



Australian Government
Productivity Commission

Childcare and Early Childhood Learning

Productivity Commission
Draft Report

July 2014

DRAFT

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

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The Productivity Commission

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

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

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Opportunity for further comment

You are invited to examine this draft inquiry report and comment on it by written submission to the Productivity Commission, preferably in electronic format, by **Friday 5 September 2014** and/or by attending a public hearing.

The final report will be prepared after submissions have been received and public hearings have been held, and will be forwarded to the Australian Government by the 31 October 2014.

Public hearing date and venues

Location	Date	Venue
Perth	Thursday 7 August 2014	Mercure Perth 10 Irwin Street
Port Macquarie	Monday 11 August 2014	Mercure Centro Hotel 103 William Street
Sydney	Thursday 14 August 2014 Friday 15 August 2014	The Grace Hotel 77 York Street
Melbourne	Monday 18 August 2014 Tuesday 19 August 2014	Productivity Commission Level 12 530 Collins Street
Canberra	Monday 25 August 2014 Tuesday 26 August 2014	Productivity Commission Level 2 15 Moore Street

Commissioners

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

Wendy Craik

Presiding Commissioner

Jonathon Coppel

Commissioner

DRAFT

Terms of reference

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

Background

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

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

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

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

-
- there is a need to ensure that public expenditure on child care and early childhood learning is both efficient and effective in addressing the needs of families and children.

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

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

Scope of the inquiry

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

1. The contribution that access to affordable, high quality child care can make to:
 - (a) increased participation in the workforce, particularly for women
 - (b) optimising children's learning and development.
2. The current and future need for child care in Australia, including consideration of the following:
 - (a) hours parents work or study, or wish to work or study
 - (b) the particular needs of rural, regional and remote parents, as well as shift workers
 - (c) accessibility of affordable care
 - (d) types of child care available including but not limited to: long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care
 - (e) the role and potential for employer provided child care
 - (f) usual hours of operation of each type of care
 - (g) the out of pocket cost of child care to families
 - (h) rebates and subsidies available for each type of care

-
- (i) the capacity of the existing child care system to ensure children are transitioning from child care to school with a satisfactory level of school preparedness
 - (j) opportunities to improve connections and transitions across early childhood services (including between child care and preschool/kindergarten services)
 - (k) the needs of vulnerable or at risk children
 - (l) interactions with relevant Australian Government policies and programmes.
3. Whether there are any specific models of care that should be considered for trial or implementation in Australia, with consideration given to international models, such as the home based care model in New Zealand and models that specifically target vulnerable or at risk children and their families.
 4. Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances.
 5. The benefits and other impacts of regulatory changes in child care over the past decade, including the implementation of the National Quality Framework (NQF) in States and Territories, with specific consideration given to compliance costs, taking into account the Government's planned work with States and Territories to streamline the NQF.
 6. In making any recommendations for future Australian Government policy settings, the Commission will consider options within current funding parameters.

Process

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

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

J. B. Hockey
Treasurer

[Received 22 November 2013]

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Contents

Opportunity for further comment	iii
Terms of reference	v
Acknowledgments	xii
Abbreviations and explanations	xiii
Key points	2
Overview	3
Draft recommendations, findings and information requests	45
1 About the inquiry	63
1.1 Background to the inquiry	63
1.2 What has the Commission been asked to do?	65
1.3 Desired features of an ECEC system	68
2 ECEC service providers	77
2.1 What services are being provided	78
2.2 Approved services	81
2.3 Preschool services	86
2.4 Registered care providers	90
2.5 Other service providers	92
3 Family use of childcare and early learning	97
3.1 The nature of non-parental care in Australia	98
3.2 Use of non-parental care to facilitate workforce participation	109
3.3 Use of non-parental care for developmental reasons	113
3.4 Future demand for ECEC services	119
4 Government assistance to early childhood learning and care	123
4.1 Funding to meet the objectives of ECEC	124
4.2 Australian Government assistance	130
4.3 State and Territory Government assistance	150
4.4 Local Government assistance to ECEC	157

5	Childhood learning and development	165
5.1	What facilitates children’s learning and development?	166
5.2	How are Australian children doing at present?	177
5.3	Meeting the development needs of children	183
5.4	What are the benefits to the individual and the wider community from attending ECEC	201
6	Workforce participation	207
6.1	Introduction	208
6.2	The workforce participation of parents	210
6.3	What scope is there for increasing the workforce participation of mothers?	222
6.4	Workforce participation and future childcare needs	253
6.5	Options to support the workforce participation of parents	255
7	Regulation of ECEC providers	265
7.1	Rationales for regulating ECEC	266
7.2	The National Quality Framework	267
7.3	Other regulations affecting ECEC	309
8	Accessibility and flexibility	325
8.1	How accessible are current arrangements?	326
8.2	Accessibility for children with additional needs	348
8.3	How flexible are current arrangements?	364
8.4	Summing up	380
9	Affordability	383
9.1	How much do families pay for ECEC?	384
9.2	The design of current assistance arrangements for families	410
10	The market for childcare services	423
10.1	Introduction	424
10.2	How do childcare markets function?	425
10.3	The responsiveness of childcare supply	439
10.4	The impact of government support on childcare markets	452
11	ECEC Workforce	465
11.1	The ECEC workforce	466
11.2	Pay and conditions	472

11.3	Recruitment, retention and workforce shortages	483
11.4	Training and development	494
12	Funding options	501
12.1	Commission’s approach to evaluating funding options	502
12.2	Different funding models	505
12.3	Managing the cost to government	516
12.4	Proposed funding arrangements	532
12.5	Current funding arrangements	556
13	Potential impacts of proposed changes	561
13.1	Proposed approach to funding the system	563
13.2	Estimated cost of the funding options	566
13.3	Estimates of changes in the cost to families	579
13.4	Estimates of the effect on workforce participation	582
13.5	Estimates of changes in use of ECEC services	584
13.6	Estimates of the fiscal impact for government	586
13.7	Longer term impacts	588
13.8	Transitional arrangements	594
13.9	Administrative changes	600
A	Conduct of the inquiry	611
B	Disadvantaged children	627
C	Current assistance measures	633
D	Workforce participation data	655
E	Unmet demand for ECEC	689
F	Workforce participation elasticities	717
G	Effective Marginal Tax rates	723
H	The National Quality Framework	761
I	International approaches to ECEC	783
J	The costs and viability of childcare operations	805
K	A cost benefit framework	843
	References	875
	Technical supplement on modelling (forthcoming)	

Acknowledgments

The Commission acknowledges the outstanding contribution of its staff in preparing this draft report and the underlying analysis.

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

This report has benefited from comments on the overview by Dr Gordon Cleveland, an economist from the University of Toronto and Honorary Senior Fellow, University of Melbourne.

This report used data from a number of Australian Bureau of Statistics (ABS) collections and unit record data, customised projections prepared for the Australian Government Department of Social Services by the ABS, and from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA project was initiated and is funded by the Department of Social Services, and is managed by the Melbourne Institute of Applied Economic and Social Research.

The findings, analysis and views in this report, however, remain (except where otherwise noted) those of the Commission.

