



Australian Government
Productivity Commission

Childcare and Early Childhood Learning

Productivity Commission
Inquiry Report
Overview and Recommendations

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The Productivity Commission

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

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

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



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31 October 2014

The Hon Joe Hockey MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

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

Yours sincerely

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

Wendy Craik
Presiding Commissioner

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

Jonathan Coppel
Commissioner

Terms of reference

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

Background

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

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

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

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

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

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

Scope of the inquiry

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

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

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

Process

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

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

J. B. Hockey
Treasurer

[Received 22 November 2013]

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The complete two volume report is available from the Productivity 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
NICHHD	National Institute for Child Health and Human Development
NISSP	National Inclusion Support Subsidy Provider
NPA	National Partnership Agreement
NQF	National Quality Framework
NQS	National Quality Standard
OCC	occasional childcare
OECD	Organisation for Economic Co-operation and Development
OSHC	outside school hours care
PC	Productivity Commission
PSC	Professional Support Coordinator
QIP	Quality Improvement Plan
ROGS	Report on Government Services
SCCB	Special Child Care Benefit
SEIFA	Socio-Economic Index for Areas
VAC	vacation care

Explanations

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

OVERVIEW

Key points

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

Overview

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

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

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

ECEC in Australia

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

Box 1 Evolution of ECEC assistance in Australia

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

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

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

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

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

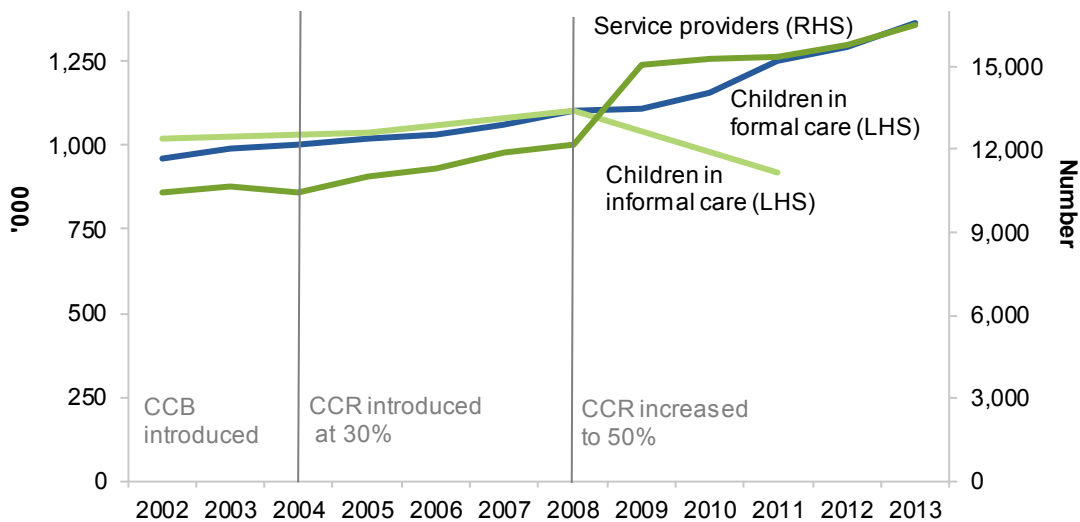
State and territory governments have, in recent years, contributed a further \$0.8 billion per year in support of ECEC (mainly for preschool programs) and all levels of government offer various concessions and tax exemptions to ECEC providers, particularly to the 34 per cent of providers that are not-for-profit.

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

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

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

Figure 1 Use and provision of ECEC services^a



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

What the Commission found

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

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

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

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

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

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

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

Box 2 Views on Australia's ECEC

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

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

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

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

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

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

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

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

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

Quality is important

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

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

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

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

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

Access is an issue for some families

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

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

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

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

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

Taxpayers fund most ECEC

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

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

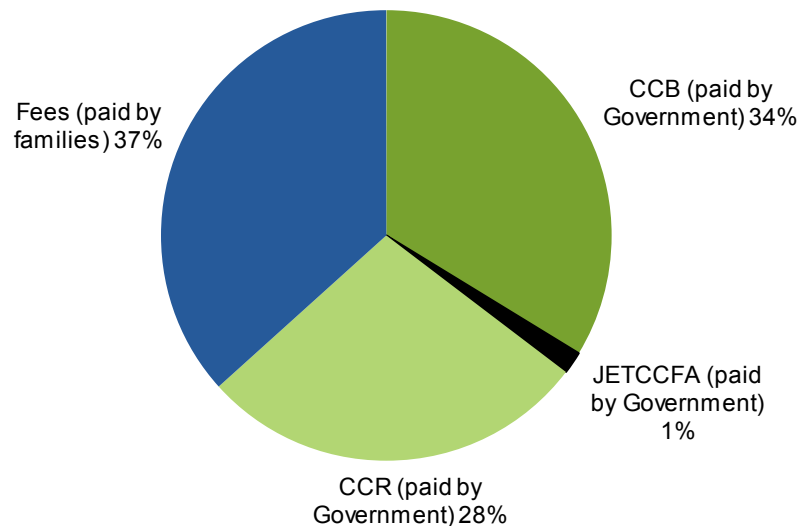
Many families have come to expect that the cost of early learning and care for their children should not unduly burden the family budget, but out-of-pocket costs in Australia (while 27 per cent of average wages and above the OECD average of 17 per cent) actually sit well below those of the United Kingdom,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

