



# Social Policy Research Centre

Never Stand Still

Faculty of Arts and Social Sciences

## **Financing the Future: An equitable and sustainable approach to early childhood education and care**

**Deborah Brennan and Elizabeth Adamson**

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## Contents

<b>Executive Summary .....</b>	<b>1</b>
<b>1 Introduction.....</b>	<b>5</b>
<b>2 Australia’s ECEC system .....</b>	<b>10</b>
2.1 Historical context.....	10
2.2 Current state of play .....	11
2.3 Government child care financing.....	12
2.4 Strengths of Australia’s ECEC arrangements .....	16
<b>3 The need for reform .....</b>	<b>20</b>
3.1 Improving access for low-income and disadvantaged children .....	20
3.2 Labour force participation and the affordability of child care .....	22
3.3 Pay equity for teachers and educators.....	28
3.4 Smarter spending .....	29
3.5 Flexible provision .....	32
<b>4 Lessons from international experience.....</b>	<b>34</b>
4.1 Quality matters .....	34
4.2 For some children, <i>any</i> fee is a barrier.....	34
4.3 Supporting women’s labour force participation .....	37
4.4 Capped fees and/or subsidies .....	38
4.5 Connecting in-home care to service hubs or centres.....	40
<b>5 Options for a new financing system .....</b>	<b>43</b>
5.1 Option 1: Early Learning Subsidy (capped).....	44
5.2 Option 2: Early Learning Subsidy (uncapped) .....	49
5.3 Option 3: Towards universal low fee ECEC provision .....	50
<b>6 Beyond subsidies and finance.....</b>	<b>52</b>
<b>7 References.....</b>	<b>53</b>
<b>Appendix .....</b>	<b>58</b>
A: Estimated impacts of Options 1 and 2, base rate of 50% ELS .....	58
B: Estimated impacts of Options 1 and 2, base rate of 40% ELS .....	61

## **Abbreviations**

CCB	Child Care Benefit
CCR	Child Care Rebate
DEEWR	Department of Education, Employment and Workplace Relations
DoE	Department of Education
ECA	Early Childhood Australia
ECE	Early Childhood Education
ELS	Early Learning Subsidy
FaHCSIA	Families and Housing, Community Services and Indigenous Affairs
NATSEM	National Centre for Social and Economic Modelling
OECD	Organisation for Economic Cooperation and Development
SNAICC	Secretariat of National Aboriginal and Islander Child Care

## Figures

Figure 1.1 Spending on ECEC as % of GDP .....	7
Figure 3.1 Labour force participation by gender, 1978-2012 .....	24
Figure 3.2 Labour force participation of women aged 25-54 in OECD countries, 1980 and 2010 .....	24
Figure 3.3 Mothers' employment rates, by age of youngest child, 1991-2011 .....	25
Figure 3.4 Mothers' employment rates, by age of youngest child, couple and single mothers, 1991-2011 .....	26
Figure 3.5 Reductions to take home pay of second income earner earning \$40,000, one child aged 2 in long day care .....	27
Figure 3.6 Reductions to take home pay of second income earner for middle income family, second earner earning \$70,000 .....	27
Figure 3.7 Components of ECEC fees: essential, variable and discretionary costs .....	31
Figure 5.1 Comparison of components of ECEC subsidised by CCR and ELS .....	45

## Tables

Table 3.1 Children aged 0-12 years, type of care usually attended by weekly income of parents, couple and single income families .....	22
Table 4.1 Legal right to preschool education, and overall rankings in 45 OECD countries .....	37
Table 5.1 Comparison of out of pocket expenses under CCB+CCR and capped ELS for low, middle and high income families who meet the WST test .....	48
Table 5.2 Comparison of out of pocket expenses under CCB+CCR and uncapped ELS for low, middle and high income families who meet the WST test .....	49

## **Executive Summary**

Well designed early childhood education and care (ECEC) policy can assist Australia to meet some of its biggest challenges, especially those relating to education and employment. Establishing solid foundations in the early years makes later learning more effective, reduces the risk of early school leaving, increases the equity of educational outcomes and potentially reduces later expenditure on income support, health and criminal justice. ECEC plays a vital role in helping parents to manage the dual demands of paid work and family responsibilities.

There is strong evidence about the benefits of ECEC, especially for disadvantaged children, but quality is the key. If ECEC is to deliver the benefits that are claimed for it, it must be delivered in ways that meet rigorous standards of evidence in relation to staff qualifications, staff-to-child ratios and curriculum. Poor quality services can harm children, especially those who are vulnerable due to poverty and other forms of disadvantage.

The Australian Government has commissioned the Productivity Commission to inquire into ECEC with a view to making it more 'flexible, affordable and accessible' (Productivity Commission 2013a, p.iii). The inquiry provides an excellent opportunity to consider whether the efficiency and effectiveness of current financing arrangements can be improved and whether the objectives underlying the program can be sharpened or refocused.

### ***Strengths of the current system***

Australia's ECEC system has several strengths. The National Quality Framework (NQF) is replacing the disparate licensing systems previously run by State and Territory government. Over time, it will introduce more stringent requirements regarding educator qualifications, child-staff ratios and other markers of structural quality. As well as bringing the regulatory base of Australia's ECEC system into closer alignment with research evidence, the NQF helps to boost the professional standing of ECEC teachers and educators. Adequate funding is essential if appropriate professional wages and working conditions are to be paid. Government has a key role to play here since most parents do not have the capacity to meet such costs, any more than they could fund school education from their own resources.

Another strength of the Australian system is that Child Care Benefit (CCB) supports children whose parents are outside the workforce as well as those who are employed or actively preparing for employment through education or training. Almost 98% of families using approved care receive either CCB or Child Care Rebate (CCR) or both. In some comparable countries the number of fee subsidies a service can offer is capped and/or

subsidies are provided only for work-related ECEC. Recognising the child development and early education goals of ECEC in addition to promoting workforce participation is a major strength of the Australian approach.

### ***Weaknesses and the need for reform***

Despite these positive features, there is a clear need to reform aspects of Australian ECEC provision and financing. Commonwealth ECEC subsidies could be structured to achieve more equitable outcomes and value for money and to be focused on the *essential* costs of delivering ECEC rather than discretionary elements. The current combination of a capped, means-tested subsidy (Child Care Benefit) with a non-means-tested rebate (Child Care Rebate) covering 50 per cent of out-of-pocket expenses up to \$15,000 of expenses per child is not only confusing for parents, its distributional impacts push and pull in different directions. CCB delivers maximum assistance to lower income families while CCR, being tied to actual fees paid, delivers the greatest benefits to families who pay the most for child care – families at the higher end of the income scale.

### ***Lessons from international experience***

Australia can learn both from recent research and international policy and practice. The most important lesson is that *quality matters*. Although quality services cost more to deliver in the short term, they are the only way to ensure positive effects on children's developmental outcomes. Quality services support children's well-being and learning and help to ensure a degree of equity for parents and children in different ECEC settings. They help to minimise developmental gaps for all children, particularly disadvantaged children. A second lesson is that *any* fee may be a barrier to the participation of some children. Eliminating fees may be necessary to encourage low-income and disadvantaged children into high quality services. Many countries now offer 15-20 hours per week free early childhood education to children in the year or two before school and some extend this offer down the age range. The UK, for example, offers fifteen hours free preschool to all three and four year olds and is extending this to two year olds in the poorest 40% of families. New Zealand offers twenty hours free early education to three and four year olds, and this can be taken in a variety of settings. Eliminating fees may not be sufficient, however, additional measures tailored to particular groups may be required.

A third lesson is about the connection between low fee, or no fee, ECEC and high levels of women's labour force participation. In this context, we discuss the introduction of \$7 a day



child care in Quebec and compare women's labour force participation in this province with that in the rest of Canada. Fourth, we note that providers in mixed-market ECEC systems are often required to cap fees. Alternatively, governments may cap subsidies. In the Australian context, if the cap were removed from Child Care Rebate (or its replacement) and the subsidy continued to be fee-driven, the result would be unsustainable growth and poorly targeted public subsidies.

Finally, interest in subsidised and regulated in-home care is growing in many countries. Where public subsidies are provided, in-home care workers should be regulated. Ideally, they should be employed by a long day care centre, family day care scheme or other service hub rather than being self-employed or directly employed by families. Employment through a service or hub means that contractual arrangements are made at arm's length from families. Connecting in-home care workers to service hubs is an effective way to provide support and quality oversight, to protect the wages and conditions of in-home care workers and to focus public subsidies on the provision of quality, regulated care and early education.

The introduction of a full wage-replacement parental leave scheme will move Australian policy settings squarely towards recognition of mothers' participation in the labour force. This is an ideal time to align the Australian ECEC system with paid parental leave, ensuring sufficient, high quality, flexible and affordable ECEC to meet the needs of families with children aged from 6 months to 12 years. It is essential, however, that the labour force participation agenda does not displace the needs of children whose parents are not workforce participants. Such children may benefit particularly strongly from high quality provision and it would be a false economy to prevent them from accessing subsidies.

### ***Directions for reform***

In the short term, our preferred financing option is a single income-tested Early Learning Subsidy (ELS) to replace both Child Care Benefit (CCB) and Child Care Rebate (CCR). Since the ELS would replace both existing subsidy mechanisms, its value would need to be higher than current hourly rate of maximum CCB. Rather than being an arbitrary figure, as CCB appears to be, the maximum hourly rate for ELS should be designed to reflect reasonable costs of delivering a high quality service.

Using an hourly subsidy rate would not require providers to charge by the hour or families to book in by the hour. An hourly rate is currently used to calculate CCB but typical booking patterns are by the half-day or full day. We envisage that this would continue.

The base rate of ELS (i.e. the minimum to be received by families that meet the work/study/training test) should be between 35% and 50% of reasonable costs. Detailed work is needed to assess reasonable costs and to determine the appropriate base rate of ELS. We have used the maximum rate of \$10 per hour as a proxy for 'reasonable' costs. However, this is an estimate only and the actual figure would need to be determined by research and consultation. With Australian government investment in ECEC projected to exceed \$22 billion in the period 2013-14 to 2016-17, some notion of reasonable costs is imperative.

The ELS would improve the simplicity and transparency of funding for parents and providers alike. It would end the anomaly where parents who rely predominantly on CCB are constrained by an *hourly* cap (the current maximum rate of CCB is \$3.99 per hour) while higher income families dependent on CCR face an *annual* cap and the majority of parents who rely on both CCB and CCR face a confusing mix of *both* annual and hourly caps. The ELS would focus public subsidies on *essential* costs such as salaries to meet the NQF staffing requirements and *legitimate variable* costs including rent, administrative costs, and fair surplus or profit. In contrast to the current system, it would not have the potential to subsidise luxury or premium service components or excessive profits.

Government should engage in consultation with the sector to determine the reasonable costs of care taking account of the staffing costs involved in meeting the NQF standard and other essential costs of delivering a quality service. Any assessment of reasonable costs would need to ensure that services are not penalised for employing staff with higher than required qualifications and/or paying above the award. As well, there would need to be provision for recognising that some essential costs, such as rent, vary legitimately depending on service size and location, amongst other factors. The proposed system would be fairer and more transparent than the current system in which a single rate of CCB applies to every service regardless of actual costs while CCR is driven by fees with no accountability as to what is being covered by those fees.

In the medium term, we propose a universal, high-quality, low-fee ECEC system that would enable working parents to move seamlessly from paid parental leave to a subsidised ECEC place, and later an OSHC place, if they so choose. In the interests of optimising early childhood development and education, a universal system would provide access for children whose parents are not workforce participants, though for a limited number of hours.

## 1 Introduction

Early childhood education and care (ECEC) has a key role to play in meeting some of Australia's biggest challenges. If solid foundations are laid in the early years, later learning is more effective, reducing the risks of early school leaving, increasing the equity of educational outcomes and reducing public expenditure on welfare, health and even the criminal justice system. According to the European Commission, 'There is clear evidence that participation in high quality ECEC leads to significantly better attainment in international tests on basic skills ... equivalent to between one and two school years of progress' (European Commission, 2011). ECEC can assist parents to manage the dual demands of paid work and family responsibilities, contribute to a more skilled workforce and help children to integrate into the wider society. Appropriately designed programs promote social inclusion and connectedness, boosting later employability.

Evidence about the wide-ranging social, economic and educational benefits of ECEC is growing, but *quality is the key*. For example, Australian research shows an association between participation in *quality* preschool programs and higher Year 3 NAPLAN scores in reading, spelling and numeracy. Children whose pre-school teacher had a Certificate qualification or no relevant childcare qualification showed no significant benefit from attendance at preschool (Warren & Haisken-DeNew, 2013).

If ECEC is to deliver the benefits that are claimed for it, it must be provided in a way that meets rigorous standards of evidence. As discussed later in this report, Australia's National Quality Framework is an important step forward but the standards it establishes are a *quality baseline*, rather than measures of best practice. There is no room to relax or defer the NQF if Australia wishes to reap the benefits of social investment in ECEC. Public dollars need to be spent wisely, ensuring that they generate the greatest net benefit.

Between 2007 and 2013, the Council of Australian Governments (COAG) introduced a range of policy and regulatory measures aimed at improving the quality of ECEC, ensuring that all children gain access to at least a year of preschool and expanding the provision of services to Aboriginal and Torres Strait Islander children. A national early childhood development strategy, *Investing in the Early Years*, was developed to provide an overarching framework for the wellbeing of children from before birth to 8 years and a National Quality Framework (NQF) was introduced to raise the quality of services across the sector. The NQF includes a consistent regulatory framework for ECEC services across all states and territories. It introduces nationally consistent staff-to-child ratios and educator qualification requirements

for Long Day Care (LDC), preschool/kindergarten, Family Day Care (FDC) and Outside School Hours Care (OSHC) services and raises to qualifications required, bringing them more into line with evidence from international research about the determinants of quality. These reforms have major implications for the children's services workforce. However, under current arrangements, government subsidies have no direct connection to the actual costs of care. If low-pay and lack of opportunities for career advancement continue to characterise the sector, while at the same time educators are required either to gain new qualifications or to upgrade existing ones, it will be increasingly difficult to recruit or retain staff, especially in rural and remote parts of Australia (Productivity Commission, 2011, Chapter 5).

The Australian government's mechanisms for financing for early childhood education and care have a number of strengths. However, the system as a whole has come under intense scrutiny in recent years, with claims that it is inflexible, complex and in need of tighter alignment with social and economic policy objectives (Early Childhood Australia, 2013; Productivity Commission, 2013a).

In mid-2013, Early Childhood Australia and Goodstart Early Learning commissioned the Social Policy Research Centre, University of New South Wales to:

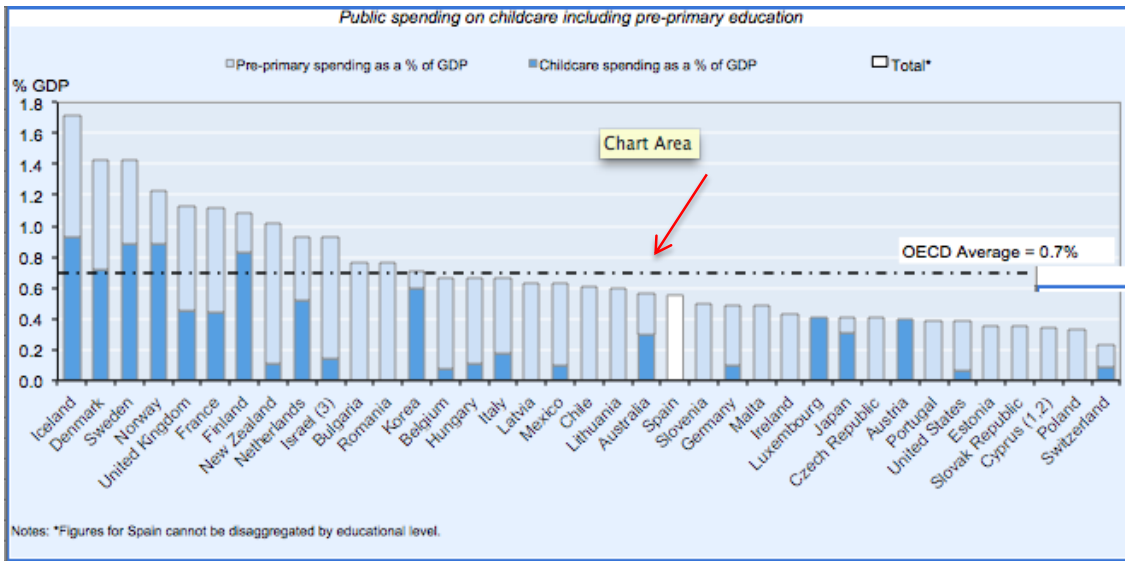
1. Review the current model of financing Early Childhood Education and Care (ECEC) and assess its strengths and weaknesses
2. Develop 3-5 high level options for Commonwealth government financing of ECEC ... to reflect the principles agreed by ECA, Goodstart and SPRC
3. Develop one option (agreed by ECA, Goodstart and SPRC) into a detailed model for Commonwealth government financing of ECEC in Australia. Model to be sufficiently detailed to enable analysis of financial and economic impact.

