongoing support to nannies to acquire the required accreditation to become an approved provider and satisfy NQF requirements.

Some FDC educators also currently pay fees to a coordinator, although some FDC coordinator services receive funding under the Community Support Programme (CSP), which the Commission recommended be closed (chapter 10). These coordinator services will need to move from block funding to a fee-based arrangement with the FDC educators that they support. The FDC educators and nannies should be able to purchase services from their coordinators (chapter 10).

Some registered care providers may choose to become an approved provider. If coordinator services are working well, they should be able to work with registered care providers who would like to become approved home-based care providers to enable them to do so (chapter 11).

ECEC market adjustment

The Commission recommended that several programs that provide additional support to providers be abolished. Many of these are part of the CSP, but also include Professional Support Coordinators that manage a subsidised training program and provide other support to providers. These programs reflect the historical development of the sector. With the considerable growth in ECEC services and increased professionalisation, providers need to operate as businesses and take on responsibility for organising and funding the professional development of their staff. This is anticipated to be more problematic for training in inclusive practice, where significant deficiencies in capacity remain. While many ECEC providers have moved beyond relying on government to organise these kinds of business expenditures, some providers will need to adjust and develop their own business management skills. The providers of professional development and business services will also need to adjust when government funding is withdrawn from this activity.

There will also be changes in demand for ECEC services associated with the move to ECLS. To the extent that the benchmark price is lower or higher than their fees, providers may wish to review their fees, including the extent to which they cross subsidise between children aged 0 to 2 and 3 to 5 years. Increased flexibility in hours of service will also give providers greater opportunity to tailor their service to the market in which they operate. This requires some level of business sophistication that is not always observed across the ECEC sector, but providers that lack this skill should be aware that there are business services that can assist. Industry associations and provider networks can play an important role in providing feedback on such services to improve ECEC providers' confidence in the quality of the service on offer.

There may be some providers that struggle in a more market-oriented ECEC system. These providers may need to close or, more likely, be bought out by other providers. Over time, this should raise the efficiency and quality of the ECEC sector, and government should resist pressures to continue to support underperforming providers.

Viability assistance

One of the more challenging transitions will be for providers who have been in regular receipt of sustainability assistance from the CSP — mainly long day care (LDC) and FDC services. The changes in NQF/NQS requirements and the Commission's recommended lifting of restrictions on the hours of operation, should give these providers greater scope to adjust. Some providers may need to consider whether demand for their services in the community is strong enough to justify their current model of operation — for example, a LDC service operating with fewer than 15 children may consider reducing the days of week it operates, share staff with other nearby services, or consider operating as a home-based care service.

It is important that the availability of the Viability Assistance Program and criteria for eligibility are communicated to providers so that false expectations are not created. The program is not intended to support unviable businesses in their current mode of operation. And it is not a replacement for the CSP. Clarity on the information required for the application to be successful is needed to ensure that providers who might need to access this support will need to keep the appropriate financial and business records.

Transition for government

The Australian Government will need to make legislative and administrative changes to implement ECLS. Reforms to assistance arrangements will require collaboration across multiple government agencies. Changes to the NQF will involve negotiation with state and territory governments and liaison with Australian Children's Education and Care Quality Authority (ACECQA). This sub-section focuses on transition issues for the Australian Government from implementing ECLS.

Upgrading administrative systems

The Commission's recommended reforms will require major changes to Australian Government administrative systems.

In particular, the Department of Education's CCMS (box 17.3) will require significant change or a new system will need to be developed. The CCMS will need to incorporate information:

- on child attendance for those children attending preschool in LDCs
- from currently out-of-scope providers (for example, nannies)
- on 'at risk' children.

Box 17.3 **The Child Care Management System**

The Child Care Management System (CCMS) is a national child care system operated by the Australian Government Department of Education that brings all approved child care services online. All Child Care Benefit approved providers are required by law to operate under CCMS.

Child care services use their CCMS registered software to record child, enrolment and attendance information. Services report this data to the Department of Education weekly via the Internet to allow calculation and payment of Child Care Benefit fee reductions on behalf of children in their service.

Newly approved services need to procure CCMS registered software from a list of registered software providers and be trained by the provider in its use.

The CCMS is a Department of Education asset, which is currently hosted by the Department of Social Services and integrated within its Online Funding Management System.

Changes will also be required of the Australian Government Department of Human Services' payment system. Issues that will need to be addressed include:

- streamlining the application process for families, ideally with a widely available user friendly online version
- incorporating the means and activity tests into the system
- incorporating child attendance information into the system (provided from the CCMS)

- calculating ECLS
- ensuring that the ECLS received by the provider is clearly marked on the family's invoice along with the out-of-pocket costs that they have to pay
- calculating the end-of-year reconciliation payment and determining to whom this should go.

As the CCMS and the payment system are closely integrated, there will be a need for the Department of Education and the Department of Human Services to work together to progress upgrades. An issue for both agencies to consider jointly is deciding which agency should make the payment to providers. Typically, the Department of Education makes payments to providers, whereas the Department of Human Services makes payments to families.

The Department of Education will also need to consult with the Department of Social Services, which currently hosts the CCMS and which is integrated within their Online Funding Management System.

Many of the above issues have been resolved successfully in the past, but as with any system change, will need to be managed carefully.

In doing so, both the Department of Education and the Department of Human Services should seek to minimise compliance costs for providers and families by applying the principles set out in box 17.4. For example, to minimise the burden on providers, the Department of Education could: give, in a generic format, an electronic copy of the enrolment details of all children registered with the provider and their current assessed subsidy rate; give an open access template that they could complete to apply for the subsidy; allow providers to use their own software to manage their accounts and issue invoices; and establish an Internet portal for submitting electronic invoices and facilities to handle hardcopy invoices. Guardian Early Learning Group noted:

> It would be ideal if the system could be designed so that it is simply enough to avoid specialist software providers. While these software providers will always have a role in providing simple, low cost solutions for small operators, it would be good if the larger operators could build their own invoicing/CCMS [Child Care Management System] within their accounting software systems. (sub. DR837, pp. 5–6)

Box 17.4 Principles for minimising compliance costs

To make it easier for providers and families to interact with systems for delivering ECEC support and to ensure payment efficiency and accountability:

- eligibility rules and policies should be easy to access and understand, including for those families that do not have access to a computer/Internet
- information, and assessment and application processes, should cater for people with communication difficulties, including language and literacy skills
- application processes should be simple and applications easy to submit
- processing of applications should be timely, and response to inquiries on progress and on determinations should be quick and easy. Staff of relevant agencies should be available to answer questions, whether available face to face, by telephone and online
- it should be as easy as possible to meet requirements for continuing payment
  – simple forms and processes should be available for reporting changes in circumstances (for example, income or work/study status/hours etc.), with the option of reporting online, and with minimal evidentiary requirements for those for whom there are no changes in circumstances
- administration should coordinate with other family payments to:
  – share information (electronically) so that benefit recipients only have to report information once to government
  – align rules and policies governing eligibility, income thresholds, eligibility tests and so on across programs (where possible)
- systems should be in place to minimise the scope for conscious fraud or improper payments and to effectively address these when they arise.

Streamlining eligibility assessment

Like the current CCB and CCR arrangements, receiving ECLS will require parents to meet eligibility tests. The administrative cost of assessing eligibility depends on the number of agencies involved and the extent to which they already collect the relevant data.

In general, eligibility assessment is best done in an Australian Government agency which has, or can easily collect, the relevant data. For families of children with additional needs, these will be agencies that already engage with the family in relation to these needs.

As discussed above, the Commission’s recommended activity test requires that parents are engaged in work, study, or training for more than 24 hours a fortnight. Rather than the self-declared approach of the CCR and CCB’s activity tests, parents should provide some proof that they are meeting the test such as in the form of a statement from an employer, a payment summary, or proof of enrolment in study. Proof should be submitted regularly — say annually — or as circumstances change. Parents may give permission for this information to be collected from the Australian Taxation Office.

Information on families who receive income support payments (including the Parenting Payment) and non-parental primary carers should already be held in the Department of Human Service's records. Ideally, families using online applications should be able to opt for this information to be pre-filled, as is currently the case with tax returns. Centrelink should be able to print out forms for families with their details included on request.

Setting the benchmark price for services

The Commission recommended applying a benchmark price that will: be based on the median fees charged by approved providers; vary by provider type (centre-based care, home-based care and OSHC); and vary with age group of child for LDCs, and be determined twice a year.

Determining the median fees requires data on the fees charged. This could be obtained from the Department of Education's current administrative database (which was used to provide information on fees for the modelling estimates in chapter 16).

17.3 Implementation of funding changes for additional needs children

The Commission recommended (chapter 15) that children with additional needs be supported to attend suitable ECEC services through the Australian Government:

- meeting the full benchmark price for services for children assessed to be 'at risk' of neglect or abuse (thus, families are not subject to a means test or an activity test)
- funding an Inclusion Support Program (ISP) that assists providers to meet the cost of additional staff required to include children with ongoing high support needs, and provides professional support to assist services to provide inclusive environments
- funding a Community Early Learning Program (CELP), that directly funds providers to deliver services in highly disadvantaged communities, and provides professional support to these services to improve the quality of their service and help them transition to mainstream funding through the ECLS program.

Transition for families

Families currently on SCCB

Children assessed as 'at risk', who currently access the Special Child Care Benefit (SCCB) should be able to receive ECLS. However, while there will be minimal changes in terms of eligibility, there will be more limited benefits. ECLS for children at risk will cover 100 per cent of the benchmark price rather than the actual price, and will only be available for up to

100 hours a fortnight for six weeks (initially) and then in intervals of up to 26 weeks thereafter. The at risk assessment to receive ECLS requires a relevant state or territory agency to assign a 'caseworker'.

Families who face financial hardship will not be able to receive ECLS covering 100 per cent of the benchmark price. They will need to have their incomes reassessed quickly to determine their new subsidy rate. Parents will be exempt from the activity test for three months should they become unemployed and yet to access the Newstart Allowance.

Families who currently access support for their service through the IPSP

Children who benefit from providers that have accessed the current Inclusion and Professional Support Program, which funds or directly builds capabilities to provide an inclusive service, will continue to benefit from access to funding for this purpose under the new ISP.

Families where their child's inclusion in an ECEC service has allowed the service to access additional resources through the Inclusion Support Subsidy (ISS) will not be affected, but may find that the provider is able to access resources to provide an inclusive service for their child for more hours each day and each week. Other families should find that services are more willing to include their child, as there will be greater access to adequate resources for inclusion for providers. While the programs need to be capped, the substantial increase in funding for ISS should improve the services available for families with children with disabilities and developmental delays. Improvements in information sharing between the National Disability Insurance Agency and the Department of Education should also facilitate the application process, so that families whose child's disability has already been assessed should not have to provide additional information.

Families who currently use BBF services

Children who benefit from ECEC services funded by the BBF Programme — namely, in rural, remote and Indigenous communities — will continue to receive services as these are moved to the CELP. Over time, families may have to make a co-payment based on their family income as these services transition to ECLS funding.

BBF services that primarily involve parental rather than non-parental care and do not have an ECEC focus should be transferred to a more appropriate funding source, where possible, to minimise the impact on families using these services.