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

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

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

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



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

There is scope to increase parental workforce participation

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

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

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

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

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

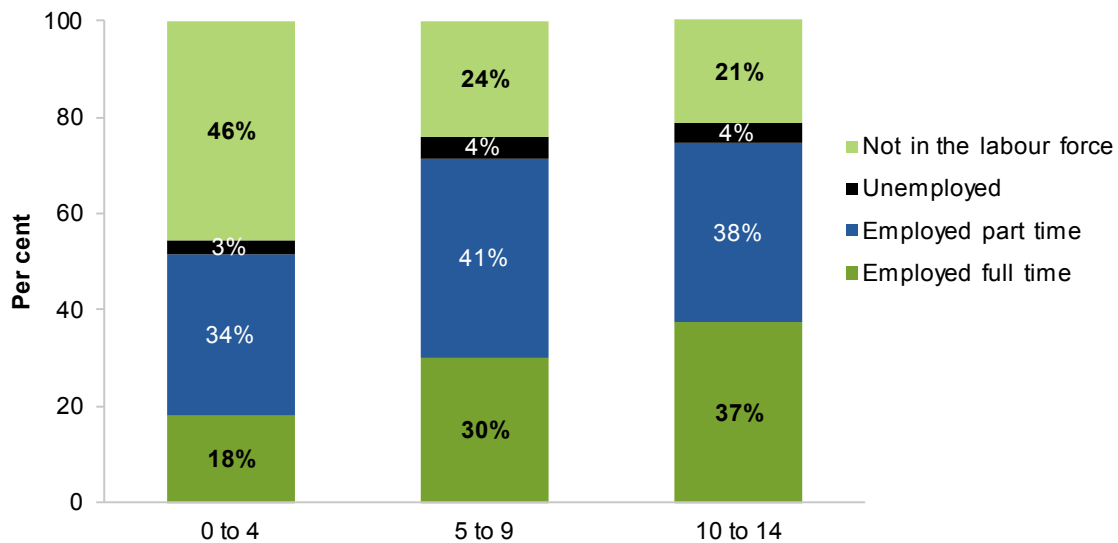
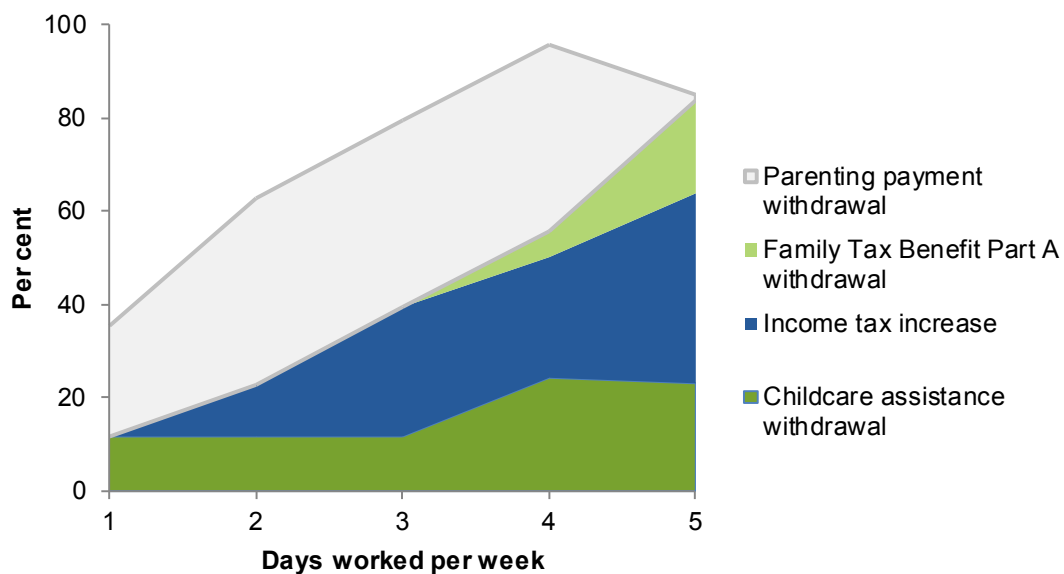