Expenditure on early education has increased in recent years, but is still well below the 1% of Gross Domestic Product (GDP) recommended by UNICEF.<sup>1</sup> In 2008, UNICEF ranked Australia 18<sup>th</sup> out of 24 countries on this measure; more recently, the Organisation for Economic Cooperation and Development (OECD) showed Australia performing 21<sup>st</sup> out of 37 countries in the enlarged OECD. Many poorer countries, including Romania, Bulgaria, Chile, Mexico and Korea, invest a higher proportion of their national product on ECEC (see Figure 1.1).

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<sup>1</sup> Australia spends approximately 0.4% of GDP, putting it towards the bottom of the field (18<sup>th</sup> out of 24 countries). High spending countries such as France, Sweden, Finland and Iceland spent at least 1.2% of GDP (UNICEF 2008, 27).

**Figure 1.1 Spending on ECEC as % of GDP**

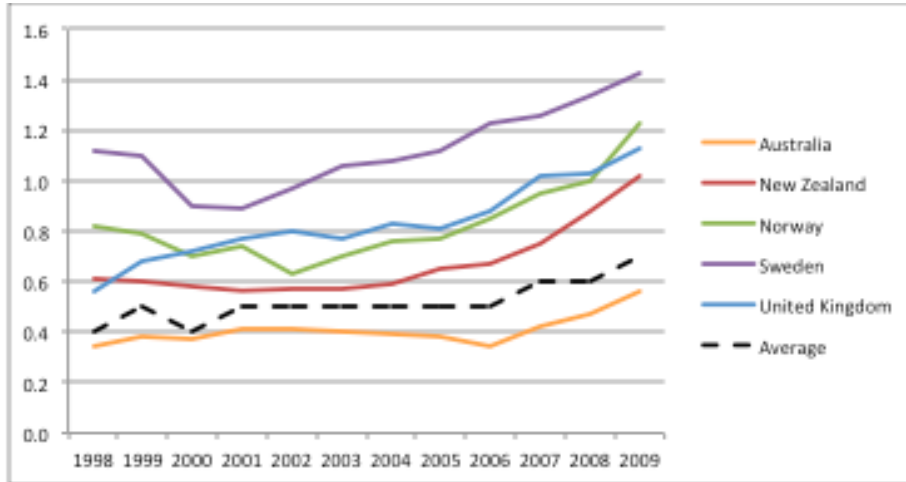


Source: Organisation for Economic Co-operation and Development (2013)

Australia does not perform well in international comparisons of the proportion of children who participate in high quality education and care programs and in the measurement of systemic features that protect children’s wellbeing. While aspects of policy and provision in Australia have improved in recent years, especially with the introduction of the NQF and other COAG reforms outlined above, there is no room for complacency. In 2011 the OECD ranked Australia 30<sup>th</sup> out of 34 countries in terms of children’s access to preschool. Across a range of indicators measuring the wellbeing of children and young people, Australia ranked in the top third in just 12 out of 46 (ARACY, 2013).

Australia’s expenditure on ECEC relative to GDP has risen in recent years, however nations such as UK, New Zealand, Sweden and Norway (countries to which Australia might look for policy inspiration) have also increased their expenditure in this period and Australia lags well behind the OECD average, as shown in Figure 1.2.

**Figure 1.2 Public expenditure on childcare and preschool, % of GDP, 1998- 2009, In selected OECD countries**



Source: Generated from Organisation for Economic Co-operation and Development (2013)

A report by the Economist Intelligence Unit mentions Australia as one of several countries that does not provide a legislated entitlement to ECEC for children at any age – although it also notes the ‘major reforms now under way’ as part of Australia’s ‘preschool turnaround’ (Watson 2012, p.30). The aspiration that all children will have access to 15 hours preschool for one year before school (known as ‘universal access’) does not necessarily guarantee a place for every child and, as discussed below, many of Australia’s most vulnerable children miss out. Unlike the UK and New Zealand, Australia (at a national level) does not provide a guarantee of *free* early childhood education. Although many children have access to free kindergarten or preschool funded by State or Territory governments, access to this is dependent upon the jurisdiction in which the child resides. It is not a formal *entitlement* like school education.

The significance of financing mechanisms is apparent from the composite index used by the Economist Intelligence Unit to assess preschool provision in 45 countries. This shows that the Nordic countries perform best, with Finland, Sweden and Norway standing out for their ‘sustained, long-term investments and prioritisation of early childhood development, which is now deeply embedded in society’. Significantly, high-income countries are not the only ones that perform well on this index. Chile and the Czech Republic, for example, have instituted preschool provision as a legal right and made significant progress towards this goal, despite budgetary challenges. Australia is one of several high-income countries noted for their poor

performance despite having high average *per capita* incomes.<sup>2</sup> The report noted that high quality programs exist in Australia and similar countries but that they 'are not available or affordable to all strands of society' (Watson, 2012, p. 6).

ECEC provision in the countries that top the Index has the following features:

- A comprehensive early childhood development and promotion strategy, *backed up with a legal right to such education*
- Universal enrolment of children in at least a year of preschool ... with nearly universal enrolment between the ages of three and five
- Subsidies to ensure access for underprivileged families
- A high bar for preschool educators, with specific qualification requirements, often backed up with commensurate wages, as well as low student-teacher ratios

In November 2013, the Australian government requested the Productivity Commission to conduct an inquiry into child care and early learning and to develop options for the future. The inquiry's Terms of Reference emphasise that 'public expenditure on child care and early childhood learning [should be] both efficient and effective in addressing the needs of families and children' (Productivity Commission, 2013a).

The emphasis of the inquiry on the efficiency and effectiveness of public expenditure is welcome. These issues have been the focus of important recent studies (Frede & Barnett, 2011; Friendly, 2011; New Zealand ECE Taskforce, 2011).

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<sup>2</sup> Other poor performers included Canada, Singapore and the US.

## 2 Australia's ECEC system

### 2.1 Historical context

Commonwealth funding for ECEC began with the introduction of the *Child Care Act* in 1972. In the decades since then, governments have used a range of financing mechanisms to support services and/or the families that use them. Originally, the Commonwealth paid 75% of the wages of staff required under State and Territory regulations. Only non-profit services were eligible to receive these operational subsidies. Additional support, initially known as 'fee relief', but later rebadged Child Care Assistance (CCA), was paid to services enabling them to contain fees so that low and middle-income families were not excluded.

In 1991, as part of a shift towards the marketisation of human services, CCA was extended to users of for-profit childcare – but paid directly to the services in the same way as it was paid to non-profits. In the 1990s, a non means-tested Child Care Rebate (CCR) was introduced to provide further support to families. CCR was intended to assist with the costs of work-related care. It could be claimed in respect of either 'formal' or 'informal' care including nannies and was seen as an alternative to a tax concession for child care expenses.

Under the Howard government, operational subsidies for non-profit services were removed and the primary financing mechanism for child care shifted once again, with CCA and CCR being amalgamated into a single consumer payment called Child Care Benefit in 2000 (in the context of the introduction of the Goods and Services Tax). In 2004, following pressure from families who were excluded from receiving CCB by the means-test, the government introduced the Child Care Tax Rebate - a non means-tested, 30% rebate for child care costs, capped at a fixed fee. This particular form of the rebate was highly regressive, since those with low (or no) tax liability were likely to miss out. The Rudd government renamed this measure the Child Care Rebate, increased its value to 50% of out-of-pocket expenses and increased the maximum amount that could be claimed to \$7,500. Initially, the CCR cap was indexed and in 2010-11 it reached \$7,941, meaning that parents who spent \$16,000 on child care had almost half their fees covered by the subsidy. The cap has since been reduced to 50% of \$15,000 or \$7,500 (Department of Human Services, 2012b).

As this brief history illustrates, the Australian government has used a variety of mechanisms to fund ECEC including wage subsidies, generalized 'operational support', fee relief paid to families, fee relief paid to services and assistance through the tax system. There is nothing sacrosanct about the current mechanisms used by the Commonwealth.



## 2.2 Current state of play

Participation in ECEC is a normal part of life for many Australian children. More than 44% of 0-5 year olds attended approved services in 2012: just over half (51%) of 2 year olds, 58% of 3 year olds and 52% of 4 year olds. Of the children attending approved services, 60% were in long day care, 31% in outside school hours care, 12% participated in family day care and in-home care and 1% in occasional care (Productivity Commission, 2013b, Table 3A.10). Participation in approved services varies by demographic characteristics, including family composition, language spoken at home and location. Among children 0 to 12 years, children in one parent families were more likely to attend before and after school care, but less likely to attend long day care. Children from families where English is the main language spoken at home are more likely (24%) to attend approved services than children where a language other than English is spoken at home (15%). And children in major cities are more likely to attend any form of formal care than children in regional or other parts of Australia (Australian Bureau of Statistics, 2011, Table 3). Across both couple and single families, children in lower income families are less likely to attend formal ECEC. Further details about low-income families' use of ECEC are presented in Section 3.

Children aged 0 to 12 years in families with parents working are more than three times as likely to be attending child care services as children in families where at least one parent is not working. Looking only at preschool services (largely state based provision for 4 and 5 year olds), the figures are more similar, at 53% and 46%, respectively (Productivity Commission, 2013b, Table 3A.21). Hours of attendance varied across service types. On average, children attend long day care for 27 hours per week, family day care for 22 hours and occasional care for 12 hours (Productivity Commission, 2013b, p. 3.27). The largest proportions of children (31%) attend formal care for between 10 and 19 hours per week. Over 16% attend for less than 5 hours, and approximately 9% attend for more than 35 hours per week (Australian Bureau of Statistics, 2011, Table 8).

ECEC services are delivered through a mixed market that includes government, for-profit, non-profit and community-based providers. Provider profiles vary markedly from state to state (Price Waterhouse Cooper, 2012, p. 14; Productivity Commission, 2013b). For the most part, long day care services are more likely to be privately managed, while family day care is more likely to be managed by community organisations or the government.

Across Australia, in June 2012 there were 15,020 Commonwealth approved children's services including 8,342 out of school hours care services, 6,156 long day care centres, 441

family day care and in-home care services and 80 occasional care centres (Department of Education Employment and Workplace Relations, 2012a).

In addition, the Commonwealth funds 337 Budget Based Funded (BBF) services, mainly in Indigenous communities, according to a range of historical formulae. Commonwealth funding for the BBFs and 38 Aboriginal Child and Family Centres established under a COAG National Partnership Agreement on Indigenous Early Childhood is secure only until June 2014. The BBFs and ACFCs do not fall within the scope of this report because they are not primarily reliant upon CCB and CCR but it is important that they are acknowledged in any discussion of Australian early childhood education and care, especially in the context of ensuring that disadvantaged children benefit from high quality services. Despite the fact that they service some of the most disadvantaged children in Australia, most of the BBFs have poor quality infrastructure and find it difficult to recruit and retain qualified staff. They have been excluded from the provisions of the National Quality Framework.

### **2.3 Government child care financing**

Governments spent \$6 billion on early childhood education and care services in 2011-12. Around 80% (\$4.7 billion) came from the Australian government and went towards Child Care Benefit and Child Care Rebate. State and Territory governments spent \$1.3 billion on ECEC in 2011-12 with almost all of this (\$1.1 billion) being spent on preschools (Productivity Commission, 2013b, Table 3A.4). Australian government spending is intended to support parental workforce participation as well as to support participation in ECEC children development reasons. The main mechanisms are:

**Child Care Benefit (CCB)** is a means-tested subsidy available to eligible families to assist with the costs of childcare. CCB is based on an hourly rate that varies according to family income, the number of children enrolled in approved care, the number of hours used, whether children attend school and the type of child care used. Parents who meet the 'work, study or training test'<sup>3</sup> and who use approved services such as long day care, family day care or in-home care are eligible for up to 50 hours CCB for each child below school age.

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<sup>3</sup> The 'work, study, training test' requires parents to have work-related commitments for at least 15 hours a week (or 30 hours a fortnight) or to have an exemption from that requirement. Work-related commitments include: paid work or self-employment; setting up a business; training or studying; looking for work; voluntary work to improve work skills. The test can also be met by being on annual leave or long service leave; on sick or other paid leave; on paid or unpaid parental leave, for up to a maximum of 12 months; on self employment leave (including sick leave); receiving Carer Payment; receiving Carer Allowance; caring for a person with disability; or being on carer leave or carer sick leave.

Low-income families can claim up to \$3.99 per hour, or \$199.50 per week. Payment rates for school aged children are 85% of the non-school aged rate. Parents usually choose for CCB to be paid directly to the service provider, thus reducing up-front fees and obviating the need to make claims and wait for reimbursement. Regardless of income, families using registered care such as nannies can claim only 6 cents per hour or \$33 per week for up to fifty hours of care.

Parents who are not working, studying or training can claim up to 24 hours CCB per week for approved care. This is designed to recognise that children's participation in ECEC is beneficial for reasons beyond enabling parents' workforce participation. In these situations, most parents are required to pay the gap between CCB and the fee charged, as they are not eligible for CCR.

Special provisions apply to parents receiving income support (unemployment benefits or parenting payment, for example) who are seeking work, studying, training or undertaking rehabilitation in order to enter the workforce. **Jobs, Education and Training (JET) Child Care Fee Assistance (JETCFA)** pays most of the gap fee for these parents, at least for a limited time, requiring them to make a co-contribution of \$1.00 for each hour of care (Department of Human Services, 2012a). Parents participating in the Helping Young Parents or Supporting Jobless Families<sup>4</sup> initiatives and teenage parents attending school pay a co-contribution of ten cents per hour of care.

**Child Care Rebate (CCR)** is primarily designed to support parents' workforce participation. It is not means tested and this is intended to support workforce participation by the secondary earner, usually the mother. In line with its primary purpose, CCR is only available to families where parents meet the 'work, study, training test'. CCR is paid in lieu of tax deductibility and recognises the fact that child care is a cost of employment. CCR covers 50% of out-of-pocket costs; that is, 50% of fees less any entitlement to CCB or JETCFA up to a ceiling of \$15,000 per child (i.e. \$7,500 is the maximum that can be rebated). Families do not need to make a separate application for CCR; it is paid automatically following an

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<sup>4</sup> Helping Young Parents (HYP) and Supporting Jobless Families (SJF) are Commonwealth government programs targeted at recipients of Parenting Payment who live in ten specific Local Government Areas. HYP is for parents aged 19 years or less while SJF is for those under 23 years who have been receiving income support for 2 years or more and not working or studying and who have a child aged 5 or under.  
<http://www.humanservices.gov.au/corporate/government-initiatives/supporting-families>

application for CCB, even if the family is assessed as being eligible for 'zero dollars' because their income exceeds the income test for CCB.

Since CCR is linked to fees and high-income families are the most likely to use high-fee child care, CCR delivers significant benefits to high-income families. However, because of its flat rate structure it is more progressive and therefore more desirable than tax deductibility. Although the precise impact of child care tax deductibility would depend on the design of the scheme, in general, tax deductions could be expected to deliver substantially less assistance than the current system to low and middle income families. If deductions were to be based on marginal tax rates, low income families who pay no net tax could miss out completely (depending on whether a rebate was offered) while the deduction would apply at the rate of 32.5%, 37% or 45% depending on taxable income. The highest rebates would be paid to the highest income earners.