Abbreviations and explanations

Abbreviations

ABS	Australian Bureau of Statistics
ACECQA	Australian Children’s Education and Care Quality Authority
ACFC	Aboriginal and Torres Strait Islander Children and Family Centres
AEDI	Australian Early Development Index
ANP	Additional Needs Program
BBF	Budget Based Funding
CALD	culturally and linguistically diverse
CBC	centre-based care
CCB	Child Care Benefit
CCR	Child Care Rebate
CSP	Community Support Program
DCP	Disadvantaged Communities Program
DHS	Department of Human Services
DEEWR	(former) Department of Education, Employment and Workplace Relations
ECEC	early childhood education and care
ECLS	Early Care and Learning Subsidy
ECT	early childhood teacher
EMTR	effective marginal tax rate
FDC	family day care
FTB	Family Tax Benefit
GCCB	Grandparent Child Care Benefit
GDP	gross domestic product
HBC	Home-based care
HILDA	Household, Income and Labour Dynamics in Australia Survey
HIPPY	Home Interaction Program for Parents and Youngsters
IHC	In-Home Care

IPSP	Inclusion and Professional Support Program
ISP	Inclusion Support Program
ISS	Inclusion Support Subsidy
JET	Jobs, Education and Training program
JETCCFA	Jobs, Education and Training Child Care Fee Assistance
LDC	long day care
LSAC	Longitudinal Study of Australian Children
MACS	Multifunctional Aboriginal Children's services
NESB	non-English speaking background
NDIS	National Disability Insurance Scheme
NPA	National Partnership Agreement
NQF	National Quality Framework
NQS	National Quality Standard
OCC	occasional childcare
OECD	Organisation for Economic Co-operation and Development
OSHC	outside school hours care
PC	Productivity Commission
PPL	paid parental leave
PSC	Professional Support Coordinator
QIP	Quality Improvement Plan
ROGS	Report on Government Services
SCCB	Special Child Care Benefit
SECLS	Special Early Care and Learning Subsidy
SEIFA	Socio-Economic Index for Areas

Explanations

Billion	The convention used for a billion is a thousand million (10 ⁹).
Findings	<i>Findings in the body of the report are paragraphs highlighted using italics, as this is.</i>
Recommendations	<i>Recommendations in the body of the report are highlighted using bold italics, as this is.</i>
Requests for further information	<i>Information requests are paragraphs highlighted using italics, as this is.</i>

OVERVIEW

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Key points

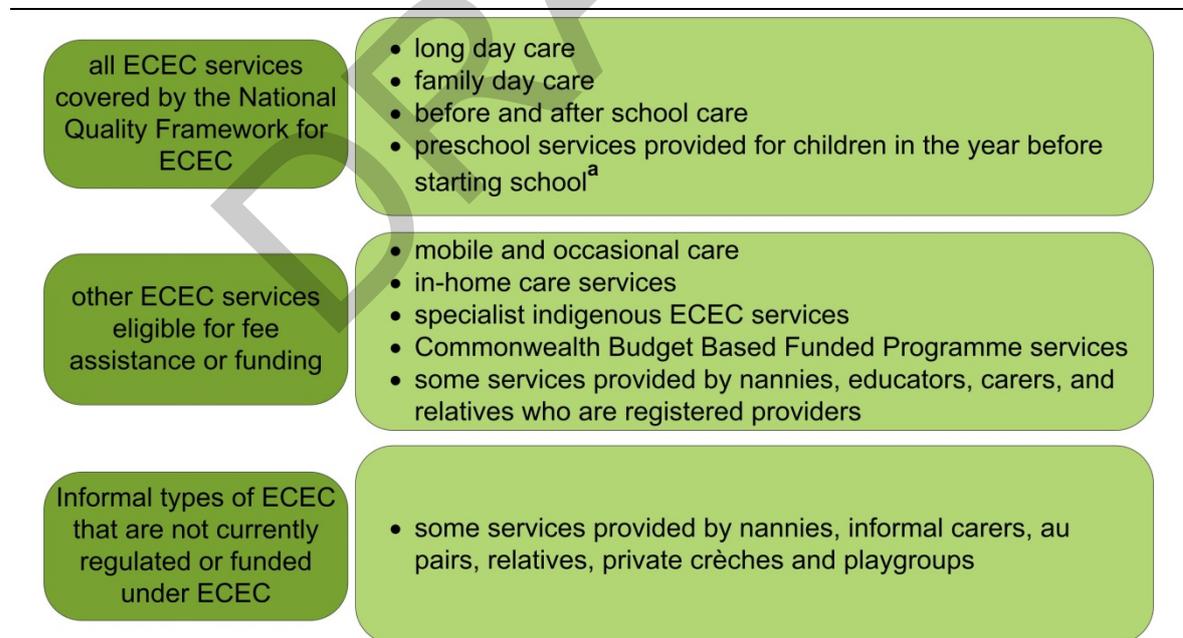
- Formal and informal Early Childhood Education and Care (ECEC) services play a vital role in the development of Australian children and their preparation for school, and in enabling parents to work. Many parents use a mix of care types and/or choose to care for their children at home.
- The number of ECEC services has expanded substantially over the past 5 years. Australian Government funding has escalated to around \$7 billion per year, and covers two thirds of total ECEC costs. However, many parents report difficulties in finding ECEC at a location, price, quality and hours they want.
- ECEC issues are just some of a broad range of work, family and financial factors which influence parent work decisions. The interaction of tax and welfare policies provide disincentives for many second income earners to work more than part time.
- The benefits from participation in preschool for children's development and transition to school are largely undisputed. There also appear to be some benefits from early identification of, and intervention for, children with development vulnerabilities.
- The National Quality Framework for ECEC services must be retained, modified and extended to all Government funded services. To better meet the needs and budgets of families, the range of services approved for assistance should include approved nannies and the cap should be removed from occasional care places. All primary schools should be directed to provide outside school hours care for their students, where sufficient demand exists for a viable service.
- Government assistance should focus on three priority areas:
 - Mainstream support should be a single child-based subsidy that is: means- and activity- tested, paid directly to the family's choice of approved services, for up to 100 hours per fortnight, and based on a reasonable cost of delivering ECEC for each age of child in different ECEC types. In regional, rural and remote areas with fluctuating child populations, viability assistance should be provided on a limited time basis.
 - Children with additional needs should have access to a 'top-up' subsidy to meet the additional reasonable costs of service. Services should have access to assistance to build capacity to provide ECEC for: individual additional needs children, for children in highly disadvantaged communities and to facilitate the integration of ECEC with schools and other services.
 - The Australian Government should continue to support the states and territories for all children to attend an approved preschool program in the year prior to school.
- Given the broader welfare settings, recommended changes to ECEC assistance and accessibility can only do so much to improve workforce participation.
 - Labour supply is estimated to rise by 0.4 per cent (an additional 47 000 workers).
 - The cost to Government of the preferred settings for ECEC assistance is estimated at \$8 billion per year. This is slightly above the forward budget estimates, but the Commission has also included analysis for assistance arrangements that are likely to be within the Government's ECEC funding envelope.
 - The GDP impact is, at most, 0.4 per cent (an additional \$5.5 billion).

Overview

Why it's time to reconsider the ECEC system

Almost all of Australia's 3.8 million children aged 12 years or under have undertaken some form of early childhood education and care (ECEC), and for around half of these children, formal or informal ECEC is a usual form of care. For many of these children and their families, ECEC is the formal care and early learning provided by long day care centres, family day care, occasional care services and crèches in the years before children get to school (figure 1). Depending on the state/territory, once children reach 4 to 5 years, the majority either attend a preschool program in a long day care centre, or move out of childcare into a dedicated preschool. Once formal schooling begins, some children attend before or after school care and/or vacation care programs.