Figure 4 Example of effective marginal tax rates^a



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

Program objectives overlap and administrative arrangements are complex

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

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

Why governments are involved in ECEC

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

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

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

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

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

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

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

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

An ECEC system to aim for

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

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

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

Table 1 An ECEC system to aim for

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

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

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

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

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

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

Recommended reforms for accessibility, flexibility and affordability

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

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

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

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

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

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

Recommended regulatory reforms

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

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

Qualifications and ratios

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

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

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

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

Reporting, compliance monitoring and assessment

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

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

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

Recommended funding and assistance reforms

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

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

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

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

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

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

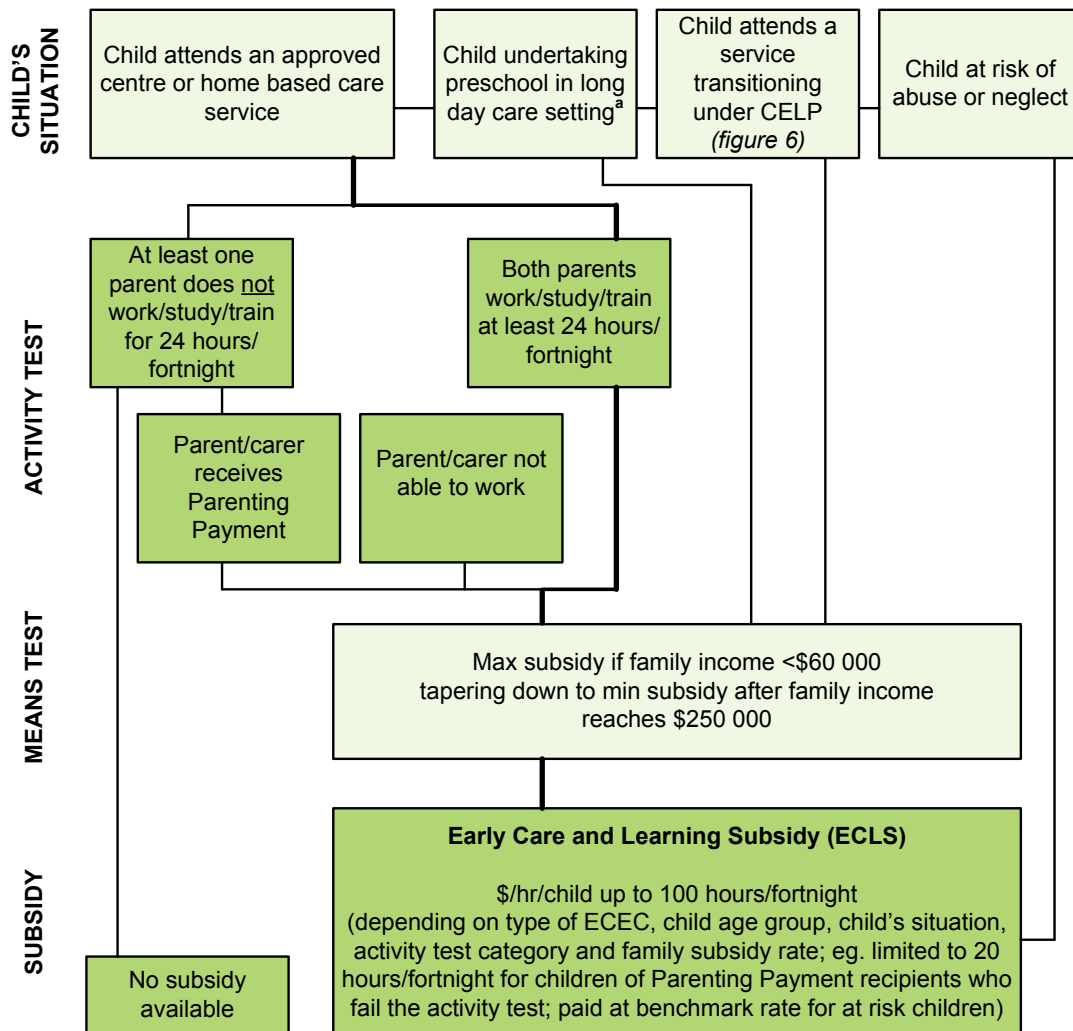
Table 2 Budgeted and recommended annual expenditure on ECEC