CCR is widely perceived to reduce the incentive for providers to control fees (Baker, 2013; Gittins, 2008). Economist Elizabeth Hill, for example, notes that payments made to parents are likely to reduce the cost of childcare only in the short term. Over the longer term, services are able to raise their daily fee to absorb the government subsidy, ultimately pushing prices up (Sydney Morning Herald, 2013). The extent to which this occurs may vary depending upon local factors such as the scale of unmet demand.

Lobby groups have campaigned to have the cap on CCR removed so that parents with out-of-pocket expenses exceeding \$15,000 per child can claim more than \$7,500. It should be noted, however, that the average amount of CCR claimed by families in 2011-2012 was \$2,466 – well below the cap. In 2012-2013, 22,297 families exhausted their CCR entitlement or 'hit the cap' by May 2013. As would be expected, these were mainly high income families. Only 1.2% of families on incomes under \$100,000 had 'hit the cap' by that stage of the year.<sup>5</sup> Lobby groups have also called for CCR to be extended to nannies and *au pairs* – currently excluded because they are not approved for CCB purposes (Karvelas, 2012a).

The **Child Care Services Support Program** (CCSSP) provides payments to services to meet a number of objectives, including the provision of services to children with ongoing high support needs, and the establishment or operation of services where they might not otherwise be viable, including in regional and remote areas.

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<sup>5</sup> Senate Estimates, 5 June 2013, p. 79.

**Budget Based Funding (BBF)** is a sub-program within the Child Care Services Support Program. Some 337 **services** receive BBF funding from the Commonwealth government. The BBFs were established under a variety of historical funding arrangements and consolidated into the BBF program in 2003 (Department of Education Employment and Workplace Relations, 2012c). Approximately 80% of the BBFs are Aboriginal and Torres Strait Islander-focused services. In addition, thirty-eight Aboriginal Children and Family Centres (ACFCs) established with funding from the National Partnership Agreement on Indigenous Early Childhood Development (2009) have been planned for areas with high Aboriginal and Torres Strait Islander populations and high levels of disadvantage. As with the BBF services, the funding agreement for these services expires on 30 June, 2014 and many have been advised to prepare for funding through 'mainstream' program mechanisms such as Child Care Benefit and Child Care Rebate. Options for the future funding of the BBF and ACFCs are currently being considered by government agencies, by the Secretariat of National Aboriginal and Islander Child Care (SNAICC) and by the communities in which the services are located (SNAICC, 2012b). A tailored program of funding has been proposed in order to support and develop services for Aboriginal and Torres Strait Islander communities (Brennan, 2013). The recommendations put forward in the current report do not apply to these services.

Childcare facilities provided on an employer's business premises for the benefit of employees receive **Fringe Benefits Tax exemption**. Employers can allow employees to pay for child care from pre-tax income (under 'salary sacrificing' arrangements) or they can provide child care on their premises as part of a remuneration package. Such arrangements effectively provide tax deductible child care for a narrow group of parents. Since CCR provides a rebate of 50% of out-of-pocket expenses up to a maximum of \$7500 per child, the FBT exemption provides a greater level of assistance only for a small group of taxpayers.

As noted by the report of the inquiry into Australia's tax system, *Australia's Future Tax System* (the Henry Review), current arrangements are 'complex for parents, providers and administrators' (Henry et al. 2008, p.589-590). Considerable confusion surrounds CCB and CCR and, particularly, the interaction between the two. The distinction between 'approved' and 'registered' care is also not well understood. The term 'approved' implies a service that meets government regulations and services. Parents are thus often surprised to discover that their preschool, for example, which meets all required quality standards, is not 'approved' for CCB because the Commonwealth requires approved services to be open for a minimum number of hours per day and weeks per year. While this may make sense from a bureaucratic and administrative perspective, it makes no sense to families.

## 2.4 Strengths of Australia's ECEC arrangements

In 2008, the Australian government committed to building 'a world class system of integrated early childhood learning and childcare' designed to 'boost national productivity, lift labour force participation, contribute to social inclusion and be the first step towards an "education revolution"'. In 2009, the Council of Australian Governments (COAG), representing the Commonwealth, States, Territories and local government, endorsed an early childhood development strategy encompassing children from birth to 8 years. *Investing in the Early Years: A national childhood development strategy* sets out a 'comprehensive response to evidence about the importance of early childhood development and the benefits – and cost-effectiveness – of ensuring all children experience a positive early childhood' (Council of Australian Governments, 2009b). Many of the strengths of the Australian system relate to the quality measures that have been introduced in recent years. As well, there are some characteristics of the financing system that support child and family well-being. We argue that these characteristics should be retained, though perhaps in a modified or extended form, in any revised financing model.

### *National Quality Framework*

One of the most significant developments in the ECEC sector in recent years has been the introduction of the National Quality Framework (NQF) (Council of Australian Governments, 2009c). The NQF involves a new quality assurance system that replaces the disparate licensing systems previously operated by the various states and territories. Its implementation is overseen by a newly established statutory authority, the Australian Children's Education and Care Quality Authority (ACECQA). Under the NQF, consistent standards apply to most long day care centres and preschools, regardless of provider type. That is, unlike quality mechanisms in some other jurisdictions e.g. the UK, they apply equally to all mainstream services, whether these are owned and managed by private-for-profit businesses, non-profit organisations or governments.<sup>6</sup>

The NQF introduces nationally consistent staff-child ratios and educator qualifications to be phased in over eight years. From January 2014, a university qualified early childhood teacher will be required to be in attendance for a minimum period in all mainstream LDC centres and preschools licensed for 25 or more children. Half the educators employed in preschools and long day care services will be required to have, or be working towards, a 2-

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<sup>6</sup> Some service types, including the Budget Based Funded services have been excluded from the new quality agenda, at least initially.

year vocational diploma in children's services; the remaining staff will be required to have, or be working towards, a vocational Certificate III level ECEC qualification (a 6 month entry level qualification) or equivalent.

The NQF does not cover all service types: most of the Budget Based Funded services are excluded, for example. Importantly, Family Day Care is covered which means that Family Day Care educators must have the same qualifications (Certificate III) as staff in long day care while co-ordinators are required to have a diploma or degree. The inclusion of Family Day Care, Australia's major system of home-based ECEC, in the NQF recognises the importance of quality in early childhood provision, regardless of whether the service is home-based or centre-based. Reforms aimed at providing more flexible forms of ECEC should build on this component of Australia's system.

#### *Early Years Learning Framework*

All Australian governments have endorsed a national early childhood curriculum, the Early Years Learning Framework (EYLF) (Council of Australian Governments, 2009a). The EYLF sets out the principles, practices and outcomes required to support children's learning from birth and to ensure a smooth transition to school. It has a strong emphasis on play-based learning and recognises the importance of communication and language, including early literacy and numeracy, social and emotional development.

#### *Universal access for children in the year before school*

Through COAG, governments have also endorsed the goal of universal access to preschool education. The COAG commitment is that all children will have access to 'a quality early childhood education program ... delivered by a four-year university trained early childhood teacher, for 15 hours a week, 40 weeks a year, in the year before formal schooling' by 2013 (Council of Australian Governments, 2009d). Universal access is about participation in a particular type of program rather than attendance at a particular type of service; a preschool program can be delivered in a long day care centre, a dedicated preschool/ kindergarten or a mobile service that takes early learning experiences to children in remote communities. Australia's commitment to preschool is not as far-reaching as similar initiatives in other countries. 'Universal access' expresses an official aspiration but does not establish an entitlement for children. The 15 hours are not necessarily free; rather, governments have adopted the more nebulous goal that 'cost should not be a barrier to participation' (Council of Australian Governments, 2009d).

Despite these limitations, the goal of universal provision is an important step forward for Australian ECEC and an undoubted strength of the system.

*CCB available regardless of parental workforce participation*

The Australian system provides up to 50 hours CCB if parents are engaged in work, study or training or are exempt from this requirement. Even if parents are not engaged in any of these activities, however, up to 24 hours per week CCB is available. Most parents are still required to meet the gap between CCB and the fee charged by the service, and this can be a barrier for some, especially for parents who are outside the labour force. However, even the possibility of access to subsidised care for the children of non-workforce participants puts Australia ahead of some similar countries. In the UK, for example, there are no general childcare subsidies for the children of non-workforce participants other than the 20 free hours for three and four year olds and disadvantaged two year olds. That means that most parents with infants and toddlers cannot access a subsidised child care place for infants or toddlers, or receive a subsidy for additional hours for their 3 or 4 year old children, even if they are studying, training or looking for work.

Almost all (98%) of families using approved care receive either CCB or CCR; close to three-quarters (72%) of receive both. Of the remainder, about half receive only CCB (either because they use registered rather than approved care and are thus not eligible for CCR or because they do not meet the work/study/training test) and the other half receive only CCR (most likely because their family income renders them ineligible for CCB) (Department of Education Employment and Workplace Relations, 2012b). The fact that subsidies are available to almost all families who find a place in an approved service contrasts with some other jurisdictions (e.g. Canada) where, in several provinces, the number of fee subsidies a service can offer is capped. Under these arrangements, families may wait for years in order to gain access to a subsidized place.

*Home-based options are an integral part of Australian ECEC*

An additional strength of the Australian system is that home-based schemes (including Family Day Care where ECEC educators' provide care in their own homes and In Home Care where the educator comes to the child's home) are approved for receipt of CCB and CCR. This provides the basis for development of a seamless system of quality regulated, home-based and centre-based options. Family Day Care offers very flexible ECEC arrangements including overnight and weekend care. Australia's In Home Care program although limited in scale, also provides flexible options that are affordable for a small number



of families who are unable to access mainstream services. Later discussion identifies areas of reform for In Home Care; however its inclusion as an approved service is a strength that should be maintained.

*Single subsidy system for ECEC and Out of School Hours Care (OSHC)*

The existence of a single subsidy mechanism for children below school age and school aged children is a valued feature of the current system. Many working families juggle the challenges of finding OSHC when their children when they start school, which is also often the time when mothers return to work or increase their hours. NATSEM research shows that access to OSHC varies according to family income and neighbourhood characteristics. Only 13% of children whose families are in the lowest income quintile use formal or informal OSHC compared to 44% of children from families in the highest income quintile. Turning to formal OSHC, usage ranges from less than 1% of children in the lowest quintile to 21% of children in the highest quintile (Cassells & Miranti, 2012).

Using HILDA data, the study finds that families face similar challenges in finding care for school aged children as for younger children. Families face barriers relating to the availability, affordability and appropriateness of care. For example, it is hard for families to find appropriate care for children in 'the middle years' (around 9 to 10 years). Many children do not participate in any form of OSHC, even when their parents are employed or otherwise not available outside school hours. This raises concerns for the safety and wellbeing of all children, but particularly for those from disadvantaged families where there may be fewer suitable informal arrangements available. A study by the Australian Institute for Family Studies found that the activities children aged 5 to 12 engage in vary according to their demographic characteristics. Children from low-income families were less likely to participate in organised activities, such as sport and creative play and more likely to be doing unorganised activities, such as watching television. Children from non-English speaking backgrounds were also less likely to be in supervised sport and creative play, but more likely to be doing homework or reading. Children from vulnerable groups are less likely to participate in organised activities outside of school hours and more likely to be unsupervised at the end of the school day. With a growing body of research studies showing the value of participation in organised activities for children, it is important to consider how these supervised and activities can be accessible to children from all social backgrounds (Mullan, 2012, p. 89). The inclusion of OSHC in the ECEC subsidy system is a positive step toward expanding access to more children and families.

### **3 The need for reform**

Even acknowledging the very positive features outlined above, Australia's approach to ECEC has some profound weaknesses which impact negatively on children, families and the economy. There is a strong case for reform of the system to better align the program's objectives around child development, labour force participation and social investment with the mechanisms through which funding is allocated.

#### **3.1 Improving access for low-income and disadvantaged children**

The Australian government has identified participation by children from particular target groups as a key objective for long day care, family day care and in-home care; however, in practice, children from all these groups are under-represented. Children from non-English speaking backgrounds make up more than 20% of 0-5 year old children in the community, for example, but just over 15% of enrolments in approved services. Children from Aboriginal and Torres Strait Islander backgrounds represent almost 5% of this age group, but only 2% of children in approved care. Children with disabilities make up 4% of 0-5 year olds but only 2.5% of those attending approved services. Likewise, children from regional and remote areas of Australia are under-represented in approved child care services (Productivity Commission, 2013b, p. 3.5).

The participation of Aboriginal and Torres Strait children in early childhood services is of particular importance given the levels of disadvantage in their communities. Most Aboriginal and Torres Strait Islander children who participate in ECEC services are enrolled in mainstream services that cater for both non-Indigenous and Indigenous children (Productivity Commission 2011, 349). Across Australia, there are some 270 Indigenous-focused services including Multifunctional Aboriginal Children's Services, crèches, playgroups, outside school hours care and mobile services designed to meet the needs of local Indigenous families. Some mainstream services work closely and productively with Indigenous families and communities, but this cannot be said of all (SNAICC, 2012a).

The Australian Early Development Index (AEDI), a population measure of children's health and development, provides a valuable source of data for understanding children's development when they start school. This is particularly useful given the lack of data linking socio-economic status to the quality of children's ECEC experiences. The AEDI is based on a checklist completed by teachers during children's first year of schooling. It measures development in five domains: physical health and wellbeing; social competence; emotional maturity; language and cognitive skills; and communication skills and general knowledge.

The first round of the AEDI, completed in 2009, revealed that almost one-quarter of Australia's children are developmentally vulnerable in one or more of the specified domains. Almost twice as many Indigenous children (48%) were considered vulnerable as were 32% of children from language backgrounds other than English. AEDI data suggest that participation in high quality early childhood education is skewed towards more advantaged populations (AIHW, 2012).

A recent report prepared by researchers from the Australian Institute of Family Studies, states unequivocally that 'those who are perhaps in greatest need of ECE' are most likely to miss out. The report identifies Aboriginal and Torres Strait Islander children, children from non-English-speaking backgrounds, children from socio-economically disadvantaged families and children living in remote areas as those most likely to miss out (Baxter & Hand, 2013, p. xvii). Importantly, the authors note that 'access' is a multidimensional concept and that the elimination of fees (even though it might be necessary) may not be sufficient to encourage all families. Providing a place for a child to enrol is a first step but whether the availability of a place translates into enrolment and participation depends on a number of factors including characteristics of the service, parental preferences and child characteristics. We return to this point in our concluding section.

Family income plays a crucial role in mediating access to child care. In families with a combined weekly income of \$2000 or more, 52% of 0-14 year old children regularly participate in child care, compared with 25% in families with a weekly income of \$800 or less. Family income also affects the types of care used. Children whose parents' weekly income exceeds \$2000 are more likely than those earning less than \$800 to use both formal care (18% and 11% respectively) and informal care (24% and 13%). Families earning \$800-999 per week are the least likely to use either formal or informal child care (Table 3.1).

**Table 3.1 Children aged 0-12 years, type of care usually attended by weekly income of parents, couple and single income families**

	Weekly income of couple parents						Weekly income of single parent			
	Less than \$1000	\$1000 – \$1399	\$1400 – \$1999	\$2000 – \$2499	\$2500 or more	Total	Less than \$600	\$600– \$999	\$1000 or more	Total
Usually attended care	34.6	41.5	49.0	58.3	62.4	49.2	55.4	66.2	89.0	65.4
Usually attended formal care only	12.0	10.3	15.1	17.2	18.2	14.3	8.7	11.1	11.8	10.1
Usually attended informal care only	18.6	22.9	25.7	30.3	28.9	25.6	39.6	38.9	50.2	41.2
Usually attended both formal and informal care	3.9	8.4	8.2	10.8	15.4	9.2	7.2	16.2	27.1	14.1
Did not usually attend care	65.4	58.5	51.0	41.7	37.6	50.8	44.6	33.8	11.0	34.6

Source: Australian Bureau of Statistics (2011, Tables 6 & 7)

As well as these factors relating directly to the early childhood system, other policies have the potential to militate against children from disadvantaged families gaining access to high quality services. In 2012, DEEWR advised a Senate Committee that single parents being moved from Parenting Payment to Newstart should be asked to ‘consider’ informal arrangements such as care by family or friends, or to allow older children to be ‘unsupervised for a time’ if formal child care cannot be found (Karvelas, 2012b). While the shift from Parenting Payment to Newstart applies to families only when the youngest child turns eight, these views suggest that the principle of ensuring that the most disadvantaged children have access to high quality services may not be shared by all.