Figure 1 **ECEC types that are within the scope of this inquiry**



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

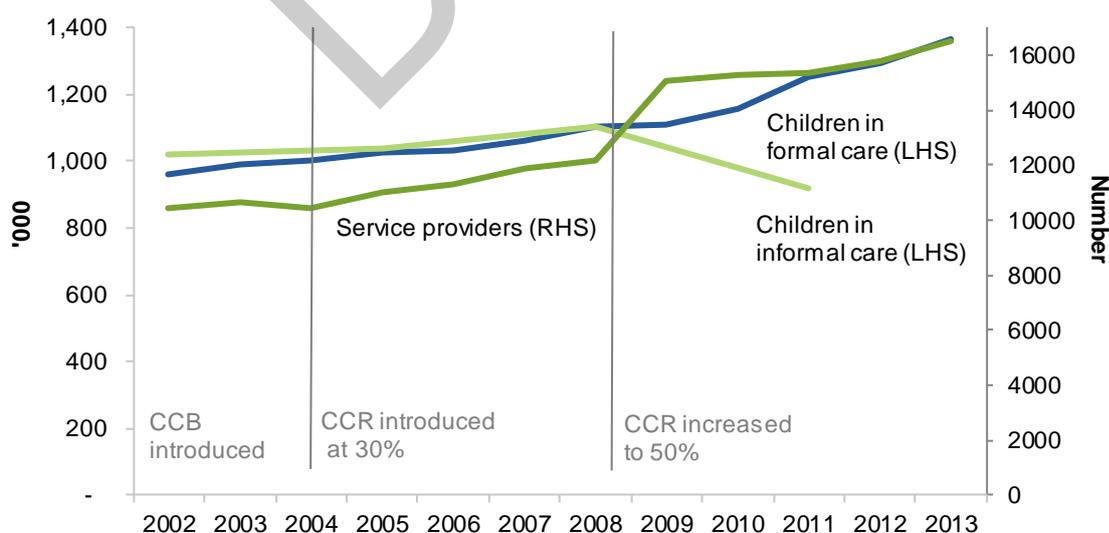
Supplementing this formal (and mostly quality regulated) network of over 16 000 ECEC services, is a host of informal (largely unregulated) care and early learning arrangements provided by relatives, neighbours, playgroups, most nannies, and au pairs. Informal carers, particularly grandparents, also tend to be relied on when

suitable formal care is not available or is too costly for the hours that parents want to work. It is estimated that around 40 per cent of children aged 12 years or under use some type of informal care on a regular basis. For just over 40 per cent of children, however, the usual form of care is parental-only care.

Increasingly, women wish to join or return to the workforce at some point after the birth of children. The workforce participation rate of mothers with a child under 15 years has grown from 57 per cent to 66 per cent over the past two decades. That, combined with a growing community awareness of the importance of early learning for child development, means that more families now use formal ECEC, although at times and in a manner considerably changed from past decades when often only one parent worked outside the family home.

There is a lot that is good about the current ECEC system. Most children have some exposure to formal care and/or learning prior to starting school and the vast majority of Australian children transition well into school. The number of ECEC services has expanded substantially over the past 5 years to cater for the additional demand (figure 2). Some aspects of the National Quality Standards to which these services are aiming are viewed by many as leading practice globally. All Australian governments have committed in recent years, under a series of national partnership agreements, to increase children's participation in ECEC in the year prior to full-time schooling, increase participation rates of Indigenous and disadvantaged children, and strengthen ECEC service quality and consistency (box 1).

Figure 2 Use and provision of ECEC services^a



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

Box 1 Evolution of ECEC assistance in Australia

Governments in Australia provide assistance to ECEC through a mix of payments to families, support for providers and the direct provision of services. Historically, the Australian Government has funded arrangements for early childhood care while state and territory governments have had responsibility for childhood education. Currently, the Australian Government's role in ECEC is still largely one of funding, state and territory governments also provide some funding but are also regulators and providers, and local governments continue to provide specific services required by their communities.

Throughout the 1970s and 1980s, the Australian Government was focused on funding services to increase the number of childcare places to meet the demand of the increasing numbers of women (re)entering the workforce. In the 1990s, the affordability of work-related care increasingly became a community-wide issue and the Australian Government responded by providing fee assistance directly to families in addition to the assistance it was already providing to some services. More recently, increased evidence of the significance of the early years of a child's life for their future wellbeing, has shifted the objectives of governments towards child development and the provision of high quality ECEC services. The Australian Government has also become focused on providing extra assistance for ECEC services in rural and remote areas and to vulnerable and disadvantaged children, to improve the equity of access.

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

- Child Care Benefit (CCB) is a means tested benefit targeted towards low to middle income families. The CCB that each family receives is primarily dependent on the number of hours families participate in work related activities, the number of children in care and whether they are attending school, the type of service (approved or registered) attended and family income. Grandparent CCB (GCCB) is available for grandparents who are primary carers of children in ECEC services and Special CCB (SCCB) is available for families experiencing financial hardship or for children at risk. In 2013-14, CCB expenditure amounted to an estimated \$2.9 billion for 555 000 children.
- Child Care Rebate (CCR) is a non means tested payment which provides additional assistance for families using approved care. CCR provides up to 50 per cent of a family's out-of-pocket child care costs after any CCB is deducted, up to a maximum of \$7,500 per child per year. In 2013-14, CCR expenditure amounted to an estimated \$2.7 billion for 622 000 children (444 000 of whom also received CCB).
- Jobs, Education and Training Child Care Fee Assistance (JETCCFA) provides assistance to eligible parents who qualify for the maximum rate of CCB. It pays most of the gap in out-of-pocket costs not covered by CCB, while a parent is working, studying or training. In 2013-14, JETCCFA expenditure amounted to an estimated \$0.1 billion for around 15 500 children.

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

But the current ECEC system was largely designed to meet the needs of a different era and a series of incremental additions and amendments mean there is much scope for improvement. Parent and ECEC provider concerns about the current system are highlighted in box 2. Broadly, the issues identified by the Commission include:

- A number of families are struggling to find ECEC services that meet their needs and enable them to return to the workforce or increase their work commitments. Some parents, particularly those working non-standard or irregular hours find most types of formal ECEC services inflexible. In around half of all couple families where both parents work, one or both work variable hours or are on call, and putting in extra hours at work to get a job done or meet deadlines is a usual practice. Some parents make substantial adjustments to their work hours to accommodate available care and/or school hours.
- There are long waiting lists for ECEC services in some areas or age groups (such as for babies in city centres). Nearly one in four parents working part time or not working, with a child 12 years or under, reported being unable to work due to unmet demand for childcare. Many parents pay for (and the Australian Government subsidises) ECEC places that are under-utilised but which are seen by parents as a way of gaining some flexibility to enable possible changes in their workforce participation.
- Current Australian Government assistance to families creates a strong disincentive for some parents to enter the workforce or to increase their hours of work. For some second income earners (usually mothers) who return to work and use ECEC, the combination of a drop-off in family tax benefits once family income rises, increasing income tax rates, and reduced ECEC assistance at higher income levels, can result in an effective marginal tax rate of close to 100 per cent, particularly once work exceeds 3 days per week (figure 3). However, despite high effective marginal tax rates in the immediate future, parents (often those more qualified or with a career path) may continue working as they anticipate longer term private benefits from maintaining attachment to the workforce.
- Additional needs children — those who are at risk of abuse or neglect, have a diagnosed disability, or are developmentally vulnerable because of some cultural or family characteristic (such as children who are not exposed to English in their homes) — would benefit most from some early learning but many are missing out. Around 20 per cent of children starting school are considered to be developmentally vulnerable in at least one of the five developmental areas assessed under the Australian Early Development Index.

Box 2 Parent and provider comments on the ECEC system

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

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

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

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

I needed to keep my eldest daughter in care (1 day per week) whilst on maternity leave to increase the likelihood of my second child gaining a place. This means that a family needing care in those months might have been unable to get a place whilst my daughter was using a place as a 'holding spot' for herself and her younger sibling.

My daughter is about to begin preschool at public school in Canberra. However, because she is not school age, the school cannot provide before or after school care. The hours are odd, Thursday and Friday and every second Wednesday. While I might be able to get family day care, advice is that I would be expected to pay for the full day. I have reduced my hours to allow me to drop off at 9 and pick up at 3. My husband is having every Wednesday off. I'm not sure what I will do over school holidays, we do not have family close by.