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

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

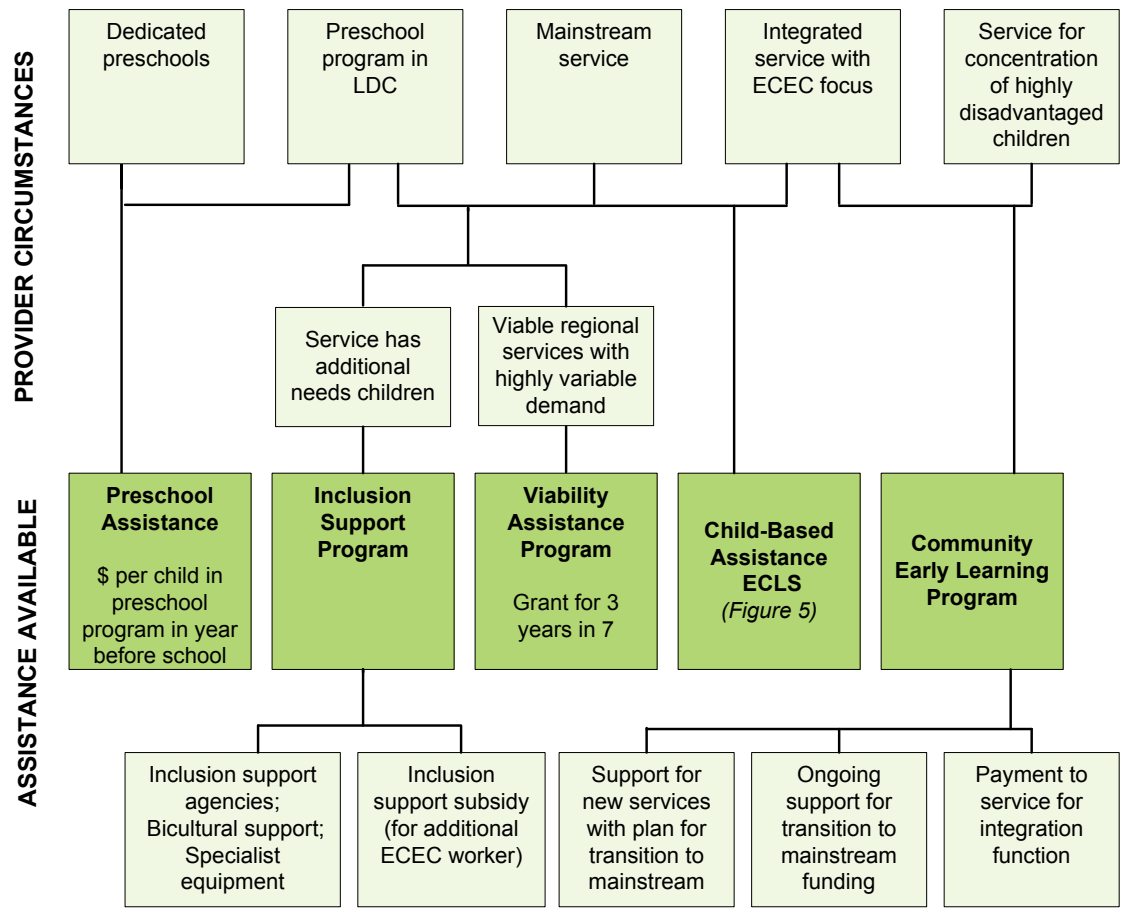
In its modelling of family ECEC use decisions, the Commission has included detail only for the main child-based assistance, and not for additional needs or preschool programs. The costing of these latter two programs is determined separately, based on the estimated number of children likely to be involved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

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



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

Figure 6 Program assistance — recommended approach for the Australian Government



Assistance for children using mainstream ECEC services

A child-based subsidy

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

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

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

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

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

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

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

Why provide assistance to higher income families

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

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

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

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

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

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

Who would qualify for assistance under the recommended activity test

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

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

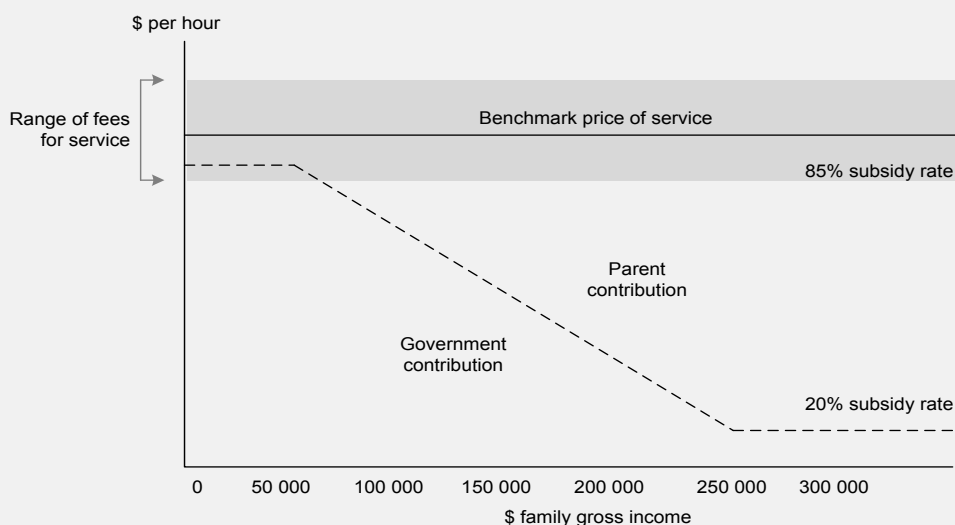
As with the activity test for current childcare assistance, there are a number of exemption categories — largely related to income support recipients — that enable some families to receive some subsidised childcare without satisfying an activity test. The existence of these exemptions recognises that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

Box 3 Early Care and Learning Subsidy (ECLS)