Despite growth in the number of child care places in recent years, there is considerable unmet demand. In 2011, additional formal child care or preschool services were needed for nearly 600,000 children aged 0-12 (16.4% of children in this age group). Parents’ work commitments were the main reason cited for children needing more child care or preschool services. More than half (51%) of parents gave this reason (unpublished ABS data cited in Productivity Commission, 2013b, pp., Table 3A.40).

### **3.2 Labour force participation and the affordability of child care**

The cost of child care is a major issue for many families. Although CCB rates are indexed annually against the CPI and CCR rises as fees rise (at least up to the cap), Treasury analysis shows that between 1996 and 2005 the price of child care outstripped inflation in every year except the two immediately following the introduction of Child Care Benefit in

2000. Despite increased government assistance – especially the introduction of the Child Care Rebate in 2004 and its extension in 2007 – more families were experiencing difficulties with child care fees in 2010 than in 2001 (Baker, 2013, p. 7).

According to DEEWR, Commonwealth subsidies are effective in reducing the fees faced by families. Across a wide range of incomes, families require 8.2% to 9.4% of their disposable income to pay for 50 hours of care, after subsidies are taken into account (Productivity Commission, 2013b, Table 3A.39). This very positive picture is, however, tempered by other evidence such as analysis of the HILDA data which shows that considerable numbers of families are paying more than this (Baker, 2013, p. 2). In addition, if high-income families are buying more expensive child care than low-income families, they may be receiving substantially higher subsidies (see Appendix).

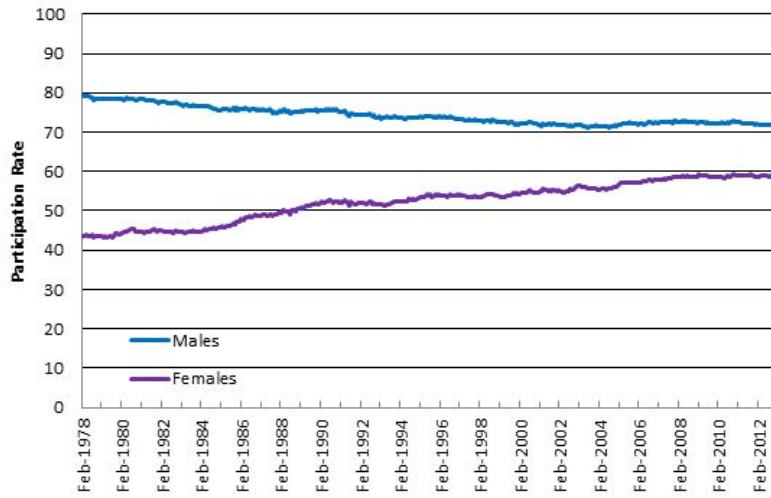
Similarly, a report on economic reform priorities for Australia prepared by the Grattan Institute concludes that ‘there appears to be compelling evidence that the cost of childcare after tax and welfare benefits is a substantial barrier to higher female workforce participation in Australia, and there are clear policy levers that can change it.’ (Daley, McGannon, & Ginnivan, 2012, p. 49).

Analysis of trends in affordability shows that households in which one partner works full-time and the other part-time experience the highest level of difficulty with childcare costs. Fifty-three per cent of such households reported difficulty, compared with 28% of households with two parents working full-time and 11% in households with one partner working full-time (Baker, 2013, p. 9).

As noted above, families using registered care receive significantly lower payments compared to those using approved care for work-related purposes. The maximum amount of CCB that can be claimed by a family using a registered service is about 6 cents per hour, or \$33.30 for 50 hours of care; users of registered services are not eligible for CCR, regardless of income or workforce status. The distinction between approved and registered care is confusing to many families.

Child care plays a crucial role in supporting the labour force participation of parents and is an important goal of child care systems around the world. Women’s labour force participation has been increasing since the late 1970s, while men’s has been declining. Women now account for approximately 46% of the total workforce (Figure 3.1).

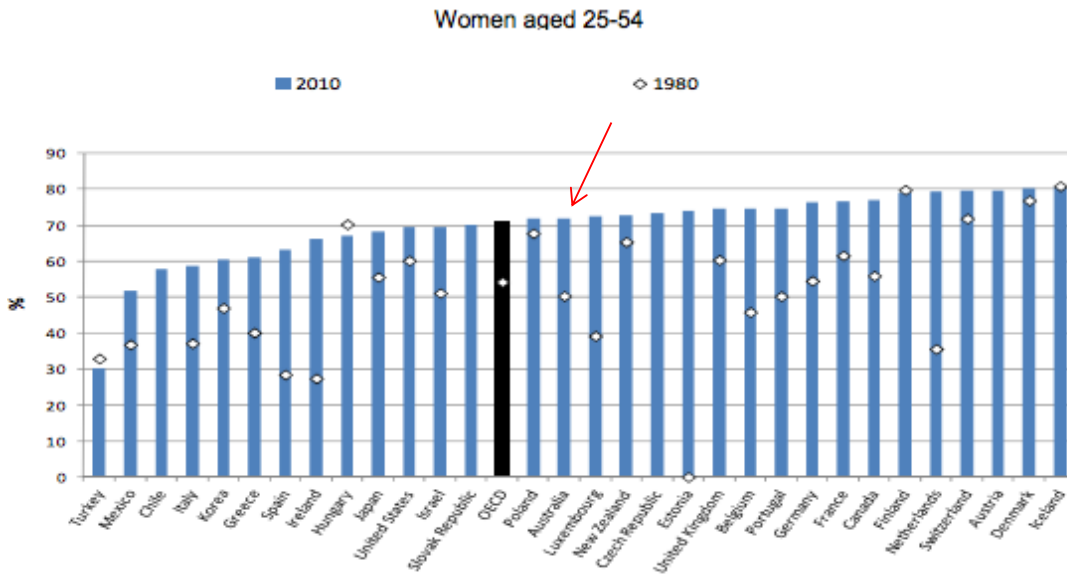
**Figure 3.1 Labour force participation by gender, 1978-2012**



Source: ABS, Labour Force, Australia, Jan 2013 (cat. no. 6202.0) - Table 2: Labour force status by Sex - Seasonally adjusted

Source: Roberts (2013)

**Figure 3.2 Labour force participation of women aged 25-54 in OECD countries, 1980 and 2010**

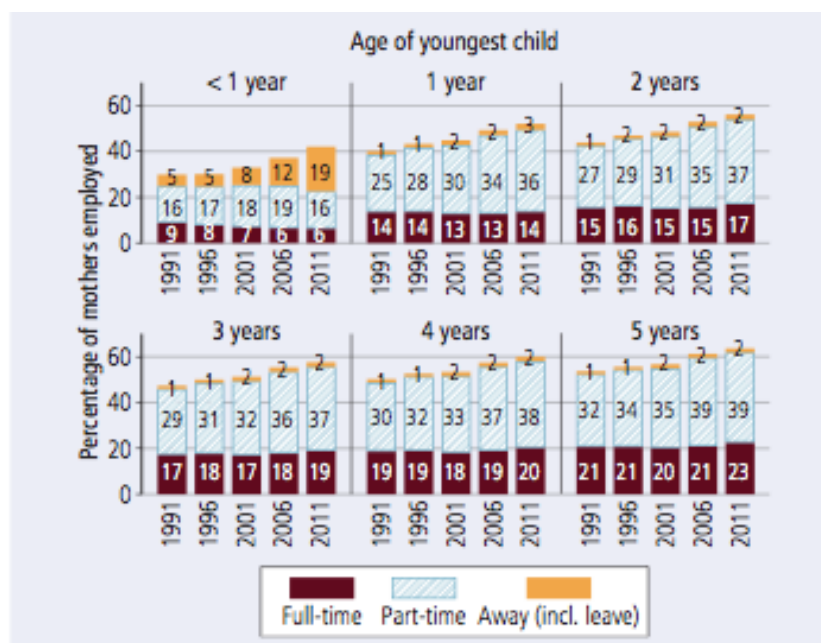


Source: Thévenon (2013).

Mothers of young children have markedly increased their engagement with the labour market over the past thirty years. The labour force participation of women in Australia is around the middle of OECD countries (Figure 3.2). The dip in workforce participation that previously characterised the behaviour of 25-34 year old women (referred to by the ABS as

‘nappy valley’) has all but disappeared for more recent cohorts of women (Australian Bureau of Statistics, 2013, p. 303). Although part-time work is more prevalent than full-time work for mothers with children at each age, some women work full-time from the time their children are infants. Baxter’s analysis of Census data from 1991 to 2011 shows increased employment for mothers of children in each of the preschool years except for infants under the age of 1 year. The proportion of mothers in full-time employment increases in line with the age of the youngest child, with full time-employment fairly steady at 14% for mothers whose youngest child is 1 year old, 15-17% for those whose youngest is two years old, and so on. While full-time employment is far less common than part-time employment across all these categories, around one in five mothers whose youngest child is four or five years old now works full-time (Figure 3.3).

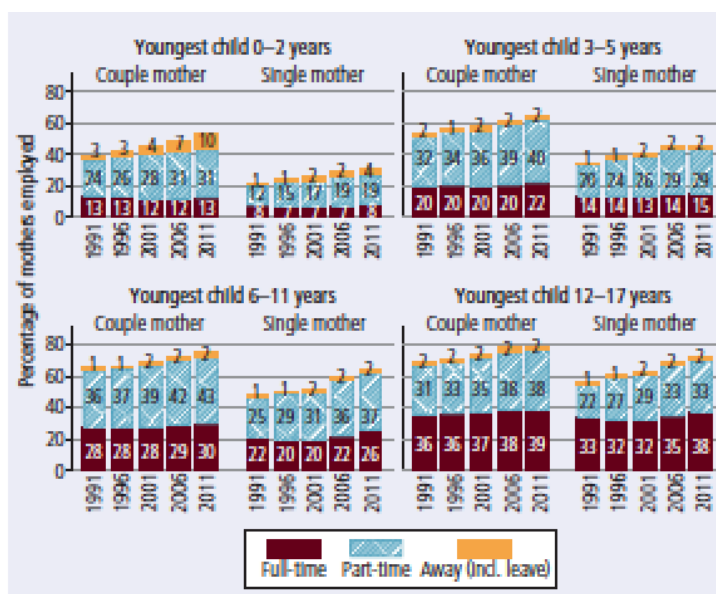
**Figure 3.3 Mothers’ employment rates, by age of youngest child, 1991-2011**



Source: Baxter (2013, p. 3)

Analysis of the workforce participation of couple and single mothers reveals both commonalities and differences. Both groups of mothers have increased their rates of employment, but the absence of a domestic partner seems to suppress the labour force participation of single mothers. The differences between single and partnered mothers are particularly stark in families where the youngest child is less than two years old (Figure 3.4).

**Figure 3.4 Mothers' employment rates, by age of youngest child, couple and single mothers, 1991-2011**



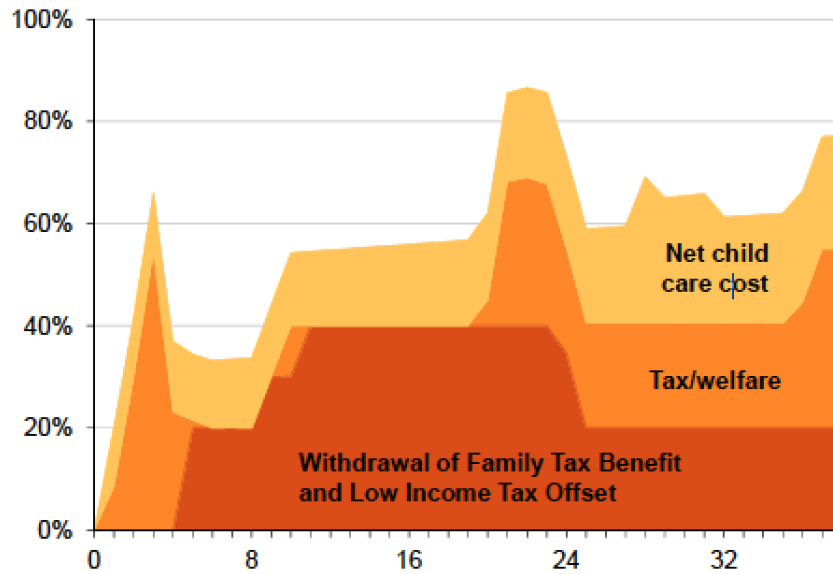
Note: Excludes mothers with labour force status or hours not stated.

Source: Baxter, 2013 (Derived from Australian Population Census, ABS, various years, custom data reports prepared for Australian Institute of Family Studies)

Modelling conducted for the Grattan Institute suggests that second earners have limited incentive to work, and especially to work full-time. NATSEM modelling conducted for the Grattan Institute shows that if two parents are each earning \$40,000 and have one child in long day care, they take home only about half the second earner's wage if the second earner works full time (Figure 3.5).



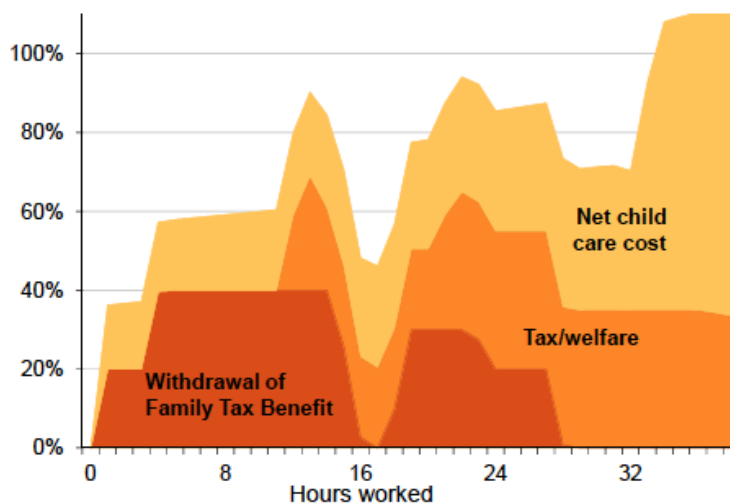
**Figure 3.5 Reductions to take home pay of second income earner earning \$40,000, one child aged 2 in long day care**



Source: Daley et al. (2012, p. 46).

The situation is exacerbated for middle income families with two children in long day care. If the first earner earns \$70,000 and the second earner would earn \$70,000 if employed full time, the family would take home only 20 cents in each dollar earned by the second earner when working more than two days per week (Figure 3.6).

**Figure 3.6 Reductions to take home pay of second income earner for middle income family, second earner earning \$70,000**



Source: NATSEM modelling for Grattan Institute

Source: Daley et al. (2012, p. 46).

### **3.3 Pay equity for teachers and educators**

The introduction of the NQF, outlined above, is a key strength of the Australian ECEC system. However, government subsidies have not kept pace with the costs of the new quality agenda. Attracting and retaining qualified professional staff to a highly feminised sector characterised by low pay, poor promotion prospects and arduous working conditions is a critical challenge. A high proportion of the educators in long day care are paid at minimum award rates, have limited opportunities for career progression and benefit only minimally in financial terms from upgrading their qualifications (Tarrant, 2008). During the 2013 election campaign, key early childhood providers and peak bodies pointed out that an early childhood educator with a Certificate III qualification is paid less than \$20 per hour. This is similar to the wage of a worker in the fast food industry and well below the wages of workers with comparable skills in other sectors (United Voice, 2013).