My Childcare centre operates from 7:30am to 6pm. It takes 45 minutes to commute from Childcare to work. This means that it is difficult to get to work by 8:30, and I need to leave at 5. On preschool days, this is even more stretched. (comment no.90, ECEC user)

We need more support for families to care for their preschool children at home or within 'normal' working hours - children need to have a home, not be raised in an early childhood service - if more flexibility means children sleeping at a service overnight, then you are sacrificing the child's wellbeing and development for family convenience. Govts need to support family friendly workplaces. (comment no.49, ECEC user)

(continued next page)

Box 2 (continued)

The suggestion that having young children is a barrier to increased participation in the workforce is somewhat misleading, for two reasons. First, the inquiry should keep things in perspective: children are young for a short time compared to the length of their parents' working lives. The fact that most parents need to adjust and adapt their working lives needn't be defined as a problem that needs solving. Second, many parents actively choose to stop or reduce the amount of time they spend working when they have young children. There are still many parents out there that feel that spending those early years with their children is more important than working, and prioritise their arrangements (and spending) accordingly ... None of us feels that our arrangements are perfect; every week feels like a juggling act. Nevertheless, we chose to be parents and have managed to balance our children's needs with our financial requirements. (comment no.96, ECEC user)

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

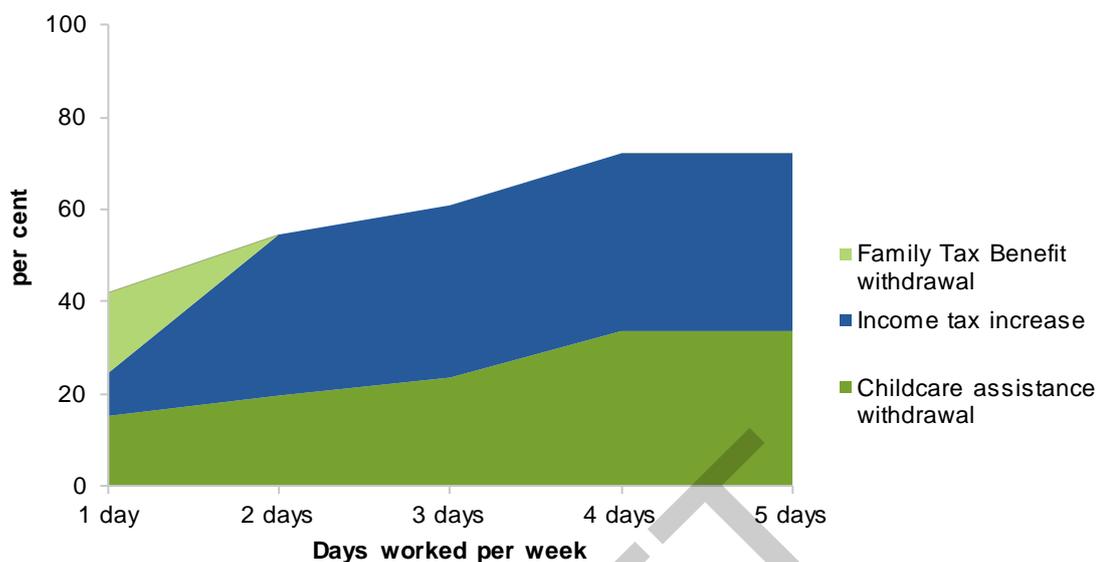
These are educated people educating our little people and deserve to be paid in accordance to that. I work in retail with minimal responsibility and get paid more than what most of the carers at my children's daycare center would. (comment no.24, ECEC user)

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

State based public education systems should be extended backwards to cover the childcare and early childhood stages of education. For-profit provision of services in the childcare and early childhood stages of child development should be phased out. Total commonwealth funding of the sector (including rebates, the costs of administering rebates, the costs of regulating the private sector and profit margins) should be paid directly to state education departments to facilitate the incorporation of child care and early childhood education into state education systems. (comment no.437, ECEC user)

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

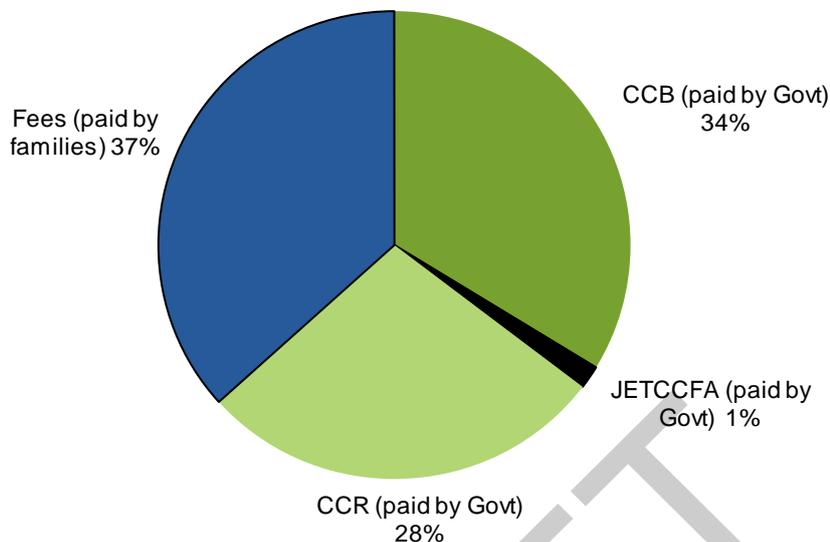
Inclusion Support Funding is difficult to obtain and ongoing requirements demand intense reporting and administration from staff. If a child is diagnosed with a severe and lifelong condition why does this require updated medical, educational observations and extensive care plans in order to receive ongoing funding. (comment no.71, ECEC worker)

Figure 3 Example of effective marginal tax rates^a

^a Represents a couple family with three children, one in outside school hours care and two in long day care, as per 'family 2' in Box 3.

- The cost to taxpayers of ECEC assistance has ballooned with little prioritisation over a number of years, from 0.8 per cent of total Australian Government expenditure 10 years ago to a projected 1.7 per cent in 2014-15. In aggregate, the Government contributes the bulk of all funding (to families rather than providers), with outlays that are around \$7 billion per year and rapidly growing. For 95 per cent of children in ECEC, the Australian Government covers over 50 per cent of fees. Overall, the Government pays around two thirds of the cost of approved childcare and families pay the residual (figure 4). State and territory governments contribute a further \$0.8 billion per year in support of ECEC and all levels of government offer various concessions and tax exemptions to ECEC providers, particularly to the 50 per cent of providers which are not-for-profit.
- Many families have come to expect that the cost of early learning and care for their children should not unduly burden the family budget, but out-of-pocket costs in Australia (while 27 per cent of average wages and above the OECD average of 17 per cent) sit well below those of the United Kingdom, United States, New Zealand and Canada. Furthermore, the design of ECEC assistance arrangements is resulting in a declining proportion of assistance to low-income families. The non-means tested capped CCR payment is this year expected to overtake the means-tested CCB and JETCCFA payments as the primary form of ECEC assistance.

Figure 4 Who pays in Australia's ECEC system ^a



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

- ECEC workers anticipate greater recognition and financial reward for their expanded role in children's development but many providers are reluctant to pass on the cost of any wage increases to families using their services. Providers perceive (not always correctly) that families do not value their services at higher rates and will withdraw their children.
- Extensive cross-subsidisation of service provision means that the prices of many services (such as services for babies) bear little resemblance to the cost of their provision. Children aged 0 to 2 years are twice as expensive to care for in a long day care setting as 3 to 5 year olds, yet there is usually little if any difference in fees charged to parents.
- ECEC assistance arrangements are complex, are (anecdotally) costly for governments to administer, and difficult for parents and providers to navigate or to readily calculate the out-of-pocket costs of care. There are at least 20 Australian Government ECEC assistance programs, many overlapping in their objectives. Some assistance programs — such as the Special Child Care Benefit (SCCB), JETCCFA and Community Support Program (CSP) — have been very poorly targeted. Funds have flowed to services and families well outside their intended purpose, although in the case of JETCCFA and CSP, Australian Governments have frequently attempted to tighten eligibility criteria.
- The processes in place to assess the quality of ECEC services are cumbersome, inconsistent, and costly to governments and providers. Only one-third of services have been assessed in the past two years and it seems unlikely that regulatory authorities will assess, as planned, all services at least once by mid-2015.