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

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

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



Box 4 **Benchmark price of service provision**

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

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

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

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

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

Viability Assistance Program

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

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

Assistance for children with additional needs

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

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

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

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

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

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

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

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

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

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

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

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

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

Assistance for universal preschool access

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

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

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

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

What these changes would mean

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

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

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

More assistance to lower income families

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

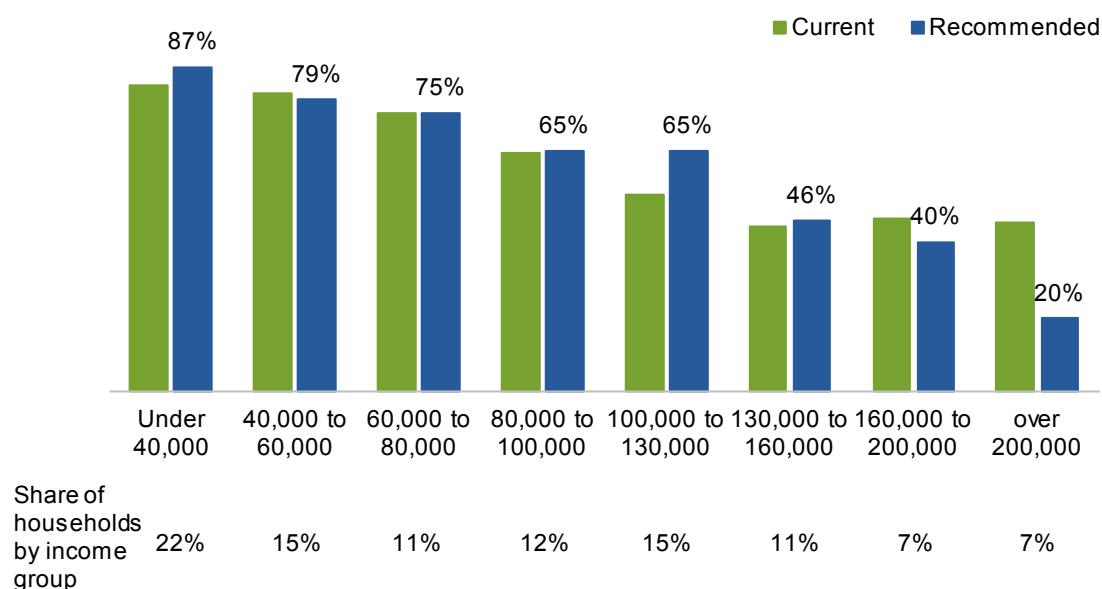
The average rate of assistance across all income groups is estimated to be around 65 per cent, largely unchanged from the average rate of assistance provided under the current CCB and CCR programs. For those with a family gross income under \$130 000, mainstream ECEC services are likely to be more affordable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

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

Table 3 Estimated aggregate implications of ECLS

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

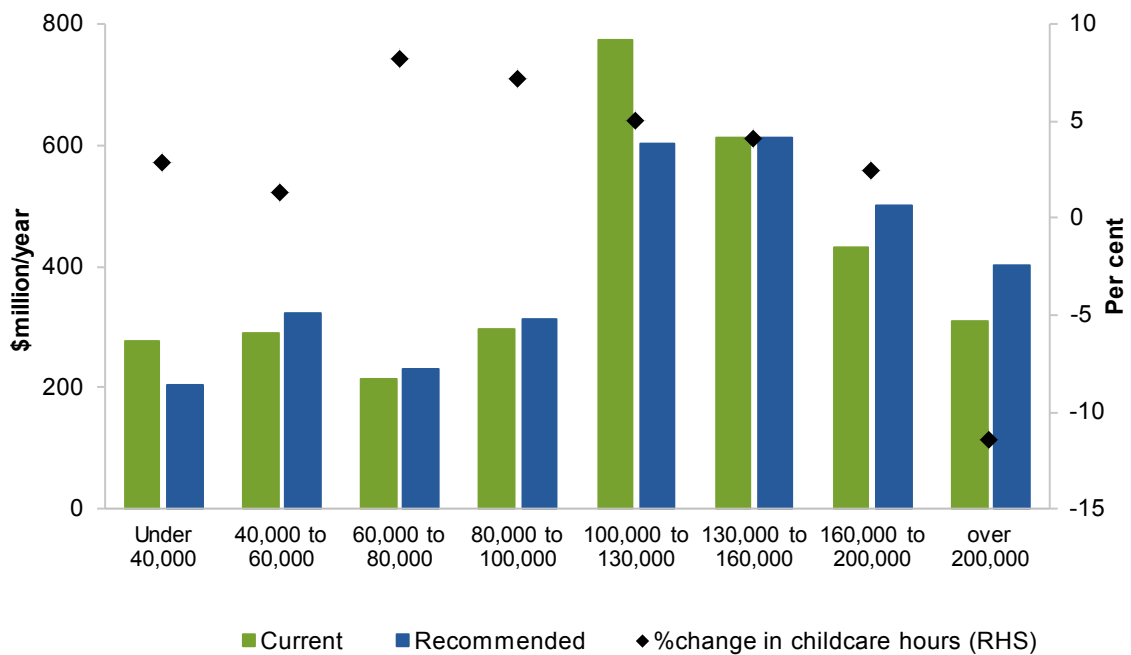
Figure 7 ECEC subsidy rates by family income group