With low wages and limited opportunities for progression, there are relatively few incentives to gain qualifications to enter the ECEC workforce. For those working in the ECEC sector and already holding qualifications the incentives to remain are limited. Around 180 ECEC workers leave the sector every week (United Voice, 2012), and the low wages of ECEC workers are seen to reflect a general undervaluation of their work (Kun, 2013).

The negative consequences of a low paid ECEC workforce are felt by the children receiving care as well as by the educators themselves (New Zealand ECE Taskforce, 2011). Australian and international research shows that the quality of ECEC is critical to address the inequalities experienced by disadvantaged children (Seth-Purdie & Biddle, 2013); however international research confirms that children across the socioeconomic spectrum benefit from high quality ECEC (Barnett, Brown, & Shore, 2004).

In March 2013, the previous government initiated an Early Years Quality Fund (EYQF) as a step toward increasing wages in the ECEC sector. The Fund was intended to help offset the costs of increasing the ratio of qualified educators as part of the NQF. It would have underwritten pay rises of \$3 per hour for eligible ECEC educators. The EYQF had a limited life (two years) and would not have covered all workers in the industry. It received a mixed reception in the industry and was withdrawn by the current Government (Hall, 2013). Equitable means of increasing the wages of ECEC educators without placing additional pressure on parents through increased fees will be essential in the future.

### 3.4 Smarter spending

Given the importance to governments of ensuring that every dollar of public money is used to greatest effect, aspects of the Child Care Rebate (CCR) are highly problematic. Although the CCR is strongly supported by some major providers and advocacy groups representing families with high child care costs (Australian Childcare Alliance, 2013; Karvelas, 2012a), other observers regard the CCR as a likely contributor to spiralling child care costs. The Henry Review, for example, noted that subsidies linked to out-of-pocket expenses 'may put pressure on child care fees and government expenditure'. Further, while CCB is indexed to the CPI, CCR is adjusted to cover fee increases (at least up to the cap). Over time, as the Review noted, this type of policy structure 'shift[s] the relative weight of child care assistance away from low-income families and creates a flatter rate of child care assistance across the income spectrum' (Henry, Harmer, Piggott, Ridout, & Smith, 2009, p. 590).

The distributional impact of the CCR is thus questionable. The number of high income families claiming the rebate in part or in full rose by over one-third between 2010 and 2012. In 2010, approximately 90,000 families earning more than \$150,000 per year claimed CCR and around 17,000 of these claimed the full \$7,500 (Karvelas, 2012a). While there is a strong case for government to contribute to the costs of every child participating in high quality ECEC, subsidies should be aligned with broader social and economic policies such as investing most heavily in the children who will benefit most.

According to the Productivity Commission the median weekly cost for LDC before CCB and CCR was \$341, or just under \$70 per day (Productivity Commission, 2013b).<sup>7</sup> The Care for Kids website advises parents that the cost of long day care ranges from \$70 to \$164 per day. At the high end of the fee range, some centres offer lavish features including handcrafted cots, European bed linen, on-site chefs, baby massage, and a concierge to help parents make medical and other appointments (Ginis, 2012). Under current arrangements, parents using such care for work-related reasons can have half their fees covered by public subsidy up to a cap. For example, two days a week of care at \$160 per day costs \$320 per week or \$15,360 per year and the CCR would cover just under half of this for employed parents. There are, of course, sound reasons why some services charge high fees. They may have a particular commitment to quality and employ teachers and educators with higher

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<sup>7</sup> Median costs are based on 50 hours of care in the collection week. Data are based on cost to parents as reported in administrative data, and may not represent the fee quoted by individual services, *but are before fee reduction due to CCB and CCR* (Productivity Commission 2013, Table 3A.30).

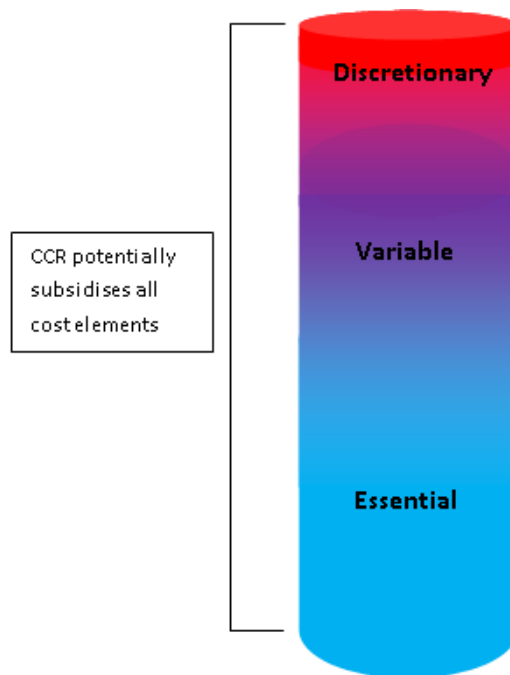
than required qualifications, they may face high rents or be located in remote areas where all inputs other than labour are likely to be cost more than in urban areas. From a policy perspective, however, there needs to be a way of distinguishing between fees that are high for legitimate reasons and fees that are high because of premium features that parents should purchase for themselves or because excessive profits are being taken.

A further anomaly is that Child Care Benefit (the subsidy of particular importance to low income families) is capped at an *hourly* rate while Child Care Rebate (of particular importance to high income families) has an *annual* cap. This is relevant when comparing families at different income levels who use ECEC to support part-time employment.

**A positive direction for financing reform would be to ensure that working families at all income-levels receive at least a base level of assistance, cover more of the essential and legitimate price of ECEC for low and middle-income families but exclude the cost of 'premium' service elements from public subsidy.**

The figure below provides a schematic representation of the elements of service costs. At the base of the cylinder are costs that are essential for the delivery of high quality services and relatively standardised across similar services. The largest component of essential costs is the salaries of educators to meet the NQF standard. Above these relatively standardised costs there are a range of components that will vary considerably in price for a range of reasons. The costs of food and equipment may be higher in remote parts of Australia, for example, due to high transport costs while rents may be particularly high in inner-city capitals. We include a reasonable surplus for non-profit providers and a reasonable profit for commercial services in what we have labelled 'essential but variable' costs. Some of this variation in ECEC prices may be due to unnecessarily high costs for items; for example, artificially high rents or inflated prices for toys and equipment purchased from related companies (Newbury & Brennan, 2013). At the top of the cylinder are the 'discretionary costs' that can be built into the price of ECEC. Examples include the high end service elements mentioned above (baby massage, concierge services etc.) that should be paid for privately rather than subsidised by the taxpayer. Profits beyond a reasonable margin are also represented by the red part of the cylinder (Figure 3.7).

**Figure 3.7 Components of ECEC fees: essential, variable and discretionary costs**



There are no publicly available data that would enable us to map Commonwealth *subsidies* for Commonwealth approved child care against family income, although we know that fees paid are correlated with family income. Nor do we know whether high fees reflect high quality (for example, the employment of staff with higher qualifications than required under the NQF) or whether there is any excessive profit-taking in the sector. There are indications, however, that high fees do not necessarily equate to high quality. Preliminary analysis of information on the ACECQA website shows that services receiving the highest ratings are not charging fees in the highest band (Karvelas, 2013).

Our argument is *not* that there is an extensive amount of lavish service provision being subsidised through CCR or that providers are making excessive profits – we do not have the data to make either of these claims. Rather, our argument is that subsidy arrangements should be structured to prevent this from happening. With the Australian government's investment in early childhood education and care projected to exceed \$22 billion from 2013-14 to 2016-17, it is reasonable for government (in consultation with the sector) to identify what constitutes a fair and reasonably priced service for purposes of public subsidy (DEEWR 2013).

### **3.5 Flexible provision**

The current array of child care arrangements is not sufficiently flexible to meet the needs of many Australian families. As the structure of the economy changes, and an increasing number of jobs are in service industries, hospitality, retail, education and the arts, more and more people have jobs that do not fit the 'standard' pattern and/or do not work regular, predictable hours. Many are engaged in shift work (including rotating shifts), part-time work, casual work, or work that is done on weekends or at night. The ABS Work and Life Survey (Australian Bureau of Statistics, 2009) found that non-standard working hours were common among families with employed parents and dependent children: in half of these families, one or both parents worked variable hours or were on call. Many parents work at night. In 60% of couple families where both parents were employed, some of their hours were between 7pm and 7am. Further, in many families parents put in extra hours simply to get their work done; this was the case for 70% of parents. Working both during the week and on the weekend was also very common amongst parents. Half of couple families where both parents worked, and a third of lone parents, said that this was their usual work arrangement.

Workers in some occupations are more likely to have non-standard working weeks than others. Weekend work is especially common amongst workers in accommodation and food services (72%), agriculture, forestry and fishing (63%), arts and recreation (60%), mining (58%) and retail (56%). By contrast, weekend work is relatively rare among workers in the financial and insurance services (8%), education and training (14%) and electricity, gas, water and waste services (16%). In some industries, workers are more likely to work different days from week to week. This is particularly the case for mining (36%), arts and recreation services (31%), accommodation and food services (28%) and health care and social assistance (24%). With the exception of mining, these are all industries where women represent the majority of the workforce.

In 2013, the Commonwealth initiated a series of child care 'flexibility trials' to explore different ways of making the ECEC system more affordable and flexible, particularly for parents doing regular shift work, such as nurses, fire fighters and police officers.

The In-Home Care program provides an ECEC educator in the home of the child (rather than in a Family Day Carer's home) for a relatively small number of families who meet one of the following criteria: (i) they have irregular work patterns that prevent access to mainstream services; (ii) a child or family member has a disability or severe illness; (iii) the family has more than three children under school age; or (iv) the family lives in a rural or remote area.

Despite its strengths, the program is criticised on two main fronts:

- It is not available to all families requiring flexible care
- There is considerable local variation and discretion in determining families' eligibility and access to an IHC educator.

For families who need a flexible service but who are not eligible for In Home Care, there are two main issues to be addressed. First, there is the need for an educator/carer to be available during non-standard hours; second, fee structures need to be more flexible to meet parents' needs by charging in shorter blocks, rather than daily fees common in Long Day Care. Family Day Care is generally more flexible in both these ways – they often are open earlier and are more likely to charge by the hour, rather than have daily fees. The In Home Care program has considerable potential to better achieve its intended goal of addressing the needs of families unable to meet mainstream services.

Because of the targeted and discretionary elements of In Home Care, there has recently been pressure to support families who use informal in-home options, such as nannies and au pairs. Nannies and au pairs are most often hired by families to provide live-in or daily care. Current proposals in Australia are considering the extension of financial support (either through the CCR or tax deductions) for families using nannies and au pairs (Australian Women Chamber of Commerce & Industry, 2013). However, international experience suggests that there are potential negative consequences for both children and educators of arrangements where the family is the direct employer. A number of examples of best practice are presented in the next section.

## 4 Lessons from international experience

Policies take root in specific institutional, political, cultural and economic contexts. They can never be simply 'lifted' or 'copied' from one context to another (Mahon, 2006). Nevertheless, important lessons can be learned from other systems, especially when policy makers in similar countries are grappling with issues similar to our own such as increasing female labour force participation and maximising the engagement of disadvantaged children in high quality ECEC.

### 4.1 Quality matters

Analysts of ECEC policy sometimes refer to *quality*, *access* and *affordability* as constituting the 'child care triangle'. To these, we would add a fourth key element: *fair wages and conditions* for teachers and educators. In exploring options for reform of the current system, government may be tempted (or urged) to reduce regulations or, perhaps, slow the implementation of the National Quality Framework as a way of reducing the costs faced by providers and, ultimately, parents. Abandoning or delaying the implementation of measures that contribute to quality would, in our view, be short-sighted and counter-productive.

The OECD notes that 'high quality standards can be costly' but that such standards:

- Ensure a positive effect on children's developmental outcomes.
- Support healthy environments for children's well-being and learning.
- Ensure a certain degree of equity for parents and children in different ECEC settings.
- Minimise developmental gaps for all children, particularly disadvantaged children.
- Ensure high returns of investment
- Are more cost efficient than remedial education interventions later in life (Organisation for Economic Co-operation and Development, 2012).

### 4.2 For some children, *any fee is a barrier*

The provision of free ECEC is increasingly common. The extent of free provision varies across countries by children's age, other child or family characteristics. The number of hours of free provision also varies. In some Australian states, kindergarten (or preschool) is available at no cost for children in the year before school (usually children aged 4 years). In a number of countries (including the Nordic countries and the Canadian province of Quebec), ECEC fees are also waived for younger children if family income is below a certain threshold or there are additional needs, such as those associated with a child's disability. Other countries, such as New Zealand and the United Kingdom offer free part-time ECEC to



all 3 and 4 year old children, provided by a mix of providers, and in different centre- and home-based settings.

In **New Zealand**, 3 and 4 year old children have access to *20 Hours ECEC*, which can be taken in teacher-led (preschool, teacher-led child care centres; home-based services) or parent-led (home-based services, parent-led playgroups). Children can use up to 6 hours per day of the free 20 hours. The introduction of part-time free ECEC provision in New Zealand for all 3 and 4 year olds increased the proportion of children who attended ECE services, decreased non-attendance, and also increased the amount of time children spend in ECE. Non-participation halved between 2000 and 2012, from approximately 10% to 5%. The total amount of time children attended ECE increased from approximately 14 hours to 22 hours per week (Ministry of Education (New Zealand), 2012c, p. 12). These changes are attributed to both the 20 Hours ECE initiative, and also to an increase in funding for lower-socioeconomic groups. The 20 Hours ECE is provided by directing money to services according to funding rates developed by the Ministry of Education. The funding rates were developed from modelling based on an Operating Cost Survey of service providers (Ministry of Education (New Zealand), 2007).

In **England**, all children 3 and 4 years old are entitled to 20 hours free Early Years provision, which can be delivered through any of the service types on Ofsted's Early Years register – day care centres, childminders that are part of a network, and preschools. The most disadvantaged two-year olds (those whose family incomes are in the lowest 40%) are also entitled to 20 hours of free Early Years provision.

The introduction of part-time free ECEC for 3 and 4 year olds (and some 2 year olds) in England and New Zealand had a positive impact on ECEC attendance for children of these ages. It has also had a positive impact on mothers' employment and study in New Zealand. Several cautionary lessons can be taken these countries' experiences. First, while providing ECEC free or at very low cost should, in principle, reduce barriers to access, participation by vulnerable families is complex and multi-faceted, and cost is only one barrier. Services need not only to be free or affordable but to be geographically accessible and appropriate in other ways (e.g. embodying respect for cultural and ethnic differences, having hours of operation that reflect local needs and being accessible in terms of transport). Second, coordination and planning is essential in order to ensure that free or low cost places are available. Experience in both England and New Zealand suggests that active planning and allocation of services (through local government or networks of providers) are critical in ensuring adequate places are available for all children (Doherty, 2007; Mitchell, 2012). Third, it is important to ensure

adequate funding is provided to cover services that are delivered free to parents, as one criticism in both countries is that the cost for younger children and children attending additional hours of ECEC has been increased in order to cross-subsidise losses from delivering the part-time free services for 3 and 4 year olds.

The establishment of a legal right to a place (though not necessarily a free place) in a service is one way that governments seek to increase access (Watson, 2012). Guarantees of a place are most common for children in the year or two before school and are sometimes viewed as an extension of the school system. The Economist Intelligence Unit report has confirmed the importance of this approach, showing that almost all countries that perform at the top of the league table have established a right to ECEC. The guarantee of a place puts the onus on governments ensure that services are available and accessible to all children.

Children in **Sweden** and **Norway** are entitled to a place in an ECEC service (though not necessarily a *free* place) from age 1 to school age. In Sweden, children aged 3 to 6 years are entitled to free ECEC for at least 15 hours per week (European Union, 2013). Additional subsidies (covering up to the full cost of ECEC) are available for children from low-income families (Jacobsen & Vollset, 2012). From a family perspective there is a significant difference between 'low fee' and 'no fee' policies. In Oslo, for example, the offer of 20 hours free ECEC to children aged 4 and 5 resulted in a large increase in access by children from low-income families. When a modest fee was introduced, about one-third of the target group stopped attending (Ellingsgaeter, 2014).