Children with a disability using home-based care

Children with a disability with an in-home care place will be eligible for ECLS for an approved home-based care service. Those children who are eligible for the National Disability Insurance Scheme (NDIS) should transition to these new funding arrangements as they are rolled out, and ECLS continued for these children until this occurs. For children not eligible for the NDIS, families will have to pay a contribution based on their family subsidy rate for home-based care services. As the ISP is about inclusion, it will not provide support to families who use care services in their own home.

Transition for providers

Providers will have to contact a designated state and territory government agency when they have a child who is 'at risk' and notify the Department of Human Services in order to receive an initial six weeks assistance at 100 per cent of the benchmark price. Any extension beyond the initial six weeks will require the designated state and territory government agency to apply to, and receive approval from, the Department of Human Services and to maintain ongoing contact with the child at risk.

Providers who have a child assessed to be no longer at risk can offer the family a service at the family's relevant subsidy rate even if the family does not pass the activity test. This activity test exemption applies only for an 18 month period for those children who have been 'at risk' for at least 26 weeks. Providers will have to seek any payments above the subsidy (based on family income and the benchmark price) from the child's family. Where the SCCB rate has been well above the benchmark price, providers will be under pressure to adjust and reduce their costs.

Providers who offer services to children with a disability, developmental delay or from a culturally and linguistically diverse (CALD) background (including Indigenous children, who need providers with additional capabilities) can apply to the Inclusion Support Agency for support to build capacity to provide an inclusive service. They can also apply for ISS funding through (ideally) an improved Internet portal. The application process should be simpler for children who are eligible for the NDIS once data sharing arrangements are put in place between the ECEC system and the NDIS system.

The NDIS will meet at least the medical and physical needs of children with profound disability who participate in the ECEC system. ISS funding supports providers where they need extra staff to include a child's additional needs. The Commission's recommended assistance arrangements for children with additional needs is not intended to replace the support provided under the NDIS.

ECEC-focused providers receiving funding under the BBF Programme will be moved into the CELP and provided with assistance to transition to ECLS where possible. The CELP can provide additional funding to providers in some Indigenous communities to allow them to transition to ECLS in the face of higher costs and variable utilisation rates that characterise their service. Professional development to satisfy an appropriately adjusted NQF, to manage a business, and to assist families to apply for ECLS will be available from the ISP.

As ECEC is only one of the services that benefit from an integrated approach, it may not be well placed to play the coordinating role. Agencies responsible for outcomes for a particular disadvantaged community (such as the Australian Government Department of Prime Minister and Cabinet for Indigenous policy) may be better placed to fund the coordination 'glue' that is needed to make integrated services work well. Nevertheless, funding for coordination will be available from the CELP where the ECEC service plays the coordination role in integrated services. This will be available to ECEC providers currently funded to do so under the BBF Programme, and to new services funded under CELP. These must commit to transition to mainstream funding where possible to do so.

While many providers can make the transition to a child-based funding model this will take time and many will need additional assistance to do so. Those providers who are unable to make the transition should be reviewed on a regular basis (3 yearly). These reviews should also assess the scope for family co-payments to improve the funding available to providers.

Transition for government

As well as the transitional issues facing the Australian Government with respect to ECLS (covered above), the Government will also need to allocate resources within the recommended capped funding programs as well as assess eligibility and applications.

Allocating resources within capped funding programs

Transparent criteria and mechanisms for the allocation of funds within the capped programs that support children with additional needs must be determined. The efficiency of capped programs in delivering benefits depends on how well the resources are allocated across competing areas.

The Commission's recommended Viability Assistance Program, ISP and CELP are all capped. The Australian Government will need to set the eligibility criteria and assistance provided to meet the funding caps for each of these programs. There may be overruns and surpluses in the early years as the Department of Education works out eligibility criteria that will efficiently allocate the funding available.

The Commission agrees with the conclusion of the BBF Programme Review (chapter 13) that resources need to be more targeted and, to do this, clear, transparent, and implementable criteria need to be set out. The Department of Education will need to develop criteria for new services to guide the allocation of funding. One criterion should be the development of a business plan that includes transitioning to ECLS in five years. Other criteria should reflect the need in the community and the opportunity to develop a more integrated approach to child and family services in the community. Given the importance of BBF services in Indigenous communities, the Department of Education should also work closely with the Department of Prime Minister and Cabinet on these criteria.

Assessing ‘at risk’ eligibility

The Department of Education will need to consult with state and territory governments on the criteria for determining when a child is ‘at risk’. The Queensland Government suggested that:

> … the definition of ‘at risk’ align with current child protection legislation across states and territories. … The threshold for ‘at risk’ children eligible for the subsidy would also need to be in line with state and territory departments’ thresholds for ongoing intervention (i.e. child in need of protection). (sub. DR893, p. 15)

However, determining a child at risk, need not be limited to children who have a notification under child protection legislation, but should be at a level of risk where the state and territory agency is willing to engage with the family to ensure they are accessing appropriate ECEC services.

The Queensland Government further noted that there may be ‘potential workload implications’ for state and territory governments ‘if required to provide an assessment of a child to allow a subsidy to continue’ (sub. DR893, p. 15).

However, the Commission considers that, given that state and territory governments have responsibility for child welfare and protection, the relevant state or territory agency is the appropriate entity to make an application for approval of a 26 week period of at risk assessment on behalf of a child. They would likely have access to information that would not normally be available to the ECEC provider, and should be engaging with the family anyway to manage risks to the child. The Australian Government Department of Education would need to trial processes on how best to engage with state and territory governments with respect to at risk children.

Assessing applications for ISS funding

The Department of Education currently contracts out the management of the ISS at a cost of $2 million per year, to the National Inclusion Support Subsidy Provider (NISSP). The NISSP assesses applications from providers for support for children with additional needs. The Commission’s recommendations will see an expansion in the funding for children with additional needs under the ISP, which will increase the workload for the NISSP, and may require a larger budget for managing the ISS funding for children with a disability or developmental delay. The Department of Education should continue to contract out this responsibility to a specialist provider.

Similarly, the Department of Education may wish to contract out the allocation and management of the CELP. This should be based on the relative cost-effectiveness of specialist services relative to the public service in managing the program, including in working with communities to develop proposals for new ECEC services.

There are advantages and disadvantages in outsourcing the allocation of program funds. On the upside side, an outsourced organisation may be less subject to pressure to allocate funds to satisfy political considerations at the cost of achieving the highest benefits from the available funding. They may also have the necessary analytical skills, specialist knowledge and staff continuity that the Department of Education may be unable to command. On the downside, they might have less commitment to achieving the best outcomes, or be captured by particular groups (for example, if they are also a service provider). Whether outsourcing can bring administrative efficiencies is also hotly debated, and the potential for overlap in what the Department of Education has to do for oversight and the role of the outsourced agency can reduce what gains there might be.

17.4 Implementation of funding changes for universal preschool access

The Commission recommended a number of changes with regard to preschool access and funding (chapters 5, 12 and 15). The allocation of funding for, regulations applying to, and delivery of, preschool services will remain the responsibility of state and territory governments. The Australian Government will contribute child-based funding to each state and territory government for children to attend a preschool program for 600 hours in the year prior to starting school. A special purpose payment may be an appropriate mechanism to deliver this funding and a requirement of funding would be that the state and territory government pass it on to the preschool chosen by each family. Information on the children attending preschools in each setting (whether in a LDC or in a dedicated preschool) and the funding allocated to these children should be provided by every state and territory government to the Australian Government. Children attending preschools should meet the same immunisation requirements as school children, and the receipt of a portion of Family Tax Benefit (FTB) Part A by parents should be made conditional on preschool attendance.

In the long term, it would be desirable for state and territory governments to be responsible for funding preschool hours regardless of the setting in which they are delivered, and for the Australian Government's funding contribution to form part of its general revenue transfers to state and territory governments (for example, through Goods and Services Tax funding arrangements) rather than as a special purpose payment.

Transition for families

Families will continue to have a choice as to the type of preschool (dedicated or part of a LDC) that their child attends.

Families accessing preschool in a LDC on a sessional basis would be exempt from the activity test for up to 15 hours per week and so eligible for ECLS. The benchmark price would be discounted to reflect the per-child preschool subsidy received by the LDC.

Where preschool is not offered on a sessional basis, providers will need to nominate the 600 hours a year to which the adjusted benchmark price applies.

Transition for providers

LDC providers will need to report to the Australian Government on the number of preschool children they have enrolled, the funding they have received from state and territory governments for these children, and (where the preschool program is not fully funded by the state or territory) the discounted benchmark price applied to families.

Providers will also need to transparently deduct the state and territory government funding contribution from the fees they charge families for the hours of the funded preschool service. Where the preschool hours are fully funded by state or territory governments, in effect the LDC operates on the same basis as a dedicated preschool and, hence, ECLS does not apply for these fully funded preschool hours.

Transition for governments

To determine funding to state and territory governments, governments will need to collect information on the number of eligible children, the actual enrolments as a proportion of eligible children, and the proportion of children who receive their preschool education in a LDC setting. Information collected from providers will need to be matched to information collected from state and territory governments.

The Australian Government will also need to ensure that a portion of FTB Part A is only payable to parents with children in preschool. This will require matching data on recipients of the FTB Part A held by the Department of Human Services with preschool data held by the Department of Education.

17.5 Implementation of changes to the NQF

The Commission recommended a number of changes to remove or simplify NQF requirements (chapter 7). Although the recommendations will not directly require families to adjust, they may respond to changes in the features of the services that providers offer. Changes in the NQF requirements will largely result in reduced compliance burden for providers, particularly those operating across a number of jurisdictions. These providers will require information about the changes. However, there will also be a major transition for providers seeking to be within scope for funding for mainstream services and for governments.

Transition for providers

Providers will need to satisfy relevant NQF requirements in order to receive approved provider status. The NQF requirements will be tailored to each care type as far as is feasible to minimise the compliance burden on providers.

The process for providers to comply with tailored requirements may need to be progressive and should be accompanied by consultation. The Network SA Resource, Advisory and Management Services drew attention to the example of the ‘successful’ implementation in South Australian of the Quality Improvement Strategy for BBF services:

> Currently, the Quality Improvement Strategy (QIS) for BBF services is being implemented progressively to enable services to satisfy the requirements. At the same time, in South Australia, the Regulatory Authority has been consulting with those child care services such as BBFs which are not currently in scope to explore the likely impact of current regulations and the appropriateness of the terminology used. We believe that this combined strategy will help to ensure a successful transition. (sub. DR874, p. 2)

Recommended reforms to required staff ratios and qualifications will have different impacts on providers depending on the arrangements currently in place in their state or territory and progress in moving toward the NQF targets.

Transition for government

The recommendations will require agreement among governments. Reaching agreement on a national staff to child ratio for outside school hours care (OSHC), more flexible qualification requirements for educators working with children under 36 months, and extending the scope of the NQF to include new services may be somewhat protracted.

Once agreement is reached and translated into legislation, ACECQA and state and territory regulatory authorities will need to produce new guidance and other materials, and adjust quality ratings from previous assessments to reflect the changes.

Attention will need to be paid to altering the scope of the NQF to include some new services. While the requirements for FDC are likely to be largely relevant for nannies and other home-based care, requirements on the premises will need to be different where care is undertaken in a child’s own home. In New Zealand, PORSE has developed a model for supporting nannies and families with elements of service delivery, including initial and regular hazard assessments and mitigation strategies in the home, which could be considered for adoption as part of the NQF (sub. DR747, p 6).

Some NQF requirements may also be less relevant for services in remote communities, where alternative localised approaches may be more effective in delivering good outcomes for children. This will need to occur over an appropriate timeframe (particularly for services transitioning from the BBF Programme).