What has the Commission been asked to do?

The Australian Government commissioned this inquiry to examine and identify future options for ECEC that address these concerns with accessibility and affordability in a way that supports: children's learning and development needs, including the transition to school; and participation in the workforce, especially for women.

In particular, the Government has requested that the Commission examine ways to enable ECEC to be more flexible to suit the needs of families, including those with non-standard work hours, or with disadvantaged children, and those who live in regional areas. The Commission is to consider the impacts of regulatory changes in childcare over the past decade, other specific models for ECEC delivery (including those used overseas) and assess alternative mechanisms for Government to deliver support to families and providers. At the same time, the Government has requested that any modifications to ECEC funding must be based on funding arrangements that are sustainable for taxpayers into the future and include options within current funding parameters.

The role of governments in ECEC

The key rationales for government assistance to ECEC rely on the existence of community-wide benefits from enhanced child development and increased workforce participation of parents, and equity of access to developmental opportunities. Enhanced early learning and development opportunities can contribute to: healthy child development (which builds human capital); better transitioning of children into the formal education system; reduced risk of harm to certain children in the community; and overcoming disadvantage and its longer term social consequences. Greater workforce participation by parents can: boost economic output and tax revenue; reduce long term unemployment and reliance on welfare support; and promote social engagement.

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

These objectives represent a mix of both economic and social goals. Further, while some of the benefits of broader ECEC participation will be felt by the community, many of the benefits accrue primarily to the child attending ECEC and to their family. This means that families should not expect governments to fully fund their

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

What the Commission has found

Following more than 1000 submissions and comments, wide-ranging consultation with providers of ECEC services and families who use these services, and its own consideration of available data and information, the Commission has reached the following broad conclusions.

Formal and informal *ECEC services play a vital role* in the development of Australian children and their preparation for school, and in enabling parents to participate in the workforce. However, many parents still prefer parental-only care, at home, for their children.

Quality is important and there is *broad support for the National Quality Framework (NQF)* in the ECEC sector (including amongst those services not currently within scope of the framework). However, some changes in what it requires and the way it is implemented could reduce costs without compromising quality. Having nurturing, warm and attentive carers is arguably the most critical attribute of quality in any ECEC setting, especially for younger children. Other factors affecting quality include: staff-to-child ratios; qualifications, skills and training of staff; program planning and leadership; and the physical environment/facilities. There is, however, little reliable evidence on the relative contribution that each of these makes to child development outcomes.

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

- The benefits of quality early learning for children in the year prior to starting school are largely undisputed, with evidence, in particular, of improved performance in standardised test results in the early years of primary school as a result of participation in preschool programs.
- There is some evidence of developmental benefits for children attending quality early learning from about 1-3 years of age, although the evidence of long term benefits from universal access (except for children from disadvantaged backgrounds or with additional needs) to such learning is currently less compelling.

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

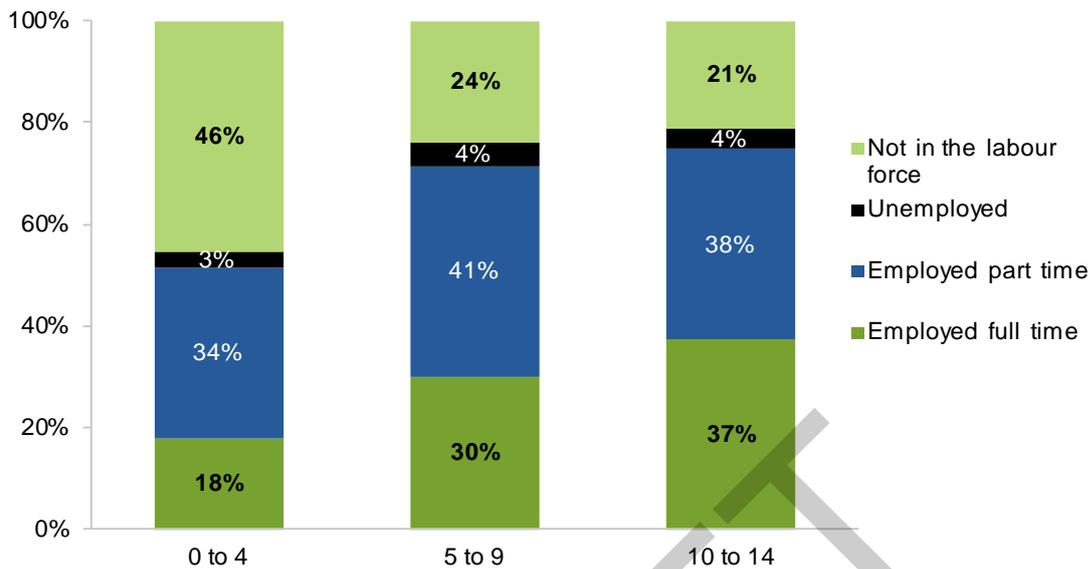
Children are learning and developing from birth, and except where the home environment offers very poor development opportunities or places the child at risk, will likely continue to do so even without participation in formal ECEC at a very young age.

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

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

There is *scope to increase the workforce participation* of parents, particularly mothers. The Commission has estimated that there may be up to roughly 165 000 parents (on a full time equivalent basis) who would like to work, or work more hours, but are not able to do so because they are experiencing difficulties with the cost of, or access to, suitable childcare — these are parents who are currently either not in the workforce or are working part time (figure 5). Most of these parents would prefer to work part time (an average 25 hours per week).

Figure 5 Workforce participation of mothers, by age of youngest child



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

Some of the current demand for ECEC places has been created by *prices which bear little resemblance to the costs of ECEC provision* (in some localities and particularly for younger children) — because of government subsidies on the fees paid by parents and because of the extensive cross-subsidisation by providers. The capacity of ECEC providers to respond to demand for ECEC places is inhibited by regulatory restrictions on operations (such as hours of operation restrictions and local government planning requirements), the type of services which can be provided (given the staff qualifications required) and incentives created by current funding arrangements.

Children with additional needs have either been unable to obtain subsidised places or been channelled into those assistance regimes which have the weakest eligibility

criteria, such as the SCCB. While government assistance for the majority of children has increased with demand, block funding to support services delivering ECEC to additional needs children has been kept relatively stable.

An ECEC system to aim for

Drawing on these conclusions, the Commission has developed guiding principles to help in formulating what an ECEC system to aim for might look like. Detailed in the report, these principles include a need to:

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

The Commission's preliminary view of an ECEC system that governments, providers and families could work toward in the future is summarised in table 1. The key features of such an ECEC system broadly relate to the facilitation of both child development outcomes and parental workforce participation, and the integration of ECEC with other community services and schools. The Commission welcomes feedback on its proposed model for an ECEC system for Australia's future, for consideration in its final report.

The Commission's draft recommendations, discussed below, are consistent with moving toward such an ECEC system. However, it is likely that some aspects of the ECEC system described in table 1 will be difficult to achieve and some trade-offs will be inevitable. In particular, the scope to move toward such a system will be constrained by: the diversity in views on the role, importance and best way to deliver ECEC (for example, the Commission has been advised that not all school principals are receptive to OSHC services sharing school facilities); widespread expectations by ECEC stakeholders that ECEC quality and usage should continue to be largely funded by taxpayers; and budget constraints that mean this funding is unlikely to continue to grow on the scale to which parents and ECEC providers have become accustomed.

Table 1 **An ECEC system to aim for**

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

A proposed approach to ECEC

The Commission's recommended approach to ECEC seeks to direct regulatory reforms and available Australian Government budgeted ECEC assistance to where there is the greatest potential to enhance the accessibility and/or affordability of ECEC. An ECEC system that is accessible and affordable for families is more likely to enable improved child development outcomes, and encourage parents to move back into paid work, or extend their existing work commitments.