Of the 45 countries reviewed in the Economist Intelligence Unit report, more than half provide children with a legal right to preschool education. It is not only the Nordic countries that have established entitlements; many others including Chile, Greece, Ireland and South Korea have done so. Where ECEC is delivered through a mixed market, a legal right to preschool places the onus on government to ensure that all children have access to a place. It does not mean that the place is necessarily free. The overall rankings from the Economist Intelligence Unit report are included next to the country listing (Table 4.1).

**Table 4.1 Legal right to preschool education, and overall rankings in 45 OECD countries**

<b>Legislation adequately enforced</b>	<b>Legal right but enforcement is weak</b>	<b>No legislation for legal right</b>
Finland (1)	Hungary (22)	New Zealand (9)
Sweden (2)	Israel (23)	Hong Kong (19)
Norway (3)	USA (25)	Japan (21)
United Kingdom (4)	Poland (31)	UAE (24)
Belgium (5)	Mexico (32)	Australia (28)
Denmark (6)	Russia (33)	Singapore (29)
France (7)	Argentina (34)	Taiwan (30)
Netherlands (8)	Brazil (39)	Turkey (35)
South Korea (10)	Philippines (43)	Malaysia (36)
Germany (11)		South Africa (37)
Austria (12)		Thailand (38)
Switzerland (13)		Ghana (40)
Spain (14)		Vietnam (41)
Portugal (15)		China (42)
Italy (16)		Indonesia (44)
Czech Republic (17)		India (45)
Ireland (18)		
Chile (20)		
Canada (26)		
Greece (27)		

Source: Watson (2012, p. 17)

### **4.3 Supporting women's labour force participation**

One of the most interesting ECEC policy initiatives in recent years has been Quebec's introduction of low fee child care for all families. Introduced as '\$5 a day' child care in 1997 and targeted at 4 year olds, the scheme now costs parents \$7 a day for full time care and includes OSHC for 5-12 year olds as well as services for children below school age.

Low fee child care appears to have had a significant impact on the labour force participation of mothers in Quebec. In 1996, before the scheme was introduced, the employment rate of mothers of 0-5 year children was 63.1%; by 2008 it had risen to 74.3%, an increase of 11.2 percentage points (Fortin, Godbout, & St Cerny, 2012, p. 26). Over the same period, maternal employment rose far more sharply in Quebec than in other Canadian provinces where such programs do not exist. The employment rate of mothers with 0-5 year old children in the rest of Canada (outside Quebec) went from 65.3% in 1996 to 70.9%, a rise of 5.6 percentage points. Professor Pierre Fortin (Université du Québec à Montreal) and his colleagues estimate that 70,000 more mothers now hold jobs than would be the case if the program did not exist. Further, they estimate that Québec's GDP is higher by about 1.7% (CA\$5billion) and that the tax-transfer returns to the federal and Québec governments from ECEC expenditure significantly exceed its costs. These calculations do not take into account

any longer-term benefits such as higher levels of school and workforce participation, less reliance on welfare and better health for the children themselves.

From 1996 to 2008, the number of single-parent families in Québec living in poverty declined from 99,000 to 45,000, the poverty rate fell from 36% to 22% and median after-tax income rose by 81% (Fortin et al., 2012, p. 7). In making these calculations, the authors assume that the child care program had no effect on the employment of mothers earning less than \$10,000 per year or more than \$60,000 in 2008. As well, they assume that the program had no effect on the labour force participation of women in couples where the woman's contribution to family income was greater than 75% (p. 21).

Canadian research also suggests that the use of low-fee day care has a powerful and dynamic effect that persists when children reach school age. Lefebvre, Merrigan and Verstraete (2009) estimated that the labour force participation rate of mothers of primary school age was 7 percentage points higher if they used low-fee daycare when their children were below school age than otherwise.

The Grattan Institute has identified increasing women's labour force participation as one of 'three big reform opportunities' for Australia. It estimates that if Australian women's labour force participation was as high as that of Canadian women, the size of the Australian economy would increase by about \$25 billion. (Daley et al., 2012, p. 37). It notes, 'Female workforce participation can only change significantly if more mothers have jobs.' (p. 38).

#### **4.4 Capped fees and/or subsidies**

Governments can address affordability through direct subsidies to centres or through subsidies to families. Uncapped subsidies may, potentially, allow providers to increase fees in a relatively unconstrained manner, at a substantial cost to both parents and the government (Plantenga, 2012). Capped funding can be designed either to i) cap the subsidy the parent receives, or ii) to cap the out of pocket costs paid by parents. Placing a cap on parents' out of pocket costs can be designed to prevent providers (particularly private services) from charging fees at their own discretion (Jacobsen and Vollset, 2013). This is the case in **Norway** and **Sweden**, where fees are means tested, and also in **Quebec** (Canada), where parents pay a flat rate of \$7 per day (Friendly, Halfon, Beach, & Forer, 2013, p. 22).

In **Sweden**, parents contribute 3%, 2% and 1% of their household income based on 1 child, 2 children and 3 children, respectively, attending ECEC services. To receive subsidies for more than 20 hours parents must be employed or studying (Meagher & Szebehely, 2012).

**Norway** provides an interesting example of an ECEC system that has introduced financing mechanisms to provide low-fee ECEC while supporting a mixed market including private for-profit providers. Historically, in Norway, formal ECEC was relatively expensive and a large informal sector developed to fill the gap in affordable places; this resulted in many children receiving care that did not meet quality standards. In the 2000s the government made a commitment to expand access to childcare at reasonable costs for parents. This commitment resulted in a considerable increase in ECEC participation, particularly for one and two year olds – with an increase from 37% to 80% between 2000 and 2011 (Ellingsgaeter, 2014). In 2004 capped parental fees were introduced, so that parents pay between approximately 22 and 30% of the total cost of service delivery<sup>8</sup>. The state government and municipalities share the financial responsibilities of funding services and allocating places, and parents pay a set proportion of the fees. The proportion varies by municipality, but the amount per month is capped at 2330 Norwegian kroner, or approximately AU\$ 400 per month. Additional fee reductions are available for parents with more than one child in care, with a minimum fee reduction of 30% for the second child and 50% for the third child. State funding grants flow through the municipalities who provide operational funding to municipal and non-municipal providers (Jacobsen & Vollset, 2012).

In Canada, the province of **Quebec** introduced a different approach: all families pay the same low rate. Parents contribute \$7 per day towards the cost of ECEC, regardless of the setting (Japel, Tremblay, & Côté, 2009). The services are subsidised by the province according to a formula that relates to the type of setting, occupancy and ages of children (Friendly, 2011). Quebec overhauled its ECEC financing model in 1997, eliminating demand-side funding (which is largely used in the rest of Canada) and introducing a universal supply-side funded system using its current mix of providers, and also through incentives for home-based provision and private for-profit services to restructure into not-for-profit centres. ECEC in Quebec is affordable for all families at \$7 a day, and parents on social assistance who are not in the labour force can access 23.5 hours per week at no cost (Japel et al., 2009; Lefebvre, Merrigan, & Roy-Desrosiers, 2010).

When a cap is placed on subsidies, the additional costs are generally borne by parents. However subsidies can also be designed to contain public spending on ECEC costs that are above and beyond the essential costs of delivering high quality ECEC. In public, supply-side systems, the 'reasonable' cost of providing care to children is reflected in the formula used to

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<sup>8</sup><http://www.regjeringen.no/en/dep/kd/Selected-topics/kindergarden/early-childhood-education-and-care-polic.html?id=491283>

determine the operating costs funded by services. In a market-led, demand-side system (such as Australia), subsidy rates can be designed in a similar way to reflect the reasonable cost of delivering ECEC services. A capped subsidy therefore provides financial assistance at a means-tested rate that reflects the reasonable cost of delivering ECEC.

Capped subsidies are used in some countries as a mechanism to contain public expenditure and to ensure that public funds do not 'leak' into excessive profits. In Norway, for example the Kindergarten Act which came into effect in 2013 gives public and private child care services equal access to public subsidies. Private centres are allowed to make a 'reasonable' profit but if personnel costs are substantially lower than in publicly run services, the level of profit comes under scrutiny. The centre-right parliamentary group opposed this provision and it may change in future but it is an interesting example of how one country has sought to address the issue of public funds going into profits.

#### **4.5 Connecting in-home care to service hubs or centres**

Internationally, there are a number of programs and initiatives that support families' needs for flexible ECEC services, including the provision of care and education in the child's home. Both the United Kingdom and New Zealand have adopted national approaches to this issue. However, the policy design differs between these countries, and also varies within the UK.

In **England**, in-home child care workers (nannies) can voluntarily register with the regulatory body (Ofsted) which allows families to claim tax credits and employer childcare vouchers. While this scheme provides some support for families using nannies, it is criticised because i) registration is not compulsory and ii) the minimum qualifications for care workers are considered too low by those whose focus is on the education and development of the child, rather than on simply ensuring basic safety. In **Scotland**, nannies and in-home child care workers must be registered with a Childcare Agency for families to receive tax credits and childcare vouchers. Agencies are responsible for checking care workers' qualifications and standards of provision. While the requirements of the agencies are relatively minimal, a number of agencies and organisations have developed their own standards and training programs to ensure care workers are delivering high quality care and have adequate pay and working conditions. Best practice in this area is represented by an organisation called One Parent Families Scotland (OPFS). The OPFS program was developed to provide flexible care for single parents, and their Flexible Childcare Services offer care in the child's home. However, the difference between their service and the national model in Scotland and England is that the organisation, OPFS, is the employer. The care worker therefore works for

the organisation, rather than the family. This protects the worker against poor working conditions and also means the family does not have to worry about contracts and insurance.

A similar program was set up locally in northern England, called @Home Childcare. This organisation provides all the training and covers half of the cost of registering with Ofsted. Parents going to these organisations know that the care workers all have police checks, first aid training, and training specific to home-based child care. Similarly, in-home child care can be designed to be combined with other forms of formal, centre-based care. For example, one nursery in England introduced the option of a nanny 'package'. This offers parents to pay for additional hours of care through the centre their child attends, so that a staff member employed by the centre takes the child home at the end of the day and cares for the child until parents return from work. While this model is largely aimed at two-parent, or single working professionals, who can afford the additional fees, it is an example of an integrated in-home child care model, which includes necessary checks and balances that are required at child care centres (Bhardwa, 2013).

**New Zealand's** home-based network provides another model for integrating in-home care within mainstream ECEC services. Home-based care networks coordinate group home-based care (i.e. Family Day Care) as well as care provided in the child's home, or in the home of another child (a nanny share). Home-based ECE services provide education and care to children in private homes. The ECE Subsidy and 20 Hours ECE subsidy (for 3- and 4-year olds) are both available to licensed home-based services based on a formula for the number of children, ages of children and hours of attendance. Higher funding rates (Quality Rate) can be claimed for services that meet additional requirements, such as where all educators in the service meet qualifications listed on the New Zealand Register of Quality Assured Qualifications.

Generally funding cannot be claimed for an educator's own children; children who are present in the home but not enrolled in the home-based service, or children enrolled at school. However, a home-based education and care service can claim funding for a child where the educator is a member of that child's family and is living with the child if the educator is part of a licensed home-based network; the home is available for use by children who are not part of the educator's family, and at least one child who is not a member of the educator's family is to attend the home (Ministry of Education (New Zealand), 2012a).

Under the Education (Early Childhood Services) Regulations 2008, home-based education and care services must be teacher-led by a network co-ordinator and meet the standards,

including for curriculum, health and safety, qualifications, and other miscellaneous requirements. All educators (care workers) must meet minimum standards, and the co-ordinator must be a university qualified ECE. The coordinator is responsible to the families and the care workers. They assist with curriculum development and activities and are responsible for monitoring care workers in the home. The person responsible for the home-based service (below the co-ordinator) must contact each educator in the service at least once per fortnight; visit each educator engaged in the services at least once per month; and take all reasonable steps to observe each child participating in the service while that child is receiving education and care (Ministry of Education (New Zealand), 2012b).

Where public subsidies are provided for in-home care, best practice requires that in-home care workers are employed by an organisation such as a long day care centre or family day care scheme or other service hub rather than being self-employed or directly employed by families. Families pay fees to the organisation or service rather than directly to the care worker and can gain access to government subsidies as if they were using any other kind of approved service. Care workers are employed on the basis of an agreed contract with the centre or organisation. The involvement of a service hub, family day care scheme or long day care centre means that the contractual arrangements are made at arm's length from the family, which can protect the care worker. Connecting in-home care workers to service hubs is the most effective way to ensure oversight, quality regulation and to ensure that public subsidies support quality care and early education.

Australia has a unique In Home Care program that attracts CCB and CCR at the same rate as other Commonwealth approved services. However, the limited number of places means that IHC is not available to all families who might benefit from it, particularly those who require services to meet non-standard hours of employment.



## 5 Options for a new financing system

This section suggests principles and directions for reform rather than fixed blueprints. The options build on the strengths of current arrangements while simplifying funding and drawing on international models, especially in relation to the importance of spending public funds efficiently and effectively. Detailed modelling is required to identify the impacts on families' out of pocket expenses at all income levels, workforce participation effects, costs and benefits to government and broader fiscal and economic impacts.

In the short term, we recommend the introduction of a single, means-tested payment providing a base level of support to all families but with the bulk of assistance targeted to low and middle-income families. In the medium term, we propose a shift towards high-quality, low-cost ECEC accessible to all families. In both cases families should be able to move seamlessly from paid parental leave to a subsidised ECEC place. The proposed introduction of a full wage-replacement parental leave scheme moves Australian policy settings squarely towards recognition of mothers' participation in the labour force. This is an ideal moment to align Australian ECEC with paid parental leave and to ensure sufficient, high quality, flexible and affordable ECEC to meet the needs of families with children from 6 months to 12 years. This is not to suggest that all infants should be placed in full day care. The measures are designed to facilitate and support workforce participation but not to make it compulsory.

The reference point for the terms 'low-income', 'middle-income' and 'high-income' in the following discussion is eligibility for Child Care Benefit for families with one child in care:

- **Low income:** eligible for maximum CCB (i.e. family income less than \$41,902)
- **Middle-income:** eligible for 60% CCB (i.e. family income approximately \$100,000)
- **High-income:** assessed at zero rate for CCB (i.e. family income above \$145,642)

We assume that the National Quality Framework will be rolled out as planned and that there will be no trade-off between increased places (and/or flexibility) and lower standards. Our preferred options (Option 1 and, in the longer term, Option 3) would result in public funds being spent more efficiently and prudently than is currently the case. They would end the current situation where taxpayers subsidise services for a small number of families who use high fee ECEC (up to \$168 per day) while other children miss out entirely.

### 5.1 Option 1: Early Learning Subsidy (capped)

Our preferred option is a single payment or Early Learning Subsidy (ELS). The ELS would replace both Child Care Benefit (CCB) and Child Care Rebate (CCR), in line with the recommendation of the Henry Review. The ELS hourly rate would be higher than CCB hourly rate because it would replace both CCB *and* CCR. The ELS would cover a proportion of service fees up to a capped hourly rate, based on reasonable costs. Rather than being an arbitrary figure, as CCB appears to be, the maximum ELS hourly rate would reflect reasonable costs of delivering a high quality service. The ELS is designed to focus public subsidies on *essential* cost elements such as salaries to meet the NQF staffing requirements and *legitimate variable* costs including rent, administrative costs, and fair surplus or profit. It would not cover luxury or premium service components or excessive profits (Figure 5.1).