Altering the scope of the NQF to include new services may also involve additional costs for state and territory government regulators, already stretched in administering existing NQF requirements — an issue raised by the Queensland Government (sub. DR893, pp. 4, 5) and the Tasmanian Government (sub. DR904, p. 9). However, any assessment of claims for additional funding to meet the costs of including new services within the NQF needs to consider the extent of any current inefficiencies of regulators.

17.6 Some system-wide administrative changes

In addition to the transition issues for government noted above the Australian Government should consider some system-wide administrative changes.

Improving the evidence base

The Commission's public consultation process has been essential for understanding the issues in this inquiry and helped in assembling empirical evidence. However, it is the data available from properly conducted surveys (such as by the Australian Bureau of Statistics (ABS)), the National Early Childhood Education and Care Workforce Census, and administrative data that underpin much of the analysis. The administrative data made available to the Commission by the Department of Education, ACECQA, and the Department of Human Services allowed a much wider and more comprehensive analysis than would otherwise have been possible (box 17.5).

Administrative data could be made available to inform the ongoing management of the ECEC system and improve policy. For example, the data could:

- allow ECEC providers to identify areas of supply shortage when they could consider commencing new ECEC services
- encourage the development of value added products to assist families to find more suitable ECEC services
- improve state and local government planning decisions and policies through having more accurate information about the likely travel routes of families:
  - for example, decisions on the location of public transport park and ride facilities and the interface with public transport infrastructure
- improve the ability of peak bodies and researchers to assess current policies and options, which can build the evidence base for governments to improve policy
- be used in conjunction with survey collections to monitor and assess the responsiveness of:
  - providers to changes in demand and in the assistance provided for children with additional needs
  - parents in different income groups and with different aged children to changes in their out-of-pocket costs of ECEC.

Box 17.5 Use of administrative data to better understand the ECEC system

The views and experiences of participants on the elements of the ECEC system that are working well and on what needs improvement have been informed by personal experience or based on limited information (for example, relating only to particular issues or locations). Additional information is required to assess if these views of the outcomes are widespread.

Access to administrative data has allowed the Commission to undertake analysis that would not have been possible from publicly available sources. This includes:

- examining the accessibility of ECEC services including:
  - the concentration or clustering of ECEC providers
  - the opening hours of ECEC services across Australia
  - how far families travel from home to use ECEC services, including the extent to which families use ECEC along major commuting corridors
- exploring family characteristics (family income, number of children, geographic location and type of care used) that influence affordability of ECEC under current policies

Administrative data has also been pivotal in assessing the effectiveness and cost of current regulatory arrangements surrounding the NQF including examining:

- how many days it takes to complete quality assessments, and identifying how many are taking longer than prescribed as acceptable under the National Law
- the number of elements not met by services receiving a 'Working Towards NQS' rating, which has allowed the Commission to test claims made that many ECEC services are receiving overall Working Towards ratings because they only failed a few elements
- which elements of which NQF standards that services are having difficulty meeting
- the proportion of waiver applications that have been rejected.

However, even with better access to existing administrative data, there are a number of data gaps. For example, further data are needed on children with additional needs (noted by a number of participants — for example, Children with Disability Australia, sub. DR903; C&K, sub. DR757; South Australian Government, sub. DR908; and Speech Pathology Australia, sub. DR713) such as on the number or prevalence of children of different ages with additional needs, the nature of their needs, and what level of service is effective in delivering improvements in the outcomes for these children.

Another major data gap is in the outcomes for children in relation to their ECEC attendance in order to assess such issues as what is the:

- optimal number of hours of preschool for children in the year prior to starting school
- value of preschool for children, and how much benefit this brings relative to a single year of preschool (and relative to the cost of supply)
- long-term literacy and numeracy outcomes for children who have had different preschool experiences

- impact on children's development of different exposures to ECEC by type of service
- effect of changes in mother's workforce participation on their children's school outcomes.

Another major data gap relates to examining the impacts of existing government programs. For example, the South Australian Government noted a paper which it prepared for the national Early Childhood Development Data Sub-Group that found:

> … there is limited evidence available about the Australian context which brings together data on the resource inputs for programs, the rates of uptake and completion of programs for different types of families or children, and the causal impacts of the programs estimated from randomised or quasi-randomised trials. More comprehensive data on the attendance of families across the range of programs delivered by numerous government and non-government providers, linked at an individual level to later outcome measures collected by the health, education and community sectors, would enable the costs and benefits of ECEC program investments to be more effectively evaluated. (sub. DR908, p. 17)

Linking several administrative data sets with each other and with other data can help to answer such questions. In the draft report, the Commission proposed linking the ABS National ECEC Collection to the CCMS, the Australian Early Development Census, and the National Assessment Program – Literacy and Numeracy (NAPLAN) testing results to establish a longitudinal database. Access to, and sharing of, the data should be subject to stringent privacy and data protection requirements. There was strong support for this recommendation. For example, ACECQA noted:

> … improved data linkages … would provide valuable information on child outcomes and facilitate intelligence-driven policy creation, subject to appropriate data protection methods … Such a network of data could inform future longitudinal research on the impacts of the NQF, including the effect of improved educator-to-child ratios and qualification requirements on child outcomes. (sub. DR641, p. 20)

And ARACY said:

> The proposal to link data sets from the Childcare Management System, Australian Early Development Census … and NAPLAN … will lead to invaluable information to track outcomes and impacts from ECEC participation for Australian children across numerous domains of wellbeing and development. This data will aid research into relative impacts of quality and quantity of ECEC, differential needs of different cohorts of children, and long term educational outcomes. (sub. DR794, p. 5)

The Commission's recommendation could build on work already being done by state and territory governments to better link data sets with respect to children noted by some participants (for example, the ACT Government, sub. DR905; Catholic Education Office of WA, sub. DR820; the Tasmanian Government, sub. DR904). The administrative data could also be extended to link to other data such as tax and transfer data, the ABS Census on Population and Housing and other ABS data. This would enable analysis of childcare need and family characteristics at a localised level.

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.

Enabling providers to act on behalf of parents

Some providers advised that they assist parents in navigating the current ECEC system to receive assistance (for example, Bourke and District Children's Services, sub. DR755; Saunders, sub. DR827; and Swallow Street Child Care Association, sub. DR766). For example, Swallow Street Childcare Association (trans., p. 64, Canberra, 18 August 2014) explained how they assisted parents with refugee and CALD backgrounds who were unable to read or write, by providing them with typed up letters to take to Centrelink or other agencies to help them claim the Child Care Benefit or other forms of assistance.

At times, providers find they are involved in 'three-way conversations' with agencies as they are unable to deal with them directly on parents' behalf. Bourke and District Children's Services noted:

> We find that our local Centrelink Office in Bourke gives conflicting advice to parents and we have to direct parents back to Centrelink more than once. (sub. DR755, p. 1)

Swallow Street Child Care Association noted their attempts to address an issue regarding a claim directly with Centrelink 'but because I am not a "client" of Centrelink … I do not achieve any results' (sub. DR766, p. 15).

The Commission's recommended reforms — such as the payment of a single subsidy directly to the provider — will address some of the difficulties and complexities that parents currently face in navigating the ECEC system. This may reduce the need for providers to assist parents.

Even so, some parents will continue to face challenges in making a claim for ECLS or obtaining other support for their children. In this regard, there is merit in providers directly dealing with Centrelink and other agencies on parents' behalf such as to clarify or correct particular aspects of the parents' application for ECLS.

Centrelink currently enables all their clients to authorise third parties to enquire or act on their behalf, but only in particular circumstances or subject to particular conditions.[1] For example, a 'person permitted to enquire' — who may include a partner, friend, family member, professional or an organisation — can make limited enquiries on behalf of the client such as in relation to the current rate of Centrelink payment, and factors affecting payment. A 'correspondence nominee' can enquire on behalf of the client, but also deal in other matters such as making changes to the client's information, completing forms and applications on behalf of the client, and attending appointments with the client or on their behalf.

The Commission considers that in relation to ECLS it would be desirable for Centrelink to:

- make clear on the ECLS claim form that parents are able to authorise third parties such as ECEC providers to enquire and act on their behalf
- examine whether the current form enabling authorisation of third parties is sufficient or needs to change
- clarify that the duration of the authorisation given to providers extends only as long as the parent uses the provider's services.

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.

Establishing a complaints mechanism for parents

Complaints or feedback from families about an ECEC service can provide important insights and lead to improvements in the operation of the service provider. It is generally the responsibility of the provider to deal with complaints in the first instance. However families can also lodge complaints with the relevant state or territory government authority (ACECQA nd).

1 Centrelink, Instructions, Authorising a person or organisation to enquire or act on your behalf, SS313.1402

In Victoria, for example, concerns about an approved ECEC service (or a licensed children's service) must be raised with the service in the first instance (Department of Education and Early Childhood Development (Victoria) 2013). It is the service's responsibility to deal with all complaints in a 'discreet, effective and timely way' and to notify the Victorian Department of Education and Early Childhood Development, if required. If the complaint alleges that a child's health, safety or wellbeing is being 'compromised', or if the relevant legislation has been contravened, the service must notify the Department within 24 hours of the complaint being made. Complaints about these matters can be also made directly to that Department.

However, there may be some matters that the relevant state or territory government agency is not able to address. For example, one such matter raised by a participant may relate to enforcement of the Australian Government's Priority of Access Guidelines.

> … the government requires that … accredited centres meet certain standards and they're through the National Quality Framework, … That's administered by the National Childcare Accreditation Council [now the Australian Children's Education and Care Quality Authority]. The National Childcare Accreditation Council have told me that they don't look after priority of access. That's a DEEWR [now Department of Education] responsibility. Everything that I've looked at says that that's a DEEWR responsibility. But if you've got an issue that you can't get access and you're looking for someone to try and help you get access when the centre refuses to provide you access, there's no-one to actually enforce it. If there's no self-policing of the regulations, there's no external policing of the regulations. (Hansen, trans., p. 97, Melbourne, 18 August 2014)

The Commission's recommendation to remove the Priority of Access Guidelines, once its recommended means and activity test requirements have been introduced (chapter 10), will reduce that source of complaint. However, there may be other matters outside of the purview of existing government agencies — such as those relating to the fees charged by providers or accessing a provider's services — that may benefit from a centralised complaints mechanism. Such a mechanism should complement existing Australian Government and state and territory government complaints mechanisms and involve referrals of the complaint to the appropriate government agency.

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.

Dealing with bad debts

A number of providers expressed concerns about recouping debts from parents. Some suggested that parents with bad debts be flagged or prevented from further accessing childcare assistance where a childcare subsidy has been paid direct to parents. For example, Tweed Heads Kindy Care suggested:

> … if we are continuing in the partially parent funded system — we would like to see a reporting system through CCMS for services to report families who do not pay or contribute to fees, creating a block from Centrelink's end for families when they try and enrol at a new service. This prevents families who have no interest in contributing to fees from accessing child care unless they repay a past debt, reducing the cost of CCB and CCR for those who are known in the industry as "centre hoppers" — "hopping" from centre to centre accumulating bad debts between each one. Bad debts increase running costs for child care centres potentially inflating the cost of fees as well as increasing administrative costs, legal costs if pursued and the worst part is taxpayers via Centrelink are partially funding the fees of those who are not contributing themselves. (sub. DR683, p. 1)

The Commission's recommended that ECEC subsidies are paid direct to providers. This should reduce the extent of any bad debt as noted by some providers such as KU (sub. DR611) and Lady Gowrie Tasmania (sub. DR823). However, paying subsidies direct to providers will not eliminate bad debts entirely.