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

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

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



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

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

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

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

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

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

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

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

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

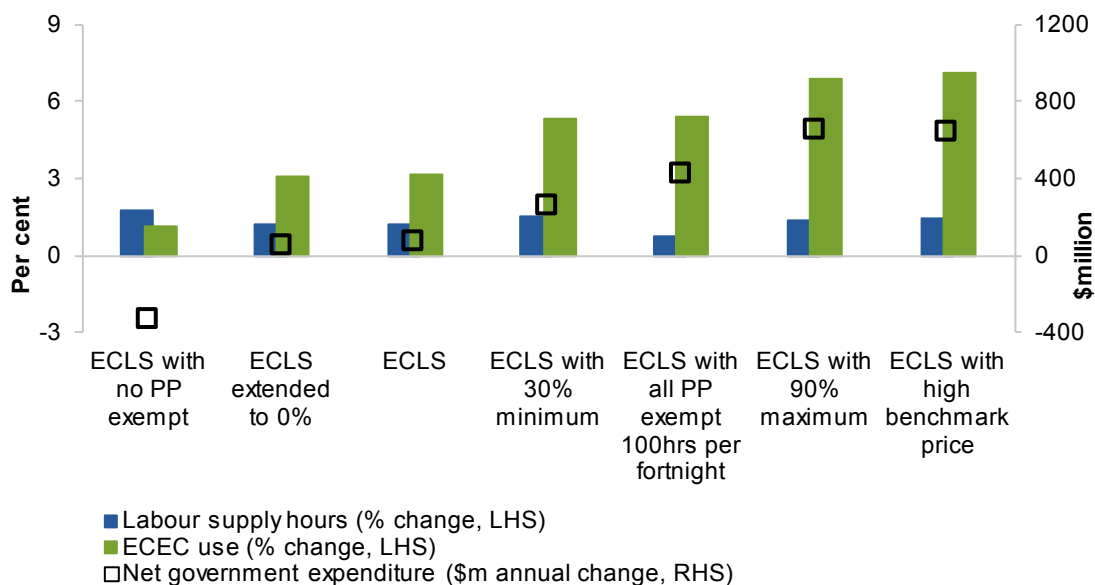
Under the current ECEC assistance arrangements, total out-of-pocket expenses from ECEC are \$58.62 per week.

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

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

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

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



Note: PP Parenting Payment recipients

Small changes in workforce participation are expected

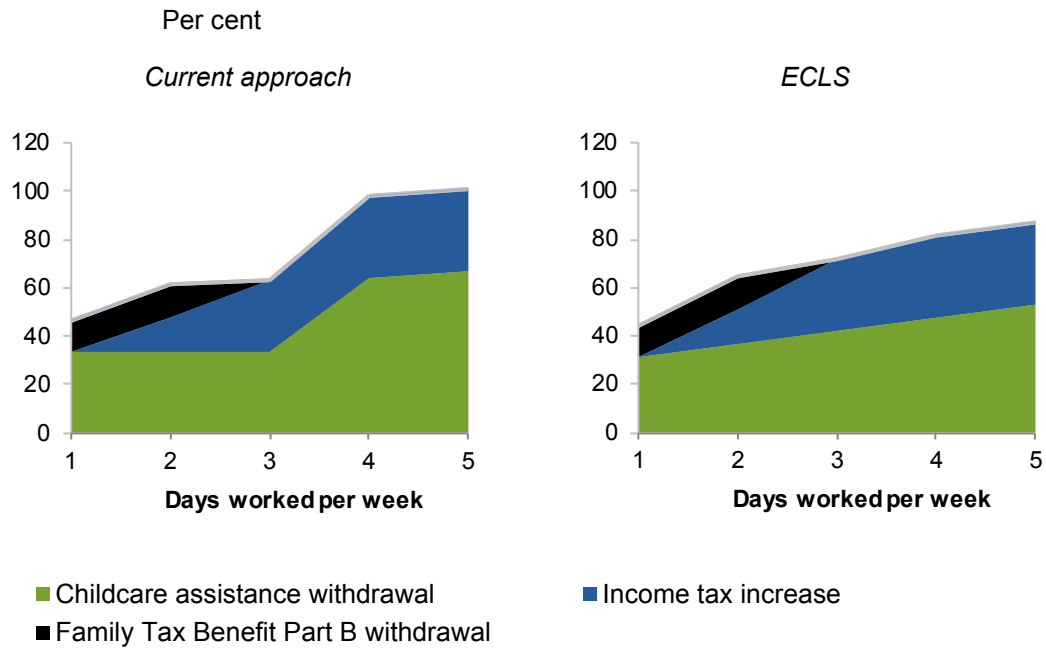
For those parents who face lower out-of-pocket costs for ECEC, their demand for ECEC services, and their willingness to work, could be expected to expand and some may substitute formal ECEC services for informal care currently used. In contrast, for parents facing higher out-of-pocket costs, their demand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