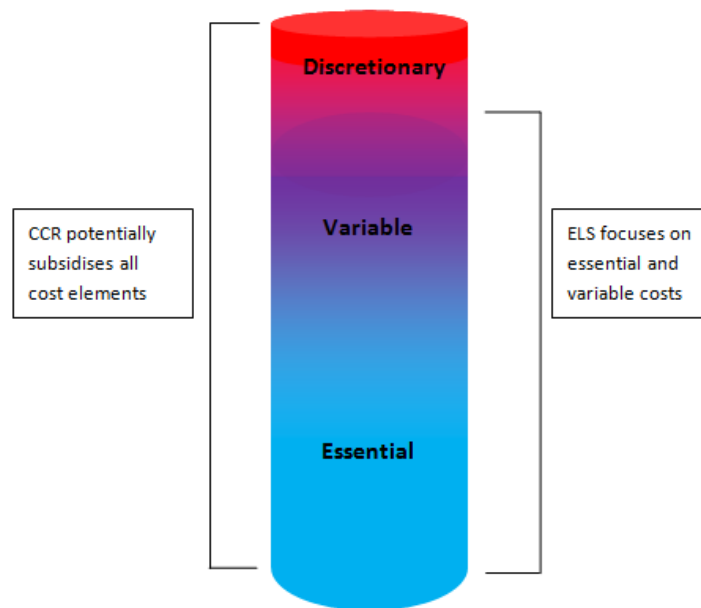
Government should engage in sector consultation to determine a reasonable cost of care taking account of the staffing costs associated with the NQF and other essential costs of delivering a quality service. Any assessment of 'reasonable costs' would need to be structured so as not to penalise services that raise quality through employing staff with higher than required qualifications and/or paying above the award. As well, there would need to be provision for recognising that some essential costs, such as rent, vary legitimately depending on service size and location, amongst other factors.

The ELS would improve the simplicity and transparency of funding for parents and providers alike. It would end the anomaly where parents who rely predominantly on CCB are constrained by an *hourly* cap (the current maximum rate of CCB is \$3.99 per hour) while higher income families dependent on CCR face an *annual* cap and the majority of parents who rely on both CCB and CCR face a confusing mix of *both* annual and hourly caps. This would be fairer and more transparent than the current system in which a single rate of CCB applies to every service regardless of actual costs while CCR is driven by fees with no accountability as to what is being covered by those fees.

In recognition of the fact that child care is a legitimate cost of employment, **all families using approved services for work, study or training-related reasons would be eligible for at least the base rate of ELS.** For high-income families the value of the base rate would be similar to a tax concession for reasonably priced child care.

**Using an *hourly* subsidy rate would not require providers to charge by the hour or families to book in by the hour.** An hourly rate is currently used to calculate CCB but typical booking patterns are by the half-day or full day. We envisage that this would continue.

**Figure 5.1 Comparison of components of ECEC subsidised by CCR and ELS**



Additional features of ELS would be:

**ELS to be paid directly to providers in return for keeping fees at a reasonable level**

Paying ELS directly to providers would simplify the administration of the ELS and reduce costs for providers. However, in return for direct receipt of ELS, providers should be required to keep fees at a reasonable level.

**ELS to cover between 35% and 50% of reasonable fees for all working families**

We suggest that the minimum or base rate of ELS should be between 35% and 50% of reasonably priced ECEC. This would recognise ECEC expenses as a legitimate cost of employment for all families and promote access to quality services for all children.

**ELS to cover 90% of reasonable fees for low-income families**

Under current arrangements, families eligible for CCB (some of whom are not eligible for CCR because they do not meet the work/study/training test) may face high out-of-pocket costs, making participation in ECEC an unrealistic prospect. We propose that 90% of the fee charged be covered by the ELS (subject to a 'reasonable fees' being charged) in order to facilitate participation in approved care.

### **ELS to cover 100% of reasonable fees for families holding Health Care Cards**

One of the most powerful actions that government could take to advance equity and improve educational, developmental and social outcomes would be to cover the full cost of reasonably priced ECEC for families with Health Care Cards. Providing free ECEC to children in these families would address the issue of cost as a barrier to participation and target support to the most needy families, ideally within a universalistic context.

### **Special ELS to cover the full fee for children at risk of abuse and neglect regardless of parental workforce participation (similar to Special CCB)**

Special ELS would cover the full cost of approved care for children at risk of abuse and neglect, similar to SCCB. It would be desirable to allow providers to authorise SCCB for periods greater than 13 weeks, so long as appropriate accountability was ensured. A measure such as this would ease the uncertainty for parents and the administrative burden on providers and would result in increased uptake of Special ELS.

**Grandparent Child Care Benefit**, which covers the full cost of approved care for eligible grandparents, is a vital measure for the growing number of grandparents who are the primary carers of their grandchildren. It should be retained in any revamped ECEC system.

### **The number of subsidised hours of ECEC for families who do not meet the work/study/training test should be reviewed.**

We recommend review of the number of hours of subsidy available to families who do not meet the work/study/training test. Since children spend on average only 27.3 hours per week in long day care and 22.2 hours in family day care (see Section 2.2), 24 hours for non-work-related care seems high, but any change would require broad sector consultation.

### **Extending ELS to other forms of ECEC**

The ELS should be paid only in respect of approved services to reflect the principle that public dollars should be spent on supporting quality services. However, approval could be extended to other services such as preschools and kindergartens and additional in-home care services. Any extension of the ELS to services not currently approved should require such services to be regulated through an expanded NQF.

### **Impacts of Option 1 (capped ELS)**

The base rate of ELS (i.e. the minimum to be received by families that meet the work/study/training test) should be between 35% and 50%. Detailed work would be required to develop a reference rate for reasonable costs and to determine an appropriate base rate of ELS. We have used the figure of \$10 per hour as a proxy for 'reasonable' costs. However, this is an estimate only. Table 5.1 shows the impact of Option 1 on the out-of-pocket expenses of families at different income levels using ECEC priced at \$70 a day, \$100 a day and \$150 a day and compares these with current arrangements (i.e. CCB + CCR). It uses a base rate of 50% for high-income families and a sliding scale of subsidies, with two indicative points, 70% ELS for middle income families and 90% for low income families.<sup>9</sup>

With the ELS capped at \$10 per hour, all families using ECEC priced at \$70 or \$100 per day are either better off or no worse off than under current arrangements. Out of pocket costs are substantially reduced for low and middle income families purchasing ECEC at these prices and a reduced hourly subsidy would result in significant savings to government.

Families at all income levels using high cost (\$150 per day) ECEC for one or two days per week are worse off compared with current arrangements. Since, as noted above, the current average price of long day care before subsidies is less than \$70 per day (Productivity Commission 2013, Table 3A.30), few families pay \$150 per day care. Such care is purchased mainly by high income families and few, if any, low and middle income families would be impacted.

This option replaces the annual cap with an hourly cap, high income families using ECEC priced at \$100 or \$150 a day would be better off than at present if using ECEC 4 and 5 days per week. This, potentially, could have positive effects on workforce participation, but this would need to be modelled.

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<sup>9</sup> Full details of the figures used to calculate these tables are presented in the Appendix A.

**Table 5.1 Comparison of out of pocket expenses under CCB+CCR and capped ELS for low, middle and high income families who meet the WST test**

Option 1	Daily fee					
	\$70		\$100		\$150	
	Annual out-of-pocket expenses after CCB+CCR	Annual out-of-pocket expenses after ELS	Annual out-of-pocket expenses after CCB+CCR	Annual out-of-pocket expenses after ELS	Annual out-of-pocket expenses after CCB+CCR	Annual out-of-pocket expenses after ELS
Days/week	Low income family (90% ELS)					
1	\$753	\$350	\$1,503	\$500	\$2,753	\$3,000
2	\$1,505	\$700	\$3,005	\$1,000	\$5,505	\$6,000
3	\$2,258	\$1,050	\$4,508	\$1,500	\$9,015	\$9,000
4	\$3,010	\$1,400	\$6,010	\$2,000	\$14,520	\$12,000
5	\$3,763	\$1,750	\$7,525	\$2,500	\$20,025	\$15,000
	Middle income family (70% ELS)					
1	\$1,313	\$1,050	\$2,063	\$1,500	\$3,313	\$4,000
2	\$2,625	\$2,100	\$4,125	\$3,000	\$6,625	\$8,000
3	\$3,938	\$3,150	\$6,188	\$4,500	\$12,375	\$12,000
4	\$5,250	\$4,200	\$9,000	\$6,000	\$19,000	\$16,000
5	\$6,563	\$5,250	\$13,125	\$7,500	\$25,625	\$20,000
	High income family (50% ELS)					
1	\$1,750	\$1,750	\$2,500	\$2,500	\$3,750	\$5,000
2	\$3,500	\$3,500	\$5,000	\$5,000	\$7,500	\$10,000
3	\$5,250	\$5,250	\$7,500	\$7,500	\$15,000	\$15,000
4	\$7,000	\$7,000	\$12,500	\$10,000	\$22,500	\$20,000
5	\$10,000	\$8,750	\$17,500	\$12,500	\$30,000	\$25,000

Red text	\$7500 CCR maxed out
Red highlight	Family worse off under ELS
Light Green highlight	Family same or slightly better off under ELS
Dark Green highlight	Family better off under ELS

The tables in the Appendix suggest the efficiencies to be gained from capping subsidies to users of high fee services. Appendix B presents the option of a base rate of 40% for high-income families, 65% for middle-income families, and 90% for low-income families to illustrate the potential to lower government expenditure. Some middle- and higher income families are worse off under this scenario; however these families receive higher subsidies as they increase the number of days worked per week. As we have stressed, all such impacts would need to be modelled.

## 5.2 Option 2: Early Learning Subsidy (uncapped)

An uncapped Early Learning Subsidy, similar in structure to Option 1, would be driven by fees charged rather than by externally determined costs. In this way, Option 2 is similar to CCR. It is included here to indicate the impact of removing the cap.

**Table 5.2 Comparison of out of pocket expenses under CCB+CCR and uncapped ELS for low, middle and high income families who meet the WST test**

Option 2	Daily fee					
	\$70		\$100		\$150	
	Annual out-of-pocket expenses after CCB+CCR	Annual out-of-pocket expenses after ELS	Annual out-of-pocket expenses after CCB+CCR	Annual out-of-pocket expenses after ELS	Annual out-of-pocket expenses after CCB+CCR	Annual out-of-pocket expenses after ELS
Days/week	Low income family (90% ELS)					
1	\$753	\$350	\$1,503	\$500	\$2,753	\$750
2	\$1,505	\$700	\$3,005	\$1,000	\$5,505	\$1,500
3	\$2,258	\$1,050	\$4,508	\$1,500	\$9,015	\$2,250
4	\$3,010	\$1,400	\$6,010	\$2,000	\$14,520	\$3,000
5	\$3,763	\$1,750	\$7,525	\$2,500	\$20,025	\$3,750
	Middle income family (70% ELS)					
1	\$1,313	\$1,050	\$2,063	\$1,500	\$3,313	\$2,250
2	\$2,625	\$2,100	\$4,125	\$3,000	\$6,625	\$4,500
3	\$3,938	\$3,150	\$6,188	\$4,500	\$12,375	\$6,750
4	\$5,250	\$4,200	\$9,000	\$6,000	\$19,000	\$9,000
5	\$6,563	\$5,250	\$13,125	\$7,500	\$25,625	\$11,250
	High income family (50% ELS)					
1	\$1,750	\$1,750	\$2,500	\$2,500	\$3,750	\$3,750
2	\$3,500	\$3,500	\$5,000	\$5,000	\$7,500	\$7,500
3	\$5,250	\$5,250	\$7,500	\$7,500	\$15,000	\$11,250
4	\$7,000	\$7,000	\$12,500	\$10,000	\$22,500	\$15,000
5	\$10,000	\$8,750	\$17,500	\$12,500	\$30,000	\$18,750

Red text

\$7500 CCR maxed out

Red highlight

Family worse off under ELS

Light Green highlight

Family same or slightly better off under ELS

Dark Green highlight

Family better off under ELS

Based on these estimates,

- All low and middle-income families are better off.
- High income families using average and reasonable fee services have the same out of pocket costs as under CCR. As in Option 1, disincentives to increasing workforce participation are reduced as families increase the use of work-related ECEC.

Although many families (including most high income families) would be better off with an uncapped ELS, it is not the model we prefer. In our assessment, this model would contribute to rising fees and does nothing to limit the possibility of public funds being used to cover premium services or unduly high profits. It is thus less efficient than Option 1. The examples below indicate the substantial increase in government expenditure under Option 2. In the examples below, families' out of pocket costs under both Option 1 and 2 are lower than under the current CCB and CCR (see Appendix for full figures):

- The cost to government of a middle-income family using a high-fee service for 5 days would be \$8,750 more if ELS were uncapped, compared to capped
- The cost to government of a high-income family using high-fee service for 5 days per week would be \$6,250 more per year per if ELS were uncapped

These families would be better off under both Option 1 and Option 2 than under CCR, but the cost to the government would be considerable. This additional government expenditure would potentially cover the discretionary costs of a high fee service.

Of the two short-terms options, a capped ELS with a base rate between 35% and 50% is recommended as a more effective way to distribute public funds efficiently, and improve workforce incentives of parents with young children.

### **5.3 Option 3: Towards universal low fee ECEC provision**

Option 3 is a longer term vision of universal low fee provision for all children in Australia. We envisage a staged transition (over, perhaps, 10 years) beginning with low-cost or free ECEC for children in the year before school and extending progressively down the age range until all children have access to low-fee services from the end of parental leave, through the early years, up to and including out of school hours care. The system is similar in principle to the Quebec model where ECEC costs \$7 per day for all except low-income families, for whom it is free. This option is the most likely to deliver a firm platform for women's labour force participation, quality services for children and affordable provision.

The key features of Option 3 are:

**All children in the year before school would have access to free or very low-cost ECEC for approximately 20 hours per week**

Many children in Australia already have access to free or low cost preschool or kindergarten. The 20 hour offer is intended to allow flexibility for parents and providers. Parents should not be forced to spread their children's attendance over a specific number of half-days, nor to



condense it into two 10 hour days. The entitlement should facilitate access by the children of part-time, and shift workers who might choose to use two extended days of long day care or family day care; however it should also allow parents to choose, for example, three regular days in these services. Parents would be able to request a change in their pattern, and services would be expected to do their best to find arrangements that meet the needs of families within an identified timeframe.

**The free entitlement would be extended to younger groups of children in a staged program with clear and measurable targets**

In the longer term, the 20 hour offer would be extended to 3, 2 and 1 year olds. Planned expansion of approved centre-based and home-based services would be required to meet the growing number of children needing access to high quality ECEC. A model similar to this is underway in the UK, with all 3 and 4 year olds and 40% of 2-year olds entitled to part-time ECEC in a variety of approved settings. For families returning to work this would facilitate a seamless transition from parental leave to child care. Advocates in the Canadian province of British Columbia have developed detailed plans for the development of a similar scheme.

**Children with additional needs would have access to appropriately designed and resourced ECEC from infancy onwards if desired by parents**

Additional resources and programs would be available for children living with disabilities and with additional needs due to family circumstances. Resources would be provided within existing mainstream services, as well as through separate programs where appropriate.

**Families could use the entitlement at any approved ECEC service. New, flexible forms of provision could be brought into the system if regulated by the NQF**

The 20 hours could be used at any approved ECEC service that meets the NQF requirements. New arrangements, including mobile services, services in rural and remote areas, and in-home child care would be eligible if they are brought under the NQF.

**Parents would pay fees for ECEC required beyond the free entitlement. Income-related subsidies would be available through the ELS**

Families requiring ECEC in addition to 20 hours would be eligible for ELS, as outlined in Option 1. Therefore, all families who meet the WTS would have access to part-time ECEC and additional hours would be subsidised on a sliding scale based on income. Additional

subsidies are essential to remove a barrier to increasing workforce participation beyond the part-time entitlement, especially for parents with non-standard employment patterns.

## **6 Beyond subsidies and finance**

This report has focused on the financing mechanisms that underpin access to Australia's ECEC services. Financing is the bedrock of an accessible, inclusive ECEC system. However, despite the significance of subsidies and the emphasis we have placed on developing a system in which subsidies are aligned with clearly articulated policy objectives, subsidies and financing are not the whole story. The needs of particular groups such as Aboriginal and Torres Strait Islander Children, children with disabilities and children from culturally and linguistically diverse backgrounds cannot be met simply by reducing or eliminating fees. In order to provide safe and welcoming environments for these children, substantial investments – not only of cash but also of professional time - will need to be made by individual services to ensure the provision of inclusive environments.