Even though paying subsidies direct to providers will not eliminate bad debts entirely, the Commission considers that governments have no role in assisting providers in debt recovery.

- Bad debts are a risk faced by any business and are not a problem unique to ECEC providers. Various market-based solutions are available to address the risk of bad debts. Some ECEC providers already require a bond from parents prior to their enrolling their children in the service, require prepayment, have a direct debt facility, or implement payment/invoice message systems. Indeed, MGM Wireless drew attention to SMS and other forms of messaging systems that can automatically contact parents with overdue fees (sub. DR654), which reportedly have achieved success.
- There is nothing to stop industry associations and other provider networks from providing advice to providers about measures to reduce bad debt from parents.
- Government action to enable providers to report parents with bad debts over the CCMS (introducing a 'red flag') and providing this information to other providers would need to address whether the providers' claim of bad debt is genuine and whether privacy laws would be breached.

17.7 A pathway to implementation

The Commission's recommended reforms involve some changes that need to be undertaken before other changes can be made. Other recommendations will not require such consideration, but the timing of their implementation may still be important, particularly in view of the pending reviews covered in box 17.2. Appropriate sequencing of changes can reduce disruption to families and providers and ensure ECEC remains accessible and affordable during the transition period.

Figure 17.1 sets out a possible pathway for the implementation of the Commission's recommended reforms consisting of three tranches of changes. The tranches may be seen as time-dependent — the first tranche needing to be implemented before the second, and the second tranche being implemented before the third.

Some changes that the Australian Government could do relatively quickly include increasing funding for the ISP, removing OSHC child reporting, removing the occasional child care cap, removing the employer-provided Fringe Benefits Taxation (FBT) concession (as retaining it may undermine the intent of other recommended reforms to ECEC funding arrangements), and moving Home Interaction Program for Parents and Youngsters (HIPPY) to a non-ECEC funding source.

Figure 17.1 **A pathway to implementing the Commission's recommended reforms**

Tranche 1 changes

Mainstream services funding – ECLS
- Design and develop underlying systems (eg CCMS and payment system) for introduction of ECLS.
- Start collecting annual family income information from all CCB and CCR recipients and update current activity status for introduction of ECLS.
- Start collecting information from providers to develop a benchmark price for introduction of ECLS.

Mainstream services funding – other
- Transition registered carers to no assistance, or to meet NQF requirements and obtain CCB.
- Stop exemptions for providers to CCB criteria.
- Determine criteria for assessing 'at risk' children to receive ECLS.
- Trial processes on how to engage with states/territories on 'at risk' children.
- Identify and transition financial hardship cases off SCCB.
- Identify Parenting Payment recipients who could be exempt from the means and activity tests.
- Determine criteria to identify services eligible for the Viability Assistance Program.

Non-mainstream services funding
- Determine criteria for eligibility for CELP.
- Determine non-ECEC BBF service and move to non-ECEC funding source.
- Move HIPPY to non-ECEC funding source.
- Assess long-term viability of CSP recipients and transition as many as possible off CSP funding.
- Determine dollar amounts for integration glue for those with ECEC focus and transition non-ECEC aspects to non-ECEC funding source.
- Determine eligibility criteria for ISP.
- Expand ISP hours to be funded and increase ISS funding of the hourly wage to certificate 3.
- Remove FBT exemptions for employer-provided care and not-for profit childcare employees.
- Start negotiations with the states and territories about preschool funding.
- Start collecting data relevant to preschool funding including on number of eligible children for preschool, where they receive a preschool program (eg in LDC or dedicated preschool).

NQF/NQS
- Remove OSHC child reporting.
- Count LDC teachers based on children aged 36 months and over
- Introduce minimum requirements of certificate 3 with diploma supervisor for children under 36 months.
- Develop tailored requirements for BBF, OCC, home-based care, and registered care provider services.
- Identify NQS elements and standards that should be removed or revised.
- Identify ways to increase the pace of assessments.

Other
- Start addressing state/territory/local government regulatory overlaps (eg food, zoning).
- Simplify working holiday visa requirements for au pairs.
- Introduce closer monitoring of registered training organisations by Australian Skills Quality Authority.
- Start addressing removal of tax concessions to not for profit providers.
- Link attendance to a preschool program with FTB Part A.

Tranche 2 changes

Mainstream services funding - ECLS
- Introduce ECLS (including means and activity test requirements, benchmark price measures, upgraded systems) for all services that satisfy NQF/NQS.
- Remove priority access guidelines.

Mainstream services funding – other
- Introduce Viability Assistance Program.

Non-mainstream services funding
- Introduce CELP, including grants for new services with business plans to move to main stream funding (ECLS).
- Implement new preschool funding arrangement through a Special Purpose Payment.

NQF/NQS
- Apply tailored requirements to BBF, OCC, home-based care and registered care providers.
- Implement compliance system for nannies.
- Define minimum staff qualifications for OSHC.
- Align or adjust other ratios and qualifications as recommended.

Tranche 3 changes

Mainstream services funding - ECLS
- Expand services eligible for ECLS to include more home-based care options (eg nannies).

Mainstream services funding – other
- Complete transition of services receiving CELP to mainstream funding (ECLS).

Non-mainstream services funding
- Cease Special Purpose Payment for preschool funding and move funding source to general revenue transfer arrangements (eg GST-based).

17.8 Evaluating changes in the ECEC system

Good practice policy requires ex-post as well as ex-ante evaluation. As ARACY noted '[a] continual process of evaluation and impact measurement is a key aspect of effective policy development' (sub. DR794, p. 4). The South Australian Government also noted that 'economic evaluation will become increasingly important to determine the allocation of limited resources to the early childhood sector and between programs within the sector' (sub. DR 908, p. 17).

Some of the Commission's recommendations in this report are substantial and the outcomes are not guaranteed. The areas where there is the greatest uncertainty should be targeted for review to ensure that they are working as envisaged. The most important are:

- streamlining applications for support and upgrading the CCMS and payment system — which, along with simpler funding formulas, should see families and providers finding the system easier to navigate and understand what support they are eligible for
- targeting assistance to lower income families — which should see a higher workforce participation response in these families
- allowing flexibility in the operating hours and the scope for home-based care to be eligible for subsidies — which should see a greater diversity in service offerings that better meet the needs of the families
- applying a benchmark price — which should see slower growth in ECEC fees (as extra costs will not be subsidised)
- transitioning block funded programs to mainstream funding — which should provide greater stability of funding for ECEC services for Indigenous children
- prioritising support to providers to build capabilities and establish new services for children in highly disadvantaged communities (and that the services then transition to mainstream funding) — which should see more innovative approaches to providing ECEC services that can still satisfy the NQF and deliver better value for the taxpayer
- introducing the discipline of the 3 in 7 years support rule for rural and remote providers — which along with allowing greater flexibility should see services move to more sustainable models of ECEC service delivery
- changing NQF requirements — which should reduce costs for providers and maintain child development outcomes
- increasing and implementing other changes in inclusion support funding.

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.

An ex-post review should meet certain characteristics — in particular, that it:

- is built into legislation
- is undertaken by an independent and credible body or person
- involves effective public consultation
- takes account of the findings of parallel reviews where relevant, including those noted in box 17.2
- publishes its outcomes.

A Inquiry conduct and participants

The Commission received the terms of reference for this inquiry on 22 November 2013. It subsequently advertised the inquiry via circular and in national newspapers and released an Issues Paper on 5 December 2013. A draft report was released on 22 July 2014.

A total of 908 public submissions were received throughout this inquiry and placed on the Commission's inquiry website (464 prior to the draft report and 444 following the draft report). A list of all public submissions is in table A1. The Commission also provided a facility on the inquiry website for interested stakeholders to lodge a short email comment. A total of 1173 comments were received. A summary of the range of stakeholders who made a comment is provided in table A.2.

Throughout the inquiry, the Commission undertook informal consultations with stakeholders, including childcare providers, parents, early childhood sector representative organisations and groups, academics and government agencies. Public hearings were held after the release of the draft report in Perth, Port Macquarie, Sydney, Melbourne and Canberra, with phone participants included in Canberra. Four roundtables to canvas and discuss alternative views on specific selected topics were also convened throughout the inquiry. Tables A.3, A.4 and A.5 list these participants.

This final report for the inquiry was provided to the Australian Government on 31 October 2014.

Table A.1 **Public submission received**

Participants	*Submission no.*
A collective group of Family Day Care Co-ordinators	DR614
A Head Start Children's Centre and Child Essential Learning Systems	44
Aberfoyle Hub Community Children's Centre	373
Abouelwafa, Ola	DR571
ACT Education and Training Directorate	376
ACT Government	905
Adamson, Elizabeth and Deborah Brennan, Social Policy Research Centre (UNSW)	404
AEIOU Foundation	DR770
AGJ Business Pty Ltd	55, DR557
AJ Nannies and Services	459
Akers, Natalie	460
Albury & District Community Preschools Network	DR642
AlburyCity Out of School Hours Care Services	DR746
Aleckson, Carolien	DR797
Alice Sprigs Steiner School	452
Alliance of NSW Parents and Citizens District Councils	124
Alstonville Community Preschool	DR724
Amaroo Early Childhood Centre	239
AMAZE Education	DR873
AMES	62
Anderson, Kylie	DR841
Anglicare NSW, NSW West & ACT	DR819
Annie Dennis Children's Centre	92
Antipodean Family Foundation	47, DR582
Antony, Jared	DR625
ANZ Banking Group	125
Apps, Peter	414
Ariah Park Preschool	349
Arnold, Leonie	DR573
Arrarte, Giovana	269
Arthur, Fairlie	DR637
Ashton, Neil	442
Association for Children with Disability Tas	187
Association of Independent Schools (SA)	294
Association of Independent Schools (WA)	DR572
Association of Neighbourhood Houses and Learning Centres	428
Association of Parents & Friends of ACT Schools	413
Athanassiou, Katerina	DR584
Attard, Daniel	DR618
Au Pair Assist	153, DR670
AuPairWorld	446
Austim Queensland	DR504

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Table A.1 **(continued)**

Participants	*Submission no.*
Austin, Karen	DR477
Australia Children’s Education and Care Quality Authority	DR641
Australian Advisory Board on Autism Spectrum Disorders	182
Australian Association for Infant Mental Health	352
Australian Bureau of Statistics	360
Australian Catholic University	163, DR787
Australian Chamber of Commerce and Industry	324
Australian Childcare Alliance	310, DR823
Australian Children’s Education and Care Quality Authority	260
Australian College of Educators	78, DR703
Australian Community Children’s Services	DR567
Australian Community Children’s Services	183
Australian Community Children’s Services (NSW)	DR674
Australian Community Children’s Services (NSW)	161
Australian Community Children’s Services (SA)	DR516
Australian Council of Social Service	332, DR882
Australian Council of State School Organisation	DR883
Australian Council of Trade Unions	167
Australian Education Union	374, DR696
Australian Family Association	448
Australian Federation of Employers and Industries	338
Australian Federation of Graduate Women	417
Australian Human Rights Commission	455
Australian Industry Group	295, DR732
Australian Institute for Teaching and School Leadership	195
Australian Institute of Family Studies	391
Australian Institute of Health and Welfare	323
Australian Library and Information Association	235
Australian Literacy and Numeracy Foundation	423
Australian Local Government Association	318
Australian Nanny Association	254, DR741
Australian Primary Principals Association	DR685
Australian Primary Principals Association	438
Australian Research Alliance for Children and Youth	168, DR794
Australian Services Union	283, DR776
Australian Women Chamber of Commerce and Industry	336
Awesome Mother’s Association	303
Bankstown Family Day Care Co-op	150
Barber, Alison	DR716
Barca, Fiona	DR653
Barnardos Australia	DR617
Batten, Bronwyn	63