The Commission proposes that funding for the existing medley of Australian Government ECEC assistance programs be combined and directed to three priority areas — (i) mainstream ECEC services, (ii) services for children with additional needs and (iii) preschool services (figures 6 and 7). The design of the proposed funding system aims to maximise child development and workforce participation outcomes that are, as far as possible, likely to be *additional* to those that might be achieved in the absence of government funding (not simply compensate families for choices that they would have made regardless).

The estimated distribution of current and budgeted Australian Government expenditure between these three priority areas is shown in table 2. The Australian Government has committed \$31 billion over the next 4 years (roughly \$7.7 billion per year) for assistance to ECEC (including commitments under the National Partnership Programs, which involve transfers of \$0.8 billion per year to state and territory governments). The bulk of funding goes to support for mainstream use of ECEC services, and the Commission proposals (as described below) are consistent with this.

Table 2 **Indicative annual expenditure on ECEC**

Program area	2013-14	2014-15 to 2017-18
	\$billion	Budgeted average \$billion/year
Mainstream use of ECEC services	5.7	7.1
Additional needs	0.6	0.5
Preschool access assistance ^a	0.4	0.1
Total	6.7	7.7

^a The Australian Government's contribution to preschool access assistance under the current National Partnership Agreement with states and territories expires in December 2014.

A particular concern to the Commission in this inquiry is to ensure that the interactions of ECEC assistance with other forms of assistance to families (such as the family tax benefits) would provide incentives for parents to increase their work hours (particularly once children are in school). The Commission is also mindful in assessing proposed changes to ECEC of the impact on child development of reforms made for workforce participation reasons. For example, an assistance arrangement which enabled working parents to use care for very young children, at a low cost for an unlimited number of hours per week, would be unlikely to be generally beneficial to child development.

In addition to reforms of the ECEC assistance approach, a range of regulatory reforms are proposed and discussed below. These reforms specifically aim to broaden the scope of the NQF, while at the same time, reducing the regulatory burdens on some providers and enabling providers to offer more flexible services.

Figure 6 **Child-based assistance — proposed approach for the Australian Government**

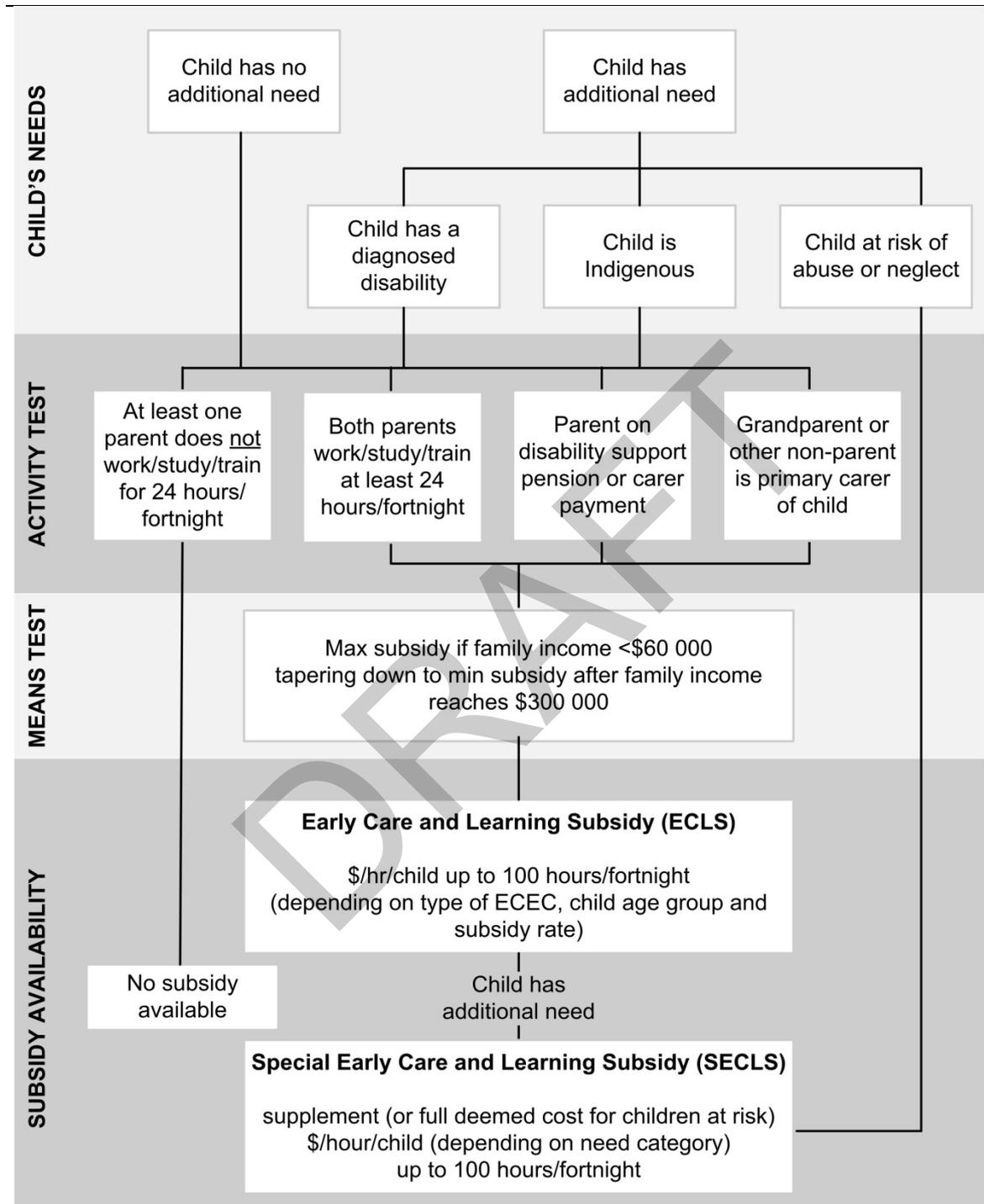
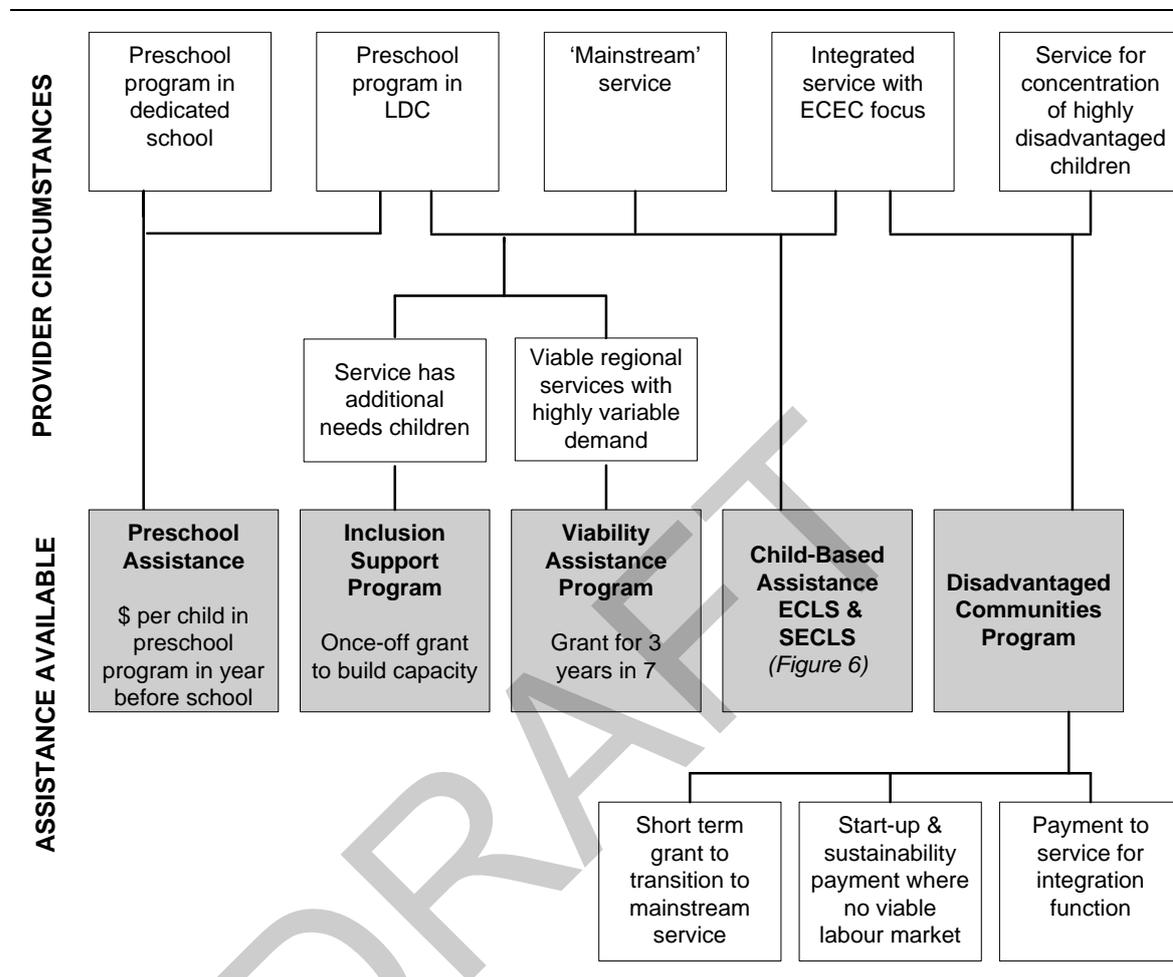