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

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

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

Figure 10 **Effective marginal tax rates^a**



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

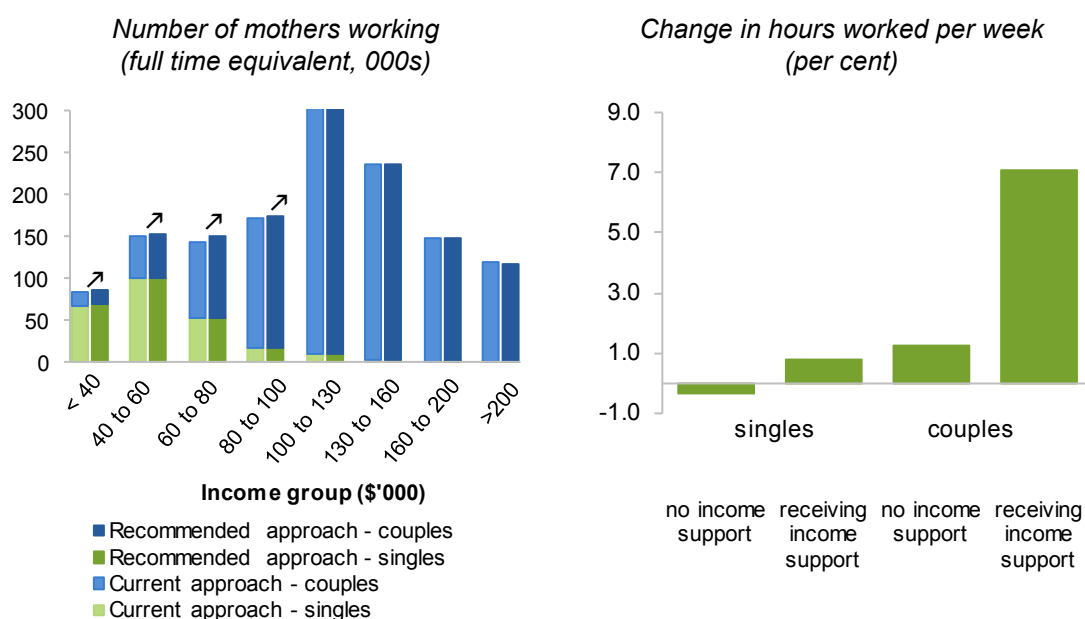
The Commission estimates that the changes in workforce participation would be relatively small in aggregate (figure 11). Under the recommended settings for ECLS, the number of mothers in employment is expected to rise by around 1.2 per cent, or 16 400 mothers, on a full-time equivalent basis (or around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

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

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

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

Figure 11 Mothers working — change from current system



Economy-wide benefits from a redistribution of assistance

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

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

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

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

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

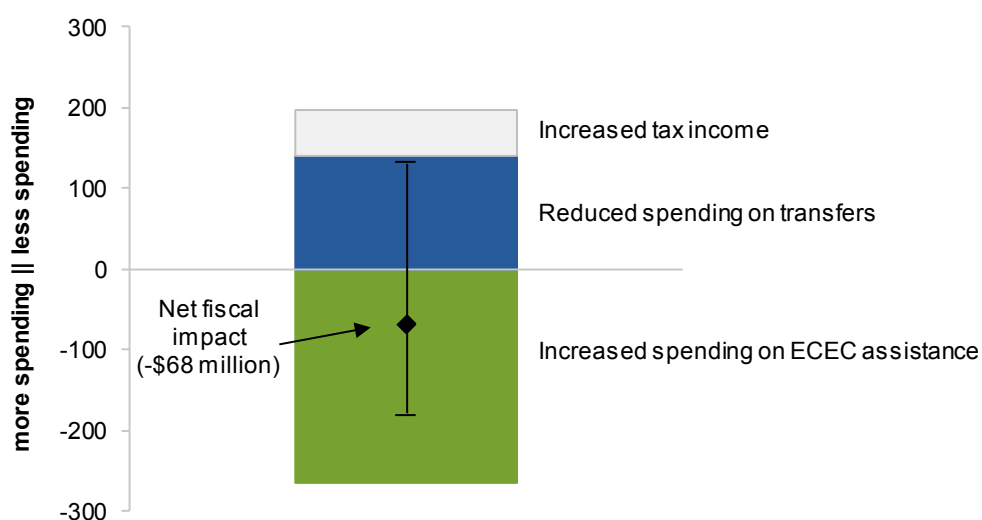
A sustainable basis for taxpayer assistance to ECEC