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Table A.1 **(continued)**

Participants	*Submission no.*
Baya Gawiy Bug yani Jandu yani u Centre	DR705
Beard, Judith and Michael	DR472
Bega Valley Shire Council	159, DR715
Berg, Dr Laurie	315
Berkeley Vale Pre-School Kindergarten Inc.	DR562
Berri Regional Child Care Centre	263, DR722
Berry Street	DR781
Bestchance Child Family Care	DR677
Billabong Childcare Centre	28
Blandine Vallee & Rhys Hughes	DR611
Blue River Family Day Care	228
Blue Skies Childcare Centre	53
Boroondara Preschool	DR605
Boston, Natalie	DR563
Bottleforest Long Day Care Centre	DR542
Boudrie, Michelle	DR779
Boundary land Children’s Centre	DR826
Bourke & District Children’s Services	DR755
Bowd, Jane	458
Boyd, Wendy	DR845
Bozala, Sarah	DR583
Brady, Dr Michelle and Dr Francisco Perales	309
Braidwood Preschool Association	288
Bray, Graham	378
Brent Airey on behalf of parents at Kedron Goodstart Early Learning	394
Brindabella Christian Education Limited trading as Brindabella Christian College	362
Brisbane Family Day Care	175
Brisbane South Family Day care	236
Brotherhood of St Laurence	208, DR879
Brown, Sophie	DR483
Bryon Bay Preschool	DR767
Bubup Womindjeka Family Childrens Centre	DR768
Bundaberg YMCA Child Care Services	211
Burgess, Carol A	229
Burrell, Paul	DR499
Business and Professional Women Australia	85
Business Council of Australia	21
Business Council of Co-operatives and Mutuals	77
BusinessSA	388
Butcher, Alison	138
Butler MP, Terri	278, DR761
Caboolture Montessori School	72

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Table A.1 **(continued)**

Participants	*Submission no.*
Cairns & District Child Care Development Association	67, DR523
Callala Bay Preschool	DR668
Canning Vale Prekindy	98
Capricornia Family Day Care and In Home Care	152, DR643
Care for Kindies Kindergarten	248
CareforKids.com.au	49
Carers NSW	DR813
CareWest Ltd	246, DR814
CareWest WA	93, DR543
Carroll, Ebony-Jane	22
Castlemaine Childcare Cooperative	113, DR665
Catholic Education Commission	DR720
Catholic Education Commission (Qld)	364
Catholic Education Office of Western Australia	99, DR820
Catholic Education, Diocese of Parramatta	DR753
Centre for Community Child Health	308, DR701
Centre for Early Childhood Research, School of Education, Edith Cowan University	DR850
Centre for Market Design	375
Centre Support	268
Chalmers, Natalie	1
Chamber of Commerce and Industry Queensland	245, DR870
Chapman, Natalie	DR591
Charlton Brown	402, DR546
Cheeseman, Sandra and Sheila Degotard	217, DR672
Cheetham, Amanda	214
Chesterman, Justine	DR558
Chief Executive Women	464
Child & Family Welfare Association of Australia	199
Child and Family Services Wyong Shire	DR795
Child Australia	230, DR806
Child Care (NSW)	333
Child Care Association of Western Australia	299
Child Care National Association	325, DR853
Child Care on Wheels Service	381
Child Wise	194
Children & Young People Commissioner – ACT Human Rights Commissioner	DR694
Children & Youth Services, Department of Health & Human Services, Tasmania	410
Children First Learning Centres	104
Children with Disability Australia	424
Children’s Activities Network (Qld)	DR760
Children’s Educators ACT	210
Children’s Ground	462

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Participants	*Submission no.*
Children's Protection Society	247
Children's Services Alliance (Qld)	280
Churches of Christ Care	203, DR574
City of Boroondara	216
City of Campbelltown	220
City of Darwin	342
City of Sydney	196, DR876
City of Yarra	DR764
Clarendon Children's Centre Cooperation	188, DR527
Clarke, Amanda	34
Clarke, Jennifer	368
Cleveland, Dr Gordon	234
Clovel Childcare & Early Learning Centres	454
Clubs Australia	DR555
Coleman, Katrina	136
Collaroy Plateau Community Kindergarten Inc	DR482
Collins, Michelle	69
Commissioner for Children and Young People Victoria	449
Commissioner for Children and Young People Western Australia	DR519
Commonwealth Department of Education	147
Communicare	264
Communities@Work	162, DR830
Community Child Care Association (VIC)	386, DR803
Community Child Care Co-operative (NSW)	173, DR825
Community Children's Centres (SA)	DR501
Community Connections Solutions Australia	305, DR805
Community Council for Australia	DR721
Connect4Care Pty Ltd	DR505
Consult Australia	24
Contact Incorporated	206
Cooks Hill Preschool	DR723
Cooney, Ruth	DR798
Corbould, Clare	DR634
Council of the Ageing	412
Country Children's Early Learning	270
Cox, Eva	189, DR698
Creasey, Julie	DR657
Crescent Head Community Preschool	DR772
Cropley, Jennifer	DR607
Culburra Beach Pre School	DR495
Cultural Au Pair Association of Australia	238, DR728
d'Arcy, Craig	DR632

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Participants	*Submission no.*
Dalgleish, Helen	56, DR533
das Neves, Cindy	42
Davern, Debbie	DR493
Davis, Gayle	106
Davis, Paul	DR647
Daycare Decisions	91
De Santis, David	11
Deakin University	DR786
Deborah Brennan & Elizabeth Adamson, Social Policy Research Centre (UNSW)	420
Del Piano, Olivia	35
Demortain, Marie	23
Dent, Maggie	3
Department of Premier and Cabinet, Tasmania	390
Devendra, Dolasia	DR675
Devitt, Rebecca	223
Dial-an-Angel	135, DR640
Diversity Council Australia	356, DR802
Dixon, Lisa	DR586
Dore, Martin	463
Doutney, Cr Irene	DR510
Doyle, Kay	252, DR822
Driscoll, Coralie	133
Duffy, Lorraine	52
Duncan, Connie	DR569
Dwyer, Paul	DR541
Early Childhood Australia	383, DR906
Early Childhood Australia – New England branch	DR788
Early Childhood Australia North Coast (NSW)	363
Early Childhood Intervention Australia	282, DR717
Early Childhood Management Services	190, DR849
Early Childhood Quality Consultants	141
Early Childhood Sustainability Network (Qld)	DR809
Early Childhood Teachers' Association	192
Early Learning and Care Council of Australia	DR897
Early Learning Association Australia	271, DR690
Early Learning Coalition	DR799
East Brunswick Kindergarten and Childcare Centre	314
East Melbourne Child Care Co-operative	DR756
East West Childcare	DR497
East West Childcare Association	DR867
Eastern Region Preschool Field Officer Group	96
Eccleston, Carolyn	122

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Participants	*Submission no.*
Edwards, Ryan	DR759
Eiszele, Justine	DR637
Elhayek, Kim	DR815
Elliott, Professor Alison	401
Elliott-Hall, Giulia	265
Ellis MP, The Hon Kate	145
Ellis, Carmel	DR796
Elwoods Children’s Centre	DR673
Emmanuel, Marie	276
Endeavour Family Day Care	221
Endeavour Forum	433
Enhance Management & Leadership	257
Eskay Kids	DR676
Ethnic Child Care, Family and Community Services Co-operative	DR773
Eureka Community Kindergarten Association (ECKA)	DR548
Evans Head Preschool Assoc.	DR530
Exeter Child Care Centre	DR603
Explore & Develop Lilyfield	DR790
Explore and Develop Wamberal	80, DR686
Explore and Development	DR528
Extend (Australia)	DR644
EYLF Apps	82
Fairfield City Council	361
Family Day Care (Qld)	165
Family Day Care (WA)	39
Family Day Care Australia	301, DR655
Family Day Care Educators Association NSW.	DR680
FamilyVoice Australia	191, DR894
Faulkner, Jessica	DR610
Fench, Dr Marianne	DR712
Fields, Chloe	DR604
Filmer, Ken	134
Finance Sector Union of Australia	174, DR689
Flinders University Childcare Centre	359
Forrest Early Learning Centre	322
Forster, Tracey	DR590
Forwin Childcare Investments	140
Frankston City Council	286, DR852
French-Australian Preschool	444, DR534
Friends of Sole Parents	DR851
FROBEL Australia	275
Fuller, Leanne	DR758

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Participants	*Submission no.*
Gaia’s Nest Early Childhood Education and Care	382
Galbiri Child Care and Preschool Centre Incorporated	129
Gambley, Melinda	DR656
Gate 121	377
Gelding, Kathy	DR515
Geraghty, Lisa	154
Gigney, Anne	379
Glenhaven Private Preschool	158
Gomez, Jay	DR473
Good Beginnings Australia	340
Goodstart Early Learning	395, DR875
Goodstart Ringwood	2
Gowrie (NSW)	306
Gowrie (SA)	87, DR552
Gowrie Australia	311, DR554
Graham, Sharon	DR885
Grattan Institute	445
Great South Coast Early Years Networks	DR774
Greater Hume Children Services	176
Griffith Child Care Centre	DR592
Griffith, Annabel	304
Grow ‘n Learn	4
Guardian Early Learning Group	274, DR837
Guest, Teena	DR525
Guilfoyle, Shona	DR471
Hack, Karen	103
Haeusler, Janine	DR682
Hamilton Smith, Elisha	36
Hamilton, Rebecca	DR862
Hammond, Danielle	DR506
Hansen, Kerrie	DR691
Hanson, Cate	81
Happy Hubbub	457
Haratsis, David	DR524
Harden, Denise	105
Harvey, Jane	DR568
Harvey, Rachel	8
Hawker Primary School	DR489
Hay, Laura	DR532
Hayes, Rebecca	DR565
He, Daisy	DR589
Health and Community Workforce Council (Qld)	422, DR754

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Participants	*Submission no.*
Helen Thomasson	DR579
Henderson, Annette	73
Henderson, Clare	DR616
Hewitson, Kathi	DR738
Higgins, Julie	DR650
Hill, Claire	31
Hinchinbrook Family Day Care	116
Hobson’s Bay Family Day Care	DR488
Hobsons Bay City Council	DR777
Holt, Amanda	237, DR711
Horner, Kim	12
Houston, Nicholas	30
Howard, Misty	330
Huckel, Kathryn	70
Hunter Institute of Mental Health – Child, Youth and Wellbeing Program	DR832
Huntly Kindergarten	102
Hutchinson, Ngaire	213
Hutchison, Kelly	112
Illawarra Area Child Care	160, DR733
Inala Community House	212
Inclusion Network (Qld)	DR620
Inclusive Directions	142
Independent Education Union of Australia	88, DR791
Independent Schools (Qld)	297, DR793
Independent Schools (Vic)	302
Independent Schools Council of Australia	DR736
Indigenous Education Consultative Committee (Qld)	DR890
Indonesia Institute	219
Informing You	157
Institute of Chartered Accountants in Australia	369
Institute of Child Protection Studies, Australian Catholic University	440
Institute of Early Childhood, Macquarie University	226, DR700
Ipswich Central Childcare & Preschool	170
Ipswich Family Day Care	222, DR804
Isis Family Day Care	41
Isolated Children’s Parents Association of Australia	120, DR886
Isolated Children’s Parents’ Association (NSW)	139
Isolated Children’s Parents’ Association (Qld)	DR549
J.J. McMahon Memorial Kindergarten	115
Jacobsen, Marie	DR587
Jarvie, Dr Wendy and Dr Trish Mercer	249, DR782
Jensen Early Learning Centre	250