Figure 7 Program assistance — proposed approach for the Australian Government



While the Commission has detailed criteria by which Government should allocate assistance to families and ECEC providers, there are considerable uncertainties involved and there are bound to be different opinions on the identified areas of priority. With a limited ECEC budget, unless efficiency gains can be found (such as through reducing regulatory burdens or improved market operation), additional assistance in one ECEC area must come at the expense of assistance to, or higher payments by, others. The Commission invites further submissions to assist in refining the prioritisation of ECEC assistance.

Assistance for children using mainstream ECEC services

A child-based subsidy

The primary form of ECEC assistance for the majority of Australian families would remain a child-based subsidy for use of formal ECEC services that are covered by

the National Quality Standards ('mainstream' services). The primary objective of this mainstream funding is to continue the support for workforce participation (that incidentally begins with paid parental leave) and encourage widespread access to formal development opportunities for children in the years prior to school. Child-based subsidies mean that assistance follows the child to whichever ECEC service is chosen by families. However, the range of services which could potentially attract this subsidy should be expanded to include, for example, more home based care options (such as approved nannies), many existing registered care services, and some of the current Budget Based Funded services in rural, remote or Indigenous communities, where these services meet (or are working toward) appropriate national quality standards. For the benefit of children, appropriate national quality standards for ECEC services must be upheld, but there must also be scope within these standards for providers to offer a range of care-only and care-education combinations that meet the needs and budgets of families.

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

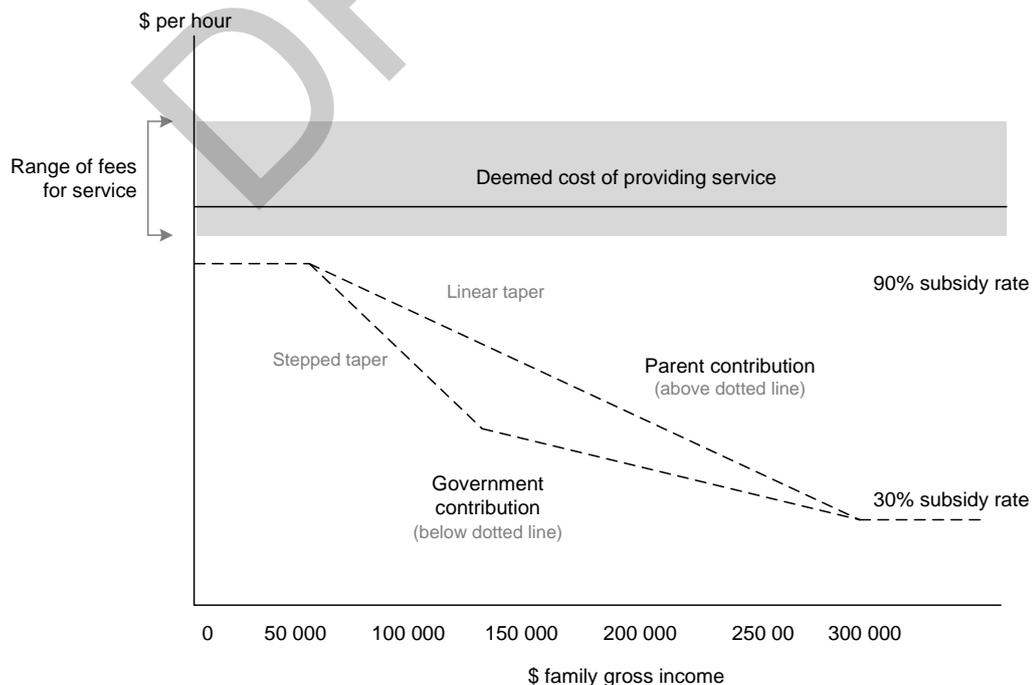
Viability Assistance Program

For those mainstream regional and remote services which have the potential to be viable, but are experiencing temporary difficulties, support would be provided under a *Viability Assistance Program* to ensure continuity of ECEC access for children. This is intended as a temporary measure, with support available on a 3 years in 7 basis, to allow the service to continue to operate and retain a portion of its staff and facilities while experiencing a temporary reduction in demand — such as in regional communities where there are often small and fluctuating child populations. The Commission considers this program may be beneficially targeted at centre-based care services and mobiles services in rural, regional and remote areas.

Box 3 Early Care and Learning Subsidy (ECLS)

Under the Commission's proposed child-based assistance scheme (ECLS), the rate of assistance received by families for a child attending a formal ECEC service would be determined by the 'deemed' cost of providing a reasonable standard of ECEC (including a profit margin), given the type of service provided (care, education or a combination thereof) and the age of the child. The ECLS would:

- be available for all centre-based ECEC services (including long day care, occasional care and OSHC) and all home-based care (including family day care and approved nannies) which satisfy the appropriate National Quality Standards
- apply to the hours of care charged for, up to 100 hours of service per fortnight
- vary with family income, including tax-free income and all other welfare payments received, such that those with a family income of \$60 000 or less would have 90 per cent of the cost of ECEC subsidised by the Government, reducing gradually to 30 per cent for those with a family income of \$300 000 or more
- be available for children whose parents undertake at least 24 hours per fortnight of actively looking for work, undertaking work, study or training; or are in receipt of a disability support pension and unable to work; or in receipt of a carers payment and unable to work; or for children who have, as their primary carer, someone other than their parent(s)
- have the deemed cost legislatively indexed to the annual change in the relevant wage for ECEC services
- be paid directly to providers, and be passed on transparently as a discount in the fees charged.



Box 4 Deemed cost of service provision

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

In contrast, the Commission is recommending that ECLS be based on a deemed or reasonable cost of delivering a service. This could be a single national estimate, or alternatively (if there is considered to be systematic dispersion in the reasonable costs of provision), multiple values for the deemed cost could be determined to reflect dispersion in the reasonable cost of providing a particular service, to a particular age child, in a particular locality. The deemed cost would include ECEC salaries associated with meeting NQF staffing requirements, variable costs such as for operating items, rent and administration, and a reasonable surplus or profit. It is difficult to get information on these costs from providers — extensive cross-subsidisation across age groups and services; and for larger providers, the allocation of centralised administrative costs across services; all complicate the determination of deemed cost. While there does not appear to be a consistent basis for varying deemed cost estimates between localities, it does seem reasonable to (eventually) have deemed cost estimates that vary with the age of child and type of ECEC service provided (for example, whether it includes an educative teacher-led program or caters to additional needs), as these appear to be important influences of the cost of ECEC provision.