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

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

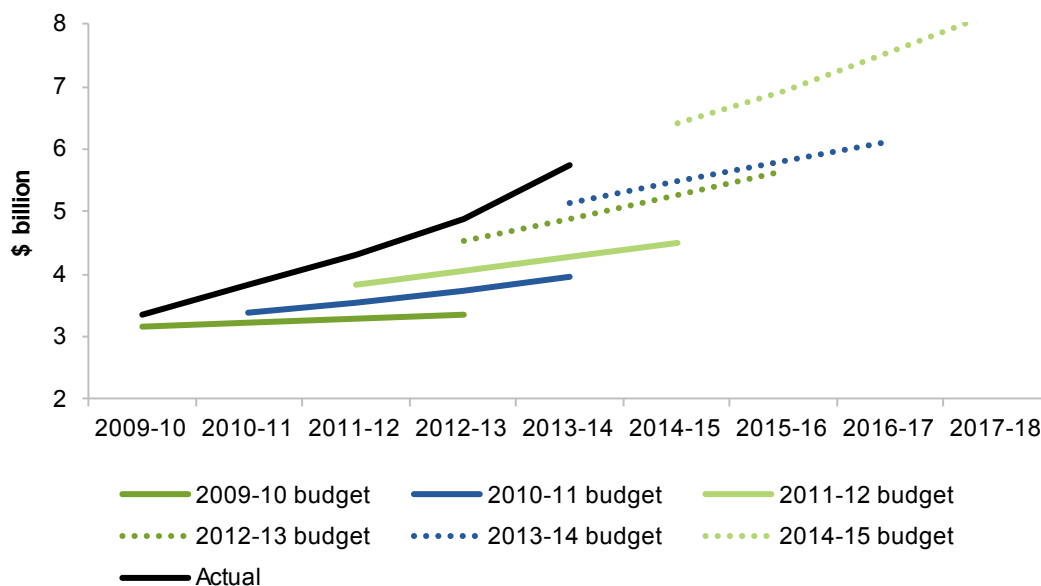
The net cost to the Australian Government (and therefore taxpayers) of ECEC assistance through ECLS depends on changes in the use of ECEC as well as the ECEC subsidies paid to families, changes in other welfare payments paid and changes in income tax received. Under the recommended approach, child-based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

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



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

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



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

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

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

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

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

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

Transition to new assistance arrangements

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

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

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

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

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

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

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

Recommendations and findings

Families using mainstream services — improving accessibility, flexibility and affordability

FINDING 11.1

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

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

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

RECOMMENDATION 15.1

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

RECOMMENDATION 15.2

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

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

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

RECOMMENDATION 15.3

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

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

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

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

RECOMMENDATION 15.4

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

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

FINDING 10.1

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

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

RECOMMENDATION 10.1

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

RECOMMENDATION 10.4

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

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

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

RECOMMENDATION 10.5

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

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

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

RECOMMENDATION 10.7

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

Additional needs — improving accessibility, flexibility and affordability

FINDING 5.1

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

RECOMMENDATION 5.2

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

FINDING 13.1

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

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

RECOMMENDATION 15.5

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

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

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

RECOMMENDATION 15.6

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

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

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

RECOMMENDATION 15.7

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

The budget should be increased for:

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

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

RECOMMENDATION 13.2

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

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

FINDING 13.2

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

FINDING 13.3

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

RECOMMENDATION 13.3

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

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

RECOMMENDATION 15.8

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

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

RECOMMENDATION 15.9

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

Preschool — supporting universal access

FINDING 12.1

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

FINDING 12.2

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

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

RECOMMENDATION 12.1

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

RECOMMENDATION 15.10

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

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

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

RECOMMENDATION 10.2

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

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

RECOMMENDATION 12.2

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

RECOMMENDATION 7.2

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

RECOMMENDATION 7.6

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

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

Removal of ECEC assistance to some providers

RECOMMENDATION 5.1

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

RECOMMENDATION 9.1

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

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

RECOMMENDATION 10.3

The Australian Government should abolish the Community Support Programme.

RECOMMENDATION 10.6

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

RECOMMENDATION 11.1

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

RECOMMENDATION 13.1

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

RECOMMENDATION 14.1

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

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

Workforce participation

FINDING 6.1

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

FINDING 6.2

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

FINDING 6.3

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

FINDING 6.4

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

FINDING 16.1

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

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

RECOMMENDATION 6.1

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

FINDING 6.5

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

RECOMMENDATION 6.2

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

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

FINDING 6.6

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

Quality assurance processes and regulation of ECEC

RECOMMENDATION 7.1

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

RECOMMENDATION 7.8

Governments should:

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

RECOMMENDATION 7.9

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

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

RECOMMENDATION 7.10

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

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

RECOMMENDATION 7.11

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

RECOMMENDATION 7.12

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

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

RECOMMENDATION 7.13

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

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

RECOMMENDATION 7.14

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

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

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

RECOMMENDATION 7.15

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

ECEC qualifications and ratios

FINDING 8.1

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

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

RECOMMENDATION 7.3

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

RECOMMENDATION 7.4

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

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

RECOMMENDATION 7.5

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

RECOMMENDATION 7.7

To provide services with greater flexibility to meet staffing requirements:

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

RECOMMENDATION 8.1

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

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

RECOMMENDATION 8.2

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

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

RECOMMENDATION 8.3

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

Ongoing support for evaluation and ECEC policy assessment

RECOMMENDATION 17.1

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

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

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

RECOMMENDATION 17.2

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

RECOMMENDATION 17.3

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

RECOMMENDATION 17.4

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

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