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Participants	*Submission no.*
Jensen, Barbara	DR521
Jensen, Lars	DR518
Jensen, Renee	DR485
Jolly Frog Private Kindergarten	354
Jones, Dawn	7
Jones, Kate	DR648
Jones, Martina	DR750
Jones, Melissa	335
Jowett, Jacinta	13
Kambaskovic, Danijela	DR511
Katoomba Children's Cottage	DR602
KCL Family Day Care	398
Keenan, Marita	443
Keiraville Community Preschool	DR629
Kempsey Family Day Care	27
Kinda Kapers	273
King, Tanya	DR503
Kirwan Uniting Church Child Care Centre	66
Koala Lou Childcare centre	204
Kookaburra Kindergarten	201
Koutsandrea, Georgia	DR508
Kreis, Angela	DR633
KU Children's Services	384, DR739
Kuch, Allison	90
Kumnick,Amanda	DR537
Kurri Kurri & District Pre-School Kindergarten	169
Lady Gowrie (TAS)	355, DR544
Lake Macquarie Family Day Care	184
Lancastere, Tania	DR596
Launceston Family Day Care	DR751
Lavis, Raquel	DR500
Law Institute Victoria and Victorian Bar	DR898
Law, Justin	DR484
Lawton, Richard	DR492
Lee, Kate	DR531
Leete, Danielle	DR627
Leeton Shire Council	358
Lenn, Richard	215
Lennon, Rose	128
Leong, Lilian	DR601
Lethov Michelle	DR498
Leung, Annie	DR859

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Participants	*Submission no.*
Leung, Noel	202
Lil’ Antz Pty Ltd	DR487
Lineage, Margaret and Bob	64
Linke, Caroline	32
Little Explorers Child Care Centre	DR494
Lloyd, Amber	DR561
Local Government Children’s Reference Group	240, DR858
Locke, Tiziana	DR576
Louise McBride, Sophie Grace Pty Ltd and Sophie Grace Legal	431
Lowe, Shari	DR507
Lowe, Sue	DR538
Ludlow, Robert	14
Ludwig, Calum	DR536
Macquarie University Institute of Early Childhood Advisory Board	227
Magill Campus & Community Children’s Centre	DR792
Mainstream Party	60
Maitland Baptist Church	DR480
Mallee Track Health and Community Service	100
Mallett, Glen	224
Malzard, Leah	DR595
Margaret Cribb Child Care Centre	244
Marmora, Meegan	172
Marrickville Council	261
Martin, Tarriann	DR838
Matulovich-Medo, Jenny	351
McCann AM, H. Kevin	DR861
McFarlane, James	155
McGrath, Fiona	DR570
McHenry, Stephenie	DR628
McLeish, Anna	DR580
McLeod, Shannon	19
McMillan Shakespeare Group	439, DR687
McSporran, Virginia	DR581
Medley, Lucy	10
Melbourne Graduate School of Education, University of Melbourne	DR865
Mellor, Elizabeth	DR566
Melton City Council	DR812
Merindah Children’s Centre	370
Merredin And Districts Childcare And Play School	451
MGM Wireless	DR654
Mia Mia Child and Family Study Centre, Macquarie University	DR842
Middleton, Michele	DR818

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Participants	*Submission no.*
Miedecke, Catherine	DR474
Mieszkowski, Romani	DR535
Migration Alliance	426
Mikakos, Jenny (MP)	DR844
Miller, Jeanette	5
Minderoo Foundation	DR907
Minister’s Education and Care Advisory Council-Tasmania	290
Mira-Bateman, Bindi	6
Mission Australia	164, DR877
Mitchell, Marie-Brigitte	DR706
Mobile Children’s Services Association of NSW	406, DR748
Monash City Council	75
Monash Community Family Co-operative	DR651, DR895
Moncrieff, Amber	57
Montessori Australia Foundation	357, DR729
Moody, Kimberley	DR490
Morath, Celeste	DR702
Moreland City Council	DR810
Moriarty, A.	339
Mullins, Ian and Dianne	26
Multitask Family Day Care	441
Municipal Association of Victoria	343, DR778
Murray, Dr Jill	DR834
Murray, Rebecca	DR514
Name Withheld	18
Name Withheld	37
Name Withheld	48
Name Withheld	50
Name Withheld	58
Name Withheld	107
Name Withheld	108
Name Withheld	117
Name Withheld	118
Name withheld	132
Name withheld	209
Name withheld	292
Name withheld	131
Name withheld	345
Name withheld	346
Name withheld	396
Name withheld	397
Name withheld	399

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Participants	*Submission no.*
Name withheld	434
Name withheld	447
Name withheld	453
Name withheld	DR486
Name withheld	DR612
Name withheld	DR699
Name withheld	DR743
Name withheld	DR854
Name withheld	DR866
Name Withheld	DR884
National Association of Mobile Services	DR902
National Disability Services	296, DR848
National Early Childhood Education for Sustainability Alliance	DR789
National Foundation for Australian Women	59, DR606
National In Home Child Care	365
National In Home Child Care Association	DR600
National Inclusion Support Agency Alliance	298, DR745
National Inclusion Support Subsidy Provider	385, DR740
National Out of School Hours Services Association (NOSHSA)	371, DR889
Natural Choice Nannies	DR513
Nelson, Diana	258
Network of Community Activities	372, DR892
Network SA Resource, Advisory & Management Services Inc	DR874
New South Wales Government	435
Night Nannies Australia	126
Noah’s Ark	344, DR726
Nolan, Andrea	241
Noranda Child Care Centre	DR517
North Fitzroy Child Care Co-operative	DR707
Northern Area Community and Youth Services	348
Northern Children’s Network	101
Northern Rivers Preschool Alliance	DR714
Northern Sydney Council of P&Cs Association	144
Northern Tasmania Early Years Group	DR619
Northern Territory Government	461
Northside Community Services	DR881
Novita Children’s Services	185, DR624
NSW Bar Association	DR891
NSW Children’s Services Forum	33, DR749
NSW Family Day Care Association .	253, DR597
NSW Far North Coast Early Childhood Educators	DR828

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Participants	*Submission no.*
O’Brien, Emma	DR479
O’Hara, Jennifer Anne	68
O’Reilly, Kristen	DR550
Occasional Child Care Australia	200, DR693
Oceanview College Children’s Centre	353
Office of the NSW Small Business Commissioner	DR666
Olle, Nina	178
Only About Children	393
OSHC (ACT)	DR880
OSHC (SA)	243
OSHC Educators	DR662
Parenting Research Centre	427, DR667
Parents of Deaf Children	328
Park, Jane	148
Parkdale Preschool Association	DR878
Parr, Professor Nick	400
Pascal, Charles	83
Patterson, Candice	DR649
Pennant Hills War Memorial Children's Centre Association	9
Penrith City Council	403, DR599
Phoenix Children’s Services	DR807
Phoenix Children’s Services – Flagstaff Gully	DR556
Pitt-Owen, Rod	127
Placement Solutions	45
Platinum Pre School	97
Play ‘n Learn (WA)	232, DR864
Playground Inspection Protection	293
Playgroup Australia	255
Police Federation of Australia	94, DR737
Polman, Robert	DR522
Poole, Elisabeth	DR671
PORSE In-Home Childcare & Educator Training (NZ)	421, DR747
Port Stephens Council	DR816
Possums Playcentre	DR843
Powell, Judy	242
Praborini, Daniela	DR559
Pratt, Shellie	DR470
Precious Momentz Pty Ltd	DR476
Preschool Directors Association (SA)	DR780
Preschool Teachers Association (NT)	DR645
Press, Viki	119
PriceWaterhouseCoopers	193, DR684

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Participants	*Submission no.*
Primary OSHCare	266
Professional Support Co-ordinator Alliance	231, DR887
Puddleducks Play to Learn	267
Queanbeyan City Council	DR661
Queensland Children’s Activities Network	198
Queensland Children’s Services Alliance	DR871
Queensland Council of Social Service	186, DR659
Queensland Department of Education, Training and Employment	405
Queensland Government	DR893
Queensland Inclusion Network (inclusion Support Agencies)	95
Queensland Indigenous Education Consultative Committee	320
Queensland Nurses’ Union	65
Queensland Parents for People with a Disability	207
Queensland TAFE	DR688
Quinlan, Nathan	137
Quirindi Preschool Kindergarten	DR765
Randwick City Council	289, 456
Regional and Remote Aboriginal Children and Services Support Unit	DR846
Regional Development Australia Wheatbelt	259, DR831
Remote & Isolated Children’s Exercise	51
Response Ability	300
Richmond Tweed Inclusion Support Agency	DR762
Riverstone Childrens Centre	DR575
Robinson, Carla	DR636
Rogan Family Care	380
Rosny Child Care Centre	307, DR669
Royal Adelaide Hospital Community Children’s Centre	350
Rundle, Thomas	17
Russell, Kathryn	DR626
Samaritans Early Learning Centre	DR731
Samaritans Foundations SCAN Project	DR623
Sarah White	DR869
Saunders, Barbara	DR827
Saunders, Lyn	DR719
Savage, Alan	16
Save the Children Australia	DR896
Schneider, Bev	179
School of Early Childhood (QUT)	284, DR613
School of Education, Flinders University	287
School of Education, University of Newcastle	DR695
School of Education, University of South Australia	DR526
School’s Out Outside School Hours Care	317

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Participants	*Submission no.*
Scott, Linda	180
Scully, Amanda	DR888
SDN Children’s Services	205, DR808
Sebire, Jennifer	DR594
Secretariat of National Aboriginal and Islander Child Care	411, DR855
Seth-Purdie, Robyn	279
Settlement Services International	DR639
Shannon, Robin	46
Sharaf Family Care	DR863
Shenton, John	25
Sheriff, Nardia	DR704
Shire Of Brookton	DR545
Shirley, Michael	DR663
Shop Distributive and Allied Employees’ Association	74
Sims, Margaret	DR710
Smith, Kylie	DR551
Snugglepot Day Care Centre	29
Social Policy Research, University of NSW	DR811
Social Ventures Australia	392
Somers Primary School	DR769
Sonter, Tony	149
Sorensen, Fiona	DR491
South Australian Education and Early Childhood Services Registration and Standards Board	408
South Australian Government	DR908
South Burnett Family Day Care	143
South Coast Baptist College School of Early Learning Childcare	114
South Melbourne Child Care Co-operative	DR771
South, Amanda	171
Southern Cross University	177
Speech Pathology Australia	DR713
Springvale Service for Children	DR660
St Joseph Family Services	DR836
St Leonards Primary School Out of School Hours Care	110
StaR Inclusive Early Childhood Association	DR868
Stewart Child Care Services	DR622
Stock, Petra	415
Strahan, Renee	40
Stuart, Trisha	DR520
Su, Owen	151
Sunshine Coast Children’s Professional Conversation Network	DR857
Sutherland Shire Council Children’s Services	DR708
Sutherland, Katie	DR697