For simplicity in its draft report, the Commission has assumed a deemed cost equivalent to the median price charged for ECEC services, according to the Government's Administration Data, in LDCs, family day care and OSHC. In 2013-14, these rates are estimated to be: \$7.53 per hour in LDCs, \$6.84 per hour in family day care (this rate is also applied to approved nannies), and \$6.37 per hour in OSHC.

The use of a deemed cost as the basis for a subsidy is a more transparent basis for allocation of taxpayer money than the current system, and can be readily adjusted with broad changes in ECEC prices. The rates of assistance provided to families is very dependent on the basis used for determining the deemed cost of care. Specifically, if a higher deemed cost of care is used as the basis for assistance, then families would bear a smaller proportion of the total cost of ECEC usage. For its final report, the Commission intends to further refine the estimates of deemed cost as a basis for a child-based subsidy.

Assistance for children with additional needs

As noted earlier, enabling ECEC participation by children with additional needs could provide both immediate developmental benefits to these children and potentially longer term benefits for the community through early identification and intervention to address developmental concerns. A supplement to the ECLS should be made available for children with additional needs — a *Special ECLS* (or SECLS) — for up to 100 hours per fortnight. For children at risk of abuse or neglect, this supplement would meet the full deemed cost of their care. For children with a diagnosed disability, the supplement would ideally meet the full deemed cost of their additional care, in order to promote equality of ECEC access for these children. However, if funding is constrained then there will need to be a way of prioritising its allocation amongst additional needs groups.

In addition to the child-based assistance for additional needs children, the Commission is recommending that Government create *two block funded programs* in those additional needs areas where delivery is likely to be improved or be more cost-effective through a block funded (rather than child-based funded) approach. Specifically, these programs should replace the current funding for Budget Based Funded services, various indigenous ECEC services, Inclusion and Professional Support Program (IPSP), the CSP, funding for children and family centres and the Australian Government funding (other than universal access for preschool) under the National Partnership Agreements.

The first of these new programs — the *Disadvantaged Communities Program* — would block fund providers, in full or in part, to deliver services to concentrations of children in highly disadvantaged communities. Concentrated populations of developmentally vulnerable children — such as those in Indigenous or new migrant communities, or very low socio-economic areas — would also have access to ECEC services that are integrated with other community services related to schools, health or family support. Integrated services provide a single point of access to support and a means of identifying, diagnosing and addressing developmental issues early in a child's life, to reduce their vulnerability and improve their transition to preschool and school. The integration 'glue' in these services would also be funded under the Disadvantaged Communities Program, where services are primarily of an ECEC focus. In areas where there is a viable labour market (and therefore parents are able to meet an activity test for child-based assistance), service providers should be transitioned to child-based funding arrangements as soon as possible.

The second of these new programs — the *Inclusion Support Program* — would expand on the existing Inclusion and Professional Support Program to provide once-off grants to ECEC providers to build the capacity to provide services to additional

needs children. This could include modifications to facilities and equipment and training for staff to meet the needs of children with a disability, Indigenous children, and children from culturally and linguistically diverse backgrounds.

The extent to which the National Disability Insurance Scheme (NDIS) will meet the needs of children with disabilities when participating in ECEC is unclear to the Commission at this stage. However, the Commission's proposed ECEC assistance arrangements for children with additional needs is in no way intended to replace whatever support is provided under the NDIS.

Assistance for universal preschool access

As the year immediately before starting school is a particularly important year for early development of most children, the Commission recommends that governments should maintain preschool program funding as a priority area. The National Partnership Agreement on Universal Access to Early Childhood Education has been a major factor in boosting preschool attendance across the country in recent years and this should be maintained. Preschool access provides immediate socialisation benefits for children, improves the likelihood of a successful transition into formal schooling, and may provide longer term developmental benefits. Governments should further investigate the hours of preschool attendance that would be optimal to ensure children's development and successful transition to school.

Responsibility for preschool programs should remain with the states and territories. The Australian Government should negotiate with state and territory governments to incorporate funding for preschool into funding for schools, and encourage extension of school services to include preschool, as already occurs in Western Australia and the ACT. Government funding for preschool (on a per child basis) should ensure universal access for children to 15 hours per week of a preschool program for 40 weeks, in the year prior to starting school.

To support parents who work, governments should continue to contribute funds to preschool programs in long day care (LDC) centres. Where preschool is undertaken in an LDC and states and territories are not passing on the universal access funding, this should be withheld from the state or territory by the Australian Government and paid directly to the LDCs.

Estimating the impacts of proposed reforms

The Commission has had unprecedented access to Government administrative data to model the impacts of its proposed child care assistance, but many gaps remain in what is known. In particular, previous work provides only a partial understanding of the responsiveness of families at different income levels and with different age children to changes in the out-of-pocket costs of childcare. Furthermore, information on ECEC provision, how it responds to demand for ECEC and Government assistance arrangements, and costs of providing care for children of different ages and needs is patchy. The Commission's information gathering processes and ECEC modelling work are ongoing and will endeavour to fill some of these gaps.

In its modelling for the draft report, the Commission has included detailed costings only for the main child-based assistance (ECLS), and not for additional needs or preschool programs. The expected impacts of these latter two proposals are discussed qualitatively only. The Commission has also not fully modelled its proposed approach under ECLS — specifically, it has not yet allowed the deemed cost of care to vary by age of child or for care-only and care-education services. What is modelled at this stage is the simplifying assumption of a deemed cost of care set at the median price of LDC, home-based care (including family day care and approved nannies) and OSHC.

The primary levers which the Government could use to adjust ECLS include the income threshold at which different payment rates apply and the rates of assistance applicable. There is nothing precise or unique about choosing such rates: a range of possible combinations can result in the same aggregate budget impact but yield vastly different outcomes for particular income groups and family circumstances.

The Commission has considered 4 separate scenarios for ECLS to compare with the current (2013-14) funding for CCB, CCR and JETCCFA (table 3). In each of these scenarios, the Government meets 90 per cent of the deemed cost for families with an income under \$60 000. However, the scenarios differ from each other in the rate of assistance for higher income earners and the way in which assistance rates decline as income rises. Specifically, scenarios 1 and 2 involve a minimum rate of assistance of 30 per cent of the deemed cost of ECEC per child to all families, regardless of family income. These are compared with scenarios 3 and 4 which provide no assistance to higher income earners.

Table 3 **Modelled scenarios for families using mainstream services**

	<i>Family income at which assistance starts to taper</i>	<i>Family income at step in taper</i>	<i>Family income at which assistance reaches minimum</i>	<i>Maximum rate of assistance</i>	<i>Minimum rate of assistance</i>	<i>Total cost of ECLS 2013-14</i>
	\$	\$	\$	%	%	\$b
Current (2013-14) ^a	41 900	97 600	unlimited	> 90	50	5.7
Scenario 1: 90-30 linear	60 000		300 000	90	30	6.9
Scenario 2: 90-30 two-step	60 000	130 000	300 000	90	30	5.5
Scenario 3: 90-0 linear	60 000		300 000	90	0	5.8
Scenario 4: 90-0 two-step	60 000	130 000	300 000	90	0	5.1

^a Under the 'current' funding (for CCR and JETCCFA), assistance rates are paid on actual prices rather than a deemed cost of provision. The minimum assistance rate applies for all families until they reach the CCR cap, at which point assistance drops to the CCB rate (if they are eligible for CCB) or more commonly, to zero.

Under scenarios 1 and 3, assistance rates decline linearly after a family income of \$60 000, providing higher levels of assistance to middle income earners than the step taper under scenarios 2 and 4. The higher are the lower and upper family income thresholds, the more generous the subsidy rate will be for most families. The scenarios also differ in the rate at which assistance declines as family income rises. Specifically