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## Appendix

### A: Estimated impacts of Options 1 and 2, base rate of 50% ELS<sup>10</sup>

#### A1 Impact for low income family\* using child care with varying fees, at 90% ELS

FEES		Current CCB & CCR					Proposed ELS			
							Option 1 (Capped)		Option 2 (Uncapped)	
Average cost \$70 per day										
Weekly Fees	Annual Fees	Annual CCB (\$3.99/hour)	Out of pocket costs after CCB	Annual CCR	Total gov't subsidy CCB + CCR	Annual out of pocket 50 weeks under CCB & CCR	Gov't subsidy 90% ELS	Out of Pocket Costs after ELS	Gov't subsidy 90% ELS	Out of Pocket Costs after ELS
\$70	\$3,500	\$1,995	\$1,505	\$753	\$2,748	\$753	\$3,150	\$350	\$3,150	\$350
\$140	\$7,000	\$3,990	\$3,010	\$1,505	\$5,495	\$1,505	\$6,300	\$700	\$6,300	\$700
\$210	\$10,500	\$5,985	\$4,515	\$2,258	\$8,243	\$2,258	\$9,450	\$1,050	\$9,450	\$1,050
\$280	\$14,000	\$7,980	\$6,020	\$3,010	\$10,990	\$3,010	\$12,600	\$1,400	\$12,600	\$1,400
\$350	\$17,500	\$9,975	\$7,525	\$3,763	\$13,738	\$3,763	\$15,750	\$1,750	\$15,750	\$1,750
Reasonable cost \$100 per day (for 10 hours per day)										
\$100	\$5,000	\$1,995	\$3,005	\$1,503	\$3,498	\$1,503	\$4,500	\$500	\$4,500	\$500
\$200	\$10,000	\$3,990	\$6,010	\$3,005	\$6,995	\$3,005	\$9,000	\$1,000	\$9,000	\$1,000
\$300	\$15,000	\$5,985	\$9,015	\$4,508	\$10,493	\$4,508	\$13,500	\$1,500	\$13,500	\$1,500
\$400	\$20,000	\$7,980	\$12,020	\$6,010	\$13,990	\$6,010	\$18,000	\$2,000	\$18,000	\$2,000
\$500	\$25,000	\$9,975	\$15,025	\$7,500	\$17,475	\$7,525	\$22,500	\$2,500	\$22,500	\$2,500
Very High cost \$150 per day										
\$150	\$7,500	\$1,995	\$5,505	\$2,753	\$4,748	\$2,753	\$4,500	\$3,000	\$6,750	\$750
\$300	\$15,000	\$3,990	\$11,010	\$5,505	\$9,495	\$5,505	\$9,000	\$6,000	\$13,500	\$1,500
\$450	\$22,500	\$5,985	\$16,515	\$7,500	\$13,485	\$9,015	\$13,500	\$9,000	\$20,250	\$2,250
\$600	\$30,000	\$7,980	\$22,020	\$7,500	\$15,480	\$14,520	\$18,000	\$12,000	\$27,000	\$3,000
\$750	\$37,500	\$9,975	\$27,525	\$7,500	\$17,475	\$20,025	\$22,500	\$15,000	\$33,750	\$3,750

\* Defined as a family with one child in care and eligible for maximum CCB under current arrangements

#### Legend

Red text	\$7500 CCR maxed out
Red highlight	Family worse off under ELS
Light Green highlight	Family same or slightly better off under ELS
Dark Green highlight	Family better off under ELS

<sup>10</sup> Estimated are based on 10 hours/day for 50 weeks per year



### A 2 Impact for middle income family\* using child care with varying fees, at 70% ELS

FEES		Current CCB & CCR					Proposed ELS				
							Option 1 - Capped		Option 2 - Uncapped		
Average cost \$70 per day											
Weekly Fees	Annual Fees	Annual CCB (\$1.75/hour)	Out of pocket costs after CCB	Annual CCR	Total gov't subsidy CCB + CCR	Annual out of pocket 50 weeks under CCB & CCR	Gov't subsidy 70% ELS	Out of Pocket Costs after ELS	Gov't subsidy 70% ELS	Out of Pocket Costs after ELS	
\$70	\$3,500	\$875	\$2,625	\$1,313	\$2,188	\$1,313	\$2,450	\$1,050	\$2,450	\$1,050	
\$140	\$7,000	\$1,750	\$5,250	\$2,625	\$4,375	\$2,625	\$4,900	\$2,100	\$4,900	\$2,100	
\$210	\$10,500	\$2,625	\$7,875	\$3,938	\$6,563	\$3,938	\$7,350	\$3,150	\$7,350	\$3,150	
\$280	\$14,000	\$3,500	\$10,500	\$5,250	\$8,750	\$5,250	\$9,800	\$4,200	\$9,800	\$4,200	
\$350	\$17,500	\$4,375	\$13,125	\$6,563	\$10,938	\$6,563	\$12,250	\$5,250	\$12,250	\$5,250	
Reasonable cost \$100 per day											
\$100	\$5,000	\$875	\$4,125	\$2,063	\$2,938	\$2,063	\$3,500	\$1,500	\$3,500	\$1,500	
\$200	\$10,000	\$1,750	\$8,250	\$4,125	\$5,875	\$4,125	\$7,000	\$3,000	\$7,000	\$3,000	
\$300	\$15,000	\$2,625	\$12,375	\$6,188	\$8,813	\$6,188	\$10,500	\$4,500	\$10,500	\$4,500	
\$400	\$20,000	\$3,500	\$16,500	\$7,500	\$11,000	\$9,000	\$14,000	\$6,000	\$14,000	\$6,000	
\$500	\$25,000	\$4,375	\$20,625	\$7,500	\$11,875	\$13,125	\$17,500	\$7,500	\$17,500	\$7,500	
Very High cost \$150 per day											
\$150	\$7,500	\$875	\$6,625	\$3,313	\$4,188	\$3,313	\$3,500	\$4,000	\$5,250	\$2,250	
\$300	\$15,000	\$1,750	\$13,250	\$6,625	\$8,375	\$6,625	\$7,000	\$8,000	\$10,500	\$4,500	
\$450	\$22,500	\$2,625	\$19,875	\$7,500	\$10,125	\$12,375	\$10,500	\$12,000	\$15,750	\$6,750	
\$600	\$30,000	\$3,500	\$26,500	\$7,500	\$11,000	\$19,000	\$14,000	\$16,000	\$21,000	\$9,000	
\$750	\$37,500	\$4,375	\$33,125	\$7,500	\$11,875	\$25,625	\$17,500	\$20,000	\$26,250	\$11,250	

\* Defined as a family with one child in care and eligible for 60% CCB under current arrangements

#### Legend

Red text	\$7500 CCR maxed out
Red highlight	Family worse off under ELS
Light Green highlight	Family same or slightly better off under ELS
Dark Green highlight	Family better off under ELS

**A3 Impact for high income family\* using child care with varying fees, at 50% ELS**

FEES		Current CCB & CCR					Proposed ELS				
							Option 1 - Capped		Option 2 - Uncapped		
Average cost \$70 per day											
Weekly Fees	Annual Fees	Annual CCB \$0/hour	Out of pocket costs after CCB	Annual CCR	Total gov't subsidy CCB + CCR	Annual out of pocket 50 weeks under CCB & CCR	Gov't subsidy 50% ELS	Out of Pocket Costs after ELS	Gov't subsidy 50% ELS	Out of Pocket Costs after ELS	
\$70	\$3,500	\$0	\$3,500	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	
\$140	\$7,000	\$0	\$7,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	
\$210	\$10,500	\$0	\$10,500	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	
\$280	\$14,000	\$0	\$14,000	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000	
\$350	\$17,500	\$0	\$17,500	\$7,500	\$7,500	\$10,000	\$8,750	\$8,750	\$8,750	\$8,750	
Reasonable cost \$100 per day											
\$100	\$5,000	\$0	\$5,000	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	
\$200	\$10,000	\$0	\$10,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	
\$300	\$15,000	\$0	\$15,000	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	
\$400	\$20,000	\$0	\$20,000	\$7,500	\$7,500	\$12,500	\$10,000	\$10,000	\$10,000	\$10,000	
\$500	\$25,000	\$0	\$25,000	\$7,500	\$7,500	\$17,500	\$12,500	\$12,500	\$12,500	\$12,500	
High cost \$150 per day											
\$150	\$7,500	\$0	\$7,500	\$3,750	\$3,750	\$3,750	\$2,500	\$5,000	\$3,750	\$3,750	
\$300	\$15,000	\$0	\$15,000	\$7,500	\$7,500	\$7,500	\$5,000	\$10,000	\$7,500	\$7,500	
\$450	\$22,500	\$0	\$22,500	\$7,500	\$7,500	\$15,000	\$7,500	\$15,000	\$11,250	\$11,250	
\$600	\$30,000	\$0	\$30,000	\$7,500	\$7,500	\$22,500	\$10,000	\$20,000	\$15,000	\$15,000	
\$750	\$37,500	\$0	\$37,500	\$7,500	\$7,500	\$30,000	\$12,500	\$25,000	\$18,750	\$18,750	

\*Defined as a family with an income above the CCB cut-off and eligible for CCR under current arrangements

**Legend**

Red text	\$7500 CCR maxed out
Red highlight	Family worse off under ELS
Light Green highlight	Family same or slightly better off under ELS
Dark Green highlight	Family better off under ELS

**B: Estimated impacts of Options 1 and 2, base rate of 40% ELS**

**B1 Impact for low income family\* using child care with varying fees, 90% ELS**

See A1. A base of rate of 90% does not vary for low-income families under higher (50%) and lower (40%) base rates

**B 2 Impact for middle income family\* using child care with varying fees, at 65% ELS**

FEES		Current CCB & CCR					Proposed ELS				
							Option 1 - Capped		Option 2 - Uncapped		
\$70 per day											
Weekly Fees	Annual Fees	Annual CCB \$0/hour	Out of pocket costs after CCB	Annual CCR	Total gov't subsidy CCB + CCR	Annual out of pocket 50 weeks under CCB & CCR	Gov't subsidy 65% ELS	Out of Pocket Costs after ELS	Gov't subsidy 60% ELS	Out of Pocket Costs after ELS	
\$70	\$3,500	\$875	\$2,625	\$1,313	\$2,188	\$1,313	\$2,275	\$1,225	\$2,275	\$1,225	
\$140	\$7,000	\$1,750	\$5,250	\$2,625	\$4,375	\$2,625	\$4,550	\$2,450	\$4,550	\$2,450	
\$210	\$10,500	\$2,625	\$7,875	\$3,938	\$6,563	\$3,938	\$6,825	\$3,675	\$6,825	\$3,675	
\$280	\$14,000	\$3,500	\$10,500	\$5,250	\$8,750	\$5,250	\$9,100	\$4,900	\$9,100	\$4,900	
\$350	\$17,500	\$4,375	\$13,125	\$6,563	\$10,938	\$6,563	\$11,375	\$6,125	\$11,375	\$6,125	
\$100 per day											
\$100	\$5,000	\$875	\$4,125	\$2,063	\$2,938	\$2,063	\$3,250	\$1,750	\$3,250	\$1,750	
\$200	\$10,000	\$1,750	\$8,250	\$4,125	\$5,875	\$4,125	\$6,500	\$3,500	\$6,500	\$3,500	
\$300	\$15,000	\$2,625	\$12,375	\$6,188	\$8,813	\$6,188	\$9,750	\$5,250	\$9,750	\$5,250	
\$400	\$20,000	\$3,500	\$16,500	\$7,500	\$11,000	\$9,000	\$13,000	\$7,000	\$13,000	\$7,000	
\$500	\$25,000	\$4,375	\$20,625	\$7,500	\$11,875	\$13,125	\$16,250	\$8,750	\$16,250	\$8,750	
\$150 per day											
\$150	\$7,500	\$875	\$6,625	\$3,313	\$4,188	\$3,313	\$3,250	\$4,250	\$4,875	\$2,625	
\$300	\$15,000	\$1,750	\$13,250	\$6,625	\$8,375	\$6,625	\$6,500	\$8,500	\$9,750	\$5,250	
\$450	\$22,500	\$2,625	\$19,875	\$7,500	\$10,125	\$12,375	\$9,750	\$12,750	\$14,625	\$7,875	
\$600	\$30,000	\$3,500	\$26,500	\$7,500	\$11,000	\$19,000	\$13,000	\$17,000	\$19,500	\$10,500	
\$750	\$37,500	\$4,375	\$33,125	\$7,500	\$11,875	\$25,625	\$16,250	\$21,250	\$24,375	\$13,125	

\* Defined as a family with one child in care and eligible for 60% CCB under current arrangements

**Legend**

Red text	\$7500 CCR maxed out
Red highlight	Family worse off under ELS
Light Green highlight	Family same or slightly better off under ELS
Dark Green highlight	Family better off under ELS

**B 3 Impact for high income family\* using child care with varying fees, at 40% ELS**

FEES		Current CCB & CCR					Proposed ELS				
							Option 1 - Capped		Option 2 - Uncapped		
Average cost \$70 per day											
Weekly Fees	Annual Fees	Annual CCB \$0/hour	Out of pocket costs after CCB	Annual CCR	Total gov't subsidy CCB + CCR	Annual out of pocket 50 weeks under CCB & CCR	Gov't subsidy 40% ELS	Out of Pocket Costs after ELS	Gov't subsidy 40% ELS	Out of Pocket Costs after ELS	
\$70	\$3,500	\$0	\$3,500	\$1,750	\$1,750	\$1,750	\$1,400	\$2,100	\$1,400	\$2,100	
\$140	\$7,000	\$0	\$7,000	\$3,500	\$3,500	\$3,500	\$2,800	\$4,200	\$2,800	\$4,200	
\$210	\$10,500	\$0	\$10,500	\$5,250	\$5,250	\$5,250	\$4,200	\$6,300	\$4,200	\$6,300	
\$280	\$14,000	\$0	\$14,000	\$7,000	\$7,000	\$7,000	\$5,600	\$8,400	\$5,600	\$8,400	
\$350	\$17,500	\$0	\$17,500	\$7,500	\$7,500	\$10,000	\$7,000	\$10,500	\$7,000	\$10,500	
\$100	\$5,000	\$0	\$5,000	\$2,500	\$2,500	\$2,500	\$2,000	\$3,000	\$2,000	\$3,000	
\$200	\$10,000	\$0	\$10,000	\$5,000	\$5,000	\$5,000	\$4,000	\$6,000	\$4,000	\$6,000	
\$300	\$15,000	\$0	\$15,000	\$7,500	\$7,500	\$7,500	\$6,000	\$9,000	\$6,000	\$9,000	
\$400	\$20,000	\$0	\$20,000	\$7,500	\$7,500	\$12,500	\$8,000	\$12,000	\$8,000	\$12,000	
\$500	\$25,000	\$0	\$25,000	\$7,500	\$7,500	\$17,500	\$10,000	\$15,000	\$10,000	\$15,000	
\$150	\$7,500	\$0	\$7,500	\$3,750	\$3,750	\$3,750	\$2,000	\$5,500	\$3,000	\$4,500	
\$300	\$15,000	\$0	\$15,000	\$7,500	\$7,500	\$7,500	\$4,000	\$11,000	\$6,000	\$9,000	
\$450	\$22,500	\$0	\$22,500	\$7,500	\$7,500	\$15,000	\$6,000	\$16,500	\$9,000	\$13,500	
\$600	\$30,000	\$0	\$30,000	\$7,500	\$7,500	\$22,500	\$8,000	\$22,000	\$12,000	\$18,000	
\$750	\$37,500	\$0	\$37,500	\$7,500	\$7,500	\$30,000	\$10,000	\$27,500	\$15,000	\$22,500	

\*Defined as a family with an income above the CCB cut-off and eligible for CCR under current arrangements

**Legend**

Red text	\$7500 CCR maxed out
Red highlight	Family worse off under ELS
Light Green highlight	Family same or slightly better off under ELS
Dark Green highlight	Family better off under ELS