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Participants	*Submission no.*
Swallow Street Child Care Association	DR766
Swinn, Louise	DR560
Syndromes without a name	DR847
Synergies Economic Consulting (on behalf of AEIOU Foundation for Children with Autism)	425
Tabourie Childcare Centre	DR679
Tan, Elizabeth	54
Tarpey, Deborah	43
Taylor, Collette	DR496
The Association of Heads of Independent Schools of Australia	430
The Australia Institute	316
The Australian Work and Family Policy Roundtable	DR744
The Benevolent Society	86, DR775
The Child and Families Research Centre, Macquarie University	DR725
The Children of Gowrie (SA)	DR709
The Council of the Care of Children	429
The Crèche & Kindergarten Association Ltd	272, DR757
The Faculty of Education, University of Tasmania	DR615
The Gowrie (QLD)	DR860
The Northern Institute	79
The Parenthood	407, DR763
The Playgroup Association of Queensland	262
The Queen Elizabeth Community Childcare Centre	20
The Smith Family	331
The Tax Institute	166
Theresa Blizzard	DR539
Three Springs Childcare	15
Toman, Maria	DR564
Toms, Pam	DR783
Total Childcare Solutions Australia	DR718
Toth, Julie	312
Townsville and Regions Family Day Care	76
Toxteth Kindergarten	156
Trippe, Kathryn	123
Tropical North Family Day Care	251
Tweed Heads Kindy Care	DR683
Unions NSW	329, DR839
United Sole Parents of Australia	321
United Voice	319, DR824
UnitingCare Australia	387, DR872
UnitingCare Children’s Services	326
UnitingCare Gippsland	225, DR856
UnitingCare Victoria and Tasmania	409, DR664

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Table A.1 **(continued)**

Participants	*Submission no.*
University of Notre Dame Australia	84
University of Sydney, Business School Women and Work Research	DR800
University of Wollongong	367, DR553
UNSW Australia Early Years	DR840, DR900
Uren, Nyssa	DR540
UTS Child Care	DR593
Vaasan, Suba	DR547
Valla Community Preschool	DR635
van Ree, Nadine	DR609
van Ruitenburg-Lim, Anna	DR630
Victor, Tracey	181
Victorian Aboriginal Education Association Incorporated	DR785
Victorian Children’s Council	437, DR784
Victorian Council of Social Service	341, DR646
Victorian Government	418, DR899
Victorian Inclusion Support Agency Managers	DR821
Victorian Inclusion Support Managers Network	109
Victorian Principals Association	218
Viknarasah, Karthika	DR578
WA Aboriginal & Training Council	DR658
WA Community Services, Health and Education Training Council	277
Wakeman, Meredith	DR588
Wallsend Community Preschool	DR730
Wanslea Early Learning and Development	281
Wanslea Family Services	DR678
Warawyn Early Learning	61
Ward, Daniella	146
Ward, Jacqui	197, DR801
Wardle, Julie	DR608
Wareing, Michaela	DR509
Wark, Ian	DR475
Warren, Sadhbh	DR478
Warwick and District Family Day Care	285
Wayland, Margaret	DR585
Webb, Jane	366
Webb, Jane	121
Weisbecker, Vera	DR512
Wells, Shane	DR481
Western Australian Council of Social Services	256, DR835
Western Australian Government	416
Western Australian Local Government Association	313, DR735
Westmeadows Primary School OSHC	DR833

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Table A.1 **(continued)**

Participants	*Submission no.*
Westpac Group	327
Wheelers Hill Primary School OSHC	DR817
White, Carol	71
Wilson, Amanda	DR529
Wilston Kids Care	DR742
Woden Community Service	111
Wodonga City Council	DR692
Women's Electoral Lobby Australia	334
Wongan Cubbyhouse Inc	DR734
Woon, Darren	38
Work + Family Policy Roundtable	347, 450
Workplace Gender Equality Agency	89, DR829
World Vision Australia	130
Wynnum Family Day Cagwynre	233
Wynnum Family Day Care	DR598
Yarra City Council	436
Yeates, Carla	432
Yeomans, Anella	DR631
YMCA Australia	337, DR901
YMCA Brisbane	DR727
YMCA Canberra	389
Young, John	DR469
YWCA Australia	DR752
Zaracostas, Krista	DR502

Table A.2 **Emailed comments received (as at 5 September 2014)**

Type of respondent	*Number of public comments*
Workers in education and care services	244
Users of education and care services	721
Both worker and user of education and care services	124
Neither worker nor user of education and care services	84
Total	1173

Table A.3 **Consultations**

Participants
ACT Department of Education and Training
ACT Government, Community Services Directorate, Review of Children’s Services Program
Adamson, Ms Elizabeth, University of New South Wales
Australian Skills Quality Authority
Australian Catholic University, Faculty of Education
Australian Childcare Alliance
Australian Children's Education and Care Quality Authority
Australian Community Children's Services
Australian Council of State School Organisations
Australian Education, Early Childhood Development and Youth Affairs Senior Officials Committee
Australian Education Union
Australian Government Australian Bureau of Statistics
Australian Government Australian Institute of Family Studies
Australian Government Australian Taxation Office
Australian Government Department of Education
Australian Government Department of Employment
Australian Government Department of Human Services
Australian Government Department of Prime Minister and Cabinet
Australian Government Department of Social Services
Australian Government The Treasury
Australian Human Rights Commission
Australian Institute of Health and Welfare
Australian Nanny Association
Australian Primary Principals Association
Australian Research Alliance for Children and Youth
Australian Services Union
Baird, Dr Marian, University of Sydney
Bertrand, Prof Jane, University of Toronto
Biripi Child and Family health/Maternal
Brennan, Prof Deborah, University of New South Wales
Breunig, Prof Robert, Crawford School, Australian National University
Brotherhood of St Laurence
Bruce Ridge Early Learning Centre and Preschool
Cairns and District Childcare Development Association
Cairns Early Years Centre
Cairns TAFE Community Childcare Centre
Caltex Australia
Camp Australia
Care for Kids
Catholic Early Learning & Outside School Hours Care
Centre for Child Development & Education, Menzies School of Health Research
Centre for Community Child Health, The Royal Children’s Hospital Melbourne

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Table A.3 **(continued)**

Participants
Child Care on Wheels Services at Kangaroo Inn Area School
Child Care on Wheels, Robe
Child Care Services Taree and Districts
Children with a Disability Australia
Childs World, Cairns
City of Sydney
Cleveland, Prof. Gordon, University of Toronto
Communities for Children Taree
Communities@work
Community Child Care Co-operative (NSW)
Cred Community Planning (NSW)
Davis, Jaycent (Aboriginal Community Liaison Officer)
Defence Community Organisation
District Council of Robe
Doveton College
Early Childhood Australia
Early Intervention Service Manning Gardens Public School
Early Learning Association Australia
Ellis MP, The Hon. Kate
Eskay Kids, Karana Early Education Centre
Fair Work Ombudsman
Families Australia
Family Day Care Australia
First Steps Count
FKA Children's Services
Folkestone Limited
G8 Education
Geoff Carmody & Associates
Gialamas, Angela, University of Adelaide (Research Associate)
Global Access Partners
Goldfeld, Assoc. Prof. Sharon, Murdoch Children's Research Institute
Goodstart Early Learning
Goodstart Early Learning, Jerrabomberra
Gray, Dr Matthew, Australian National University
Greater Taree City Council
Guardian Early Learning Group
Harrison, Dr Catherine, Australian Catholic University
Hill, Dr Elizabeth, University of Sydney
Human Rights Commission
Inclusion Support Agency Far North Queensland
Inclusion Support Agency North Queensland
Jilkminggan Creche

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Table A.3 **(continued)**

Participants
Katherine School of the Air
KU Children's Services
Kurtovich Consulting
Ley MP, The Hon. Susan
Manning Gardens Public School, Taree
Manunda Terrace Outside School Hours Care
Melhuish, Prof Edward, University of Oxford
Ministerial Advisory Council for Child Care and Early Learning
Mission Australia
Municipal Association of Victoria
National Children's Commissioner
National Foundation for Australian Women
National Inclusion Support Subsidy Provider
National In-home Care Association
National Out of School Hours Services Australia
New Zealand Early Childhood Council
New Zealand Home Based ECE Association
New Zealand Kindergartens
New Zealand Ministry of Education
New Zealand PORSE
New Zealand Treasury
Northern Territory Department of Education and Training
Novita Children's Services
New South Wales Department of Education, Childhood Education and Care Directorate
New South Wales Department of Premier and Cabinet
New South Wales Treasury
Occasional Child Care Australia
Only About Children
Pascal, Dr Charles, University of Toronto
Play Environment Consulting
PriceWaterhouseCoopers
Queanbeyan Family Day Care Scheme
Queensland Department of Education, Training and Employment
Regional and Remote Aboriginal Children and Services Support Unit
Remote Area Aboriginal and Torres Strait Islander Child Care Advisory Association
Roper Gulf Regional Council
Rose, Dr Colin
Secretariat of National Aboriginal and Islander Child Care
Secretariat for the Review of Australia's Welfare System
Secretariat for the Review of the Paid Parental Leave scheme
Sex Discrimination Commissioner
Sheridan Meadows Childcare, Cairns

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Table A.3 **(continued)**

Participants
Smithfield Childcare Centre Cairns
Snugglepot Day Care Centre, Taree
South Australia Department of Education and Child Development
Swallow Street Child Care Centre, Inala
Tasmanian Department of Education
Tayler, Prof Collette, University of Melbourne
The Australia Institute
The Parenthood
The Sydney Institute
Tigger’s Honeypot Child Care Centre, University of New South Wales
UnitedVoice
Uniting Care Children's Services
UnitingCare Burnside
Victorian Department of Education and Early Childhood Development
Waratah Drive Day Care, Cairns
Water Street Occasional Care, Cairns
Wesley, Dr Dylan
Western Australian Department of Education
Western Australian Department of Health
Western Australian Department of Local Government and Communities
Western Australian Department of Planning
Western Australian Disability Services Commission
Winanga-Li Aboriginal Child and Family Centre
Woden Community Services — Garran After School Care
Women and Work Research Group
Women on Boards
YMCA Australia
Young, Lea
YWCA Canberra

Table A.4 **Public Hearings**

Individual or organisation	*Transcript page numbers*
Perth – 7 August 2014	
Amy Evans	1-8
CareWest	9-19
Regional Development Australia Wheatbelt Inc	19-30
Shona Guilfoyle	31-37
Rhonda Roe	38-44
Child Australia	44-55
Association of Independent Schools of WA	55-61
Goodstart Early Learning (WA)	62-73
Curtin University Early Childhood Centre	73-77
Port Macquarie – 11 August 2014	
The Kindergarten Pty Ltd	1-11
Kempsey Children's Services	12-23
Port Stephens Council	23-32
Goodstart Early Learning, Taree	32-39
Sydney – 14 August 2014	
SDN Children's Services	1-9
Community Childcare co-operative NSW	9-16
University of Technology Sydney	16-27
Australian Childcare Alliance	27-34
Clovel Child Care	34-41
Unions New South Wales	41-50
Kinda Kapers Long Day Care	50-56
Only About Children	56-58
The Infants Home	58-62
Australian Community Children's Services, NSW	63-77
KU Children's Services	71-83
Institute of Early Childhood, Macquarie University	83-93
Amanda McKenzie	93-97
Early Learning Coalition	97-104
Australian Services Union	104-11
Sydney – 15 August 2014	
Kate Hodgekiss	1-4
The Crèche and Kindergarten Association	4-9
Independent Education Union	9-16
Child and Family Services Wyong Shire	16-22
The Forest Child Care Centre and Burns Bay Cottage	22-26
Family Day Care Association QLD	26-35
Susan Maidment	35-39
Kathryn Herbert	39-45
Australian Association of Infant Mental health	45-48

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Table A.4 **(continued)**

Individual or organisation	*Transcript page numbers*
Sydney – 15 August 2014 (continued)	
Australian Community Children's Services	48-54
Child Care New South Wales	55-64
UnitingCare Children's Services	64-71
Dragan Gasic	71-74
Early Childhood Education, Charles Sturt University	74-80
Glenhaven Private Preschool	81-83
Isolated Children's Parents' Association, NSW	83-89
Melbourne – 18 August 2014	
Rogan Family Care	1-7
Monash City Council	7-16
Charles Sturt University	16-24
Daniel Attard	24-20
Kyle Swan	31-35
Early Learning Association Australia	35-42
Endeavour Forum Incorporated	42-48
Best Chance	49-54
United Voice	54-63
Swallow Street Childcare Association	63-71
East West ChildCare Association	87-96
Murdoch Children's Research Institute	96-107
Australian Council of Trade Unions	107-117
Nick Hansen	117-222
Melbourne – 19 August 2014	
Ginerva Hosking	1-7
Noah's Ark	7-14
Municipal Association of Victoria	14-20
Claredon Children's Centre	21-27
Community Child Care	27-35
UnitingCare Victoria and Tasmania	35-42
Placement Solutions	42-49
ECMS	49-59
Collette Tayler	60-66
Secretariat of National Aboriginal and Islander Childcare	66-75
Eleisha Mullane	76-79
Natasha Mills	79-80
Sally Cooper	80-81
Lisa Fitzpatrick	81-82

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Table A.4 **(continued)**

Individual or organisation	*Transcript page numbers*
Canberra – 25 August 2014	
National Foundation for Australian Women	1-12
AGJ Businesses Pty Ltd	12-25
The Parenthood	25-35
Total Childcare Solutions Australia	32-42
Australian Nanny Association	42-52
Australian Research Alliance for Children and Youth (ARACY)	52-58
UnitingCare Australia	58-67
Culburra Beach Preschool	68-81
YWCA of Canberra	81-92
Isolated Children’s Parents’ Association of Australia	93-97
Frances Press	97-102
Professional Support Co-Ordinator Alliance	102-108
Canberra – 26 August 2014	
Robin Shannon	1-7
Cultural Au Pair Association of Australia	8-15
Early Childhood Australia	15-27
Julie Smith	27-33
Goodstart Early Learning	33-47
Police Federation of Australia	47-52
Early Learning and Care Council of Australia	52-62
School of Early Childhood, Queensland University of Technology	63-67

Table A.5 **Roundtables**

Participants	
2 December 2013, Childcare and Workforce Participation	
Amy Wilson	Latrobe University, School of Social Sciences
Anu Rammohan	University of WA, Business School
Barbara Pocock	University of SA, Centre for Life and Work
Elizabeth Hill	University of Sydney, Department of Political Economy
Guyonne Kalb	Melbourne Institute of Applied Economic and Social Research
Jennifer Baxter	Australian Institute of Family Studies
Michelle Brady	University of Queensland, School of Social Science
Nick Parr	Macquarie University, Faculty of Business and Economics
Patricia Apps	University of Sydney
Robert Breunig	Crawford School, ANU
Rod Hurley	Australian Government Department of Education (observer)
Stephen Whelan	University of Sydney, School of Economics
Xiaodong Gong	University of Canberra, NATSEM
2 December 2013, Early Childhood Development	
Alison Elliot	Faculty of Education and Social Work, Sydney University
Bob Perry	School of Education, Charles Sturt University
Donna Berthelsen	Faculty of Education, Qld University of Technology
Frank Oberklaid	Centre for Community Child Health, Royal Children's Hospital Melbourne
Jenna Goddard	Australian Government Department of Education (observer)
Jennifer Bowes	Institute of Early Childhood, Macquarie University
Kay Margetts	Graduate School of Education, University of Melbourne
Linda Harrison	School of Teacher Education, Charles Sturt University
Margaret Sims	School of Education, University of New England
Patricia Apps	Faculty of Law, University of Sydney
Rachel Flottman	Graduate School of Education, University of Melbourne
Sally Brinkman	The Fraser Mustard Centre
Sue Dockett	School of Education, Charles Sturt University
6 August 2014, Childcare Modelling Workshop	
Ben Phillips	NATSEM
Cecilia Karmel	Treasury
Guyonne Kalb	Melbourne Institute
Jagadish Gorrepati	Department of Education
Jane Dickenson	Department of Social Services
Joseph Mercante	Treasury
Kate Chan	Department of Social Services
Mike Power	Department of Education
Nathan Candusso	Department of Education
Robert Breunig	Australian National University
Vu Quoc Ngu	Department of Employment
Xiaodong Gong	NATSEM

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Table A.5 **(continued)**

Participants	
15 September 2014, Deemed Cost of Care Workshop	
Anne Bowler	National Association of Mobile Service for Rural and Remote Families and Children
Bernie Nott	ECMS
Carla Yeates	Occasional Child Care Australia
Chris Steel	Early Childhood Australia
Christine Legg	KU
Frank Cusmano	Australian Childcare Alliance
Jenny McCombe	YMCA Australia
Justin Laboo	Affinity
Karen Dawson	KU
Kylie Brannelly	QCAN
Leanne Giardina	NOSHA
Linda Davison	Australian Community Children's Services
Mark Stones	C&K
Mel Carmont	SDN
Michael Barry	Goodstart
Myra Geddes	Goodstart
Paul Mondo	Australian Childcare Alliance
Ros Cornish	Lady Gowrie Tasmania
Sam Page	Early Childhood Australia
Scott Rollason	Family Day Care Australia
Wendy Allan	Municipal Association of Victoria

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—— 2007a, Counts of Australian Businesses, including Entries and Exits, June 2003 to June 2007, December, Cat. no. 8165.0, Canberra.

—— 2007b, Working Time Arrangements, November 2006, 29 May, Cat no. 6342.0.

—— 2008, How Australians Use Their Time, 2006, February, Cat no. 41530.0, Canberra.

—— 2009a, Australian Social Trends, March 2009: Trends in Household Work, March, Cat. no. 4102.0, Canberra.

—— 2009b, Australian Social Trends, September 2009: Work, Life and Family Balance, September, Cat. no. 4102.0, Canberra.

—— 2009c, Childhood Education and Care, Australia, June 2008, October, Cat. no. 4402.0, Canberra.

—— 2009d, Employment Arrangements, Retirement and Superannuation, Australia, April to July 2007 (Re-issue), June, Cat. no. 6361.0, Canberra.

—— 2010a, Community Services 2008-09, June, Cat no. 8696.0, Canberra.

—— 2010b, Counts of Australian Businesses, including Entries and Exits, June 2007 to June 2009, October, Cat. no. 8165.0, Canberra.

—— 2012a, Australian Social Trends, June 2012: Children with a Disability, June, Cat. no. 4102.0, Canberra.

—— 2012b, Childhood Education and Care, Australia, June 2011, May, Cat. no. 4402.0, Canberra.

—— 2012c, Counts of Australian Businesses, including Entries and Exits, June 2007 to June 2011, January, Cat. no. 8165.0, Canberra.

—— 2012d, Labour Force, July 2012, Cat. no. 6202.0, Canberra.

—— 2012e, Pregnancy and Employment Transitions, Australia, Nov 2011, November, Cat. no. 4913.0, Canberra.

—— 2013a, Barriers and Incentives to Labour Force Participation, Australia, July 2012 to June 2013, November, Cat. no. 6239.0, Canberra.

—— 2013b, Census of Population and Housing, 2011, Cat. no. 2073.0, Canberra.

—— 2013c, Counts of Australian Business, Including Entries and Exits, June 2008 to June 2012, Cat. no. 8165.0, Canberra.

—— 2013d, Counts of Australian Businesses, including Entries and Exits, June 2008 to June 2012, August, Cat. no. 8165.0, Canberra.

—— 2013e, Household Income and Income Distribution Australia, 2011-12, July, Cat. no. 6523.0, Canberra.

—— 2013f, Information Paper: Survey of Income and Housing, User Guide, Australia, August, Cat. no. 6553.0, Canberra.

—— 2013g, Labour Force, Australia: Labour Force Status and Other Characteristics of Families, Jun 2012, May, Cat. no. 6224.0.55.011, Canberra.

—— 2013h, Microdata: Income and Housing, Australia, Basic CURF, 2011-12, October, Cat. no. 6541.0.30.001, Canberra.

—— 2013i, Preschool Education, Australia, 2012, March, Cat. no. 4240.0, Canberra.

—— 2013j, Programme for the International Assessment of Adult Competencies: Australia 2011-12, February, Cat.no. 4228.0, Canberra.

—— 2013k, Working Time Arrangements, Australia, November 2012, May, Cat. no. 6342.0, Canberra.

—— 2014a, Australian Demographic Statistics, Dec 2013, June, Cat. no. 3101.0, Canberra.

—— 2014b, Consumer Price Index, Australia, Dec 2013, January, Cat. no. 6401.0, Canberra.

—— 2014c, Counts of Australian Businesses, including Entries and Exits, June 2009 to June 2013, March, Cat. no. 8165.0, Canberra.

—— 2014d, Gender Indicators, Australia, August 2014, August, Cat no. 4125.0, Canberra.

—— 2014e, Gender Indicators, Australia, Feb 2014, February, Cat. no. 4125.0, Canberra.

—— 2014f, Labour Force, Australia, Detailed - Electronic Delivery, July 2014, August, Cat. no. 6291.0.55.001, Canberra.

—— 2014g, Labour Force, Australia, Detailed - Electronic Delivery, Sept 2014, 16 October, Cat no. 6291.0.55.001.

—— 2014h, Labour Force, Australia, Jan 2014, February, Cat. no. 6202.0, Canberra.

—— 2014i, Microdata: Household Expenditure Survey and Survey of Income and Housing, Australia, Basic CURF, 2009-10, May, Cat. no. 6540.0, Canberra.

—— 2014j, Preschool Education, Australia, 2013, March, Cat. no. 4240, Canberra.

—— 2014k, Schools, Australia, 2013, February, Cat. no. 4221.0, Canberra.

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—— 2014m, Underemployed Workers, Australia, September 2013, February, Cat. no. 6265.0, Canberra.

—— 2014n, Wage Price Index, Australia, Table 9a, June, Cat. no. 6345.0, Canberra.

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—— 2013e, National Quality Framework Governance Arrangements - Who Will Services Deal With?, http://files.acecqa.gov.au/files/Information%20sheets/ACECQA%20Information%20Sheet%20-%20Governance%20Arrangements%20-%20Who%20will%20services%20deal%20with.pdf (accessed 14 April 2014).

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—— 2013g, Purpose of, and Criteria for, the Excellent Rating, May, Sydney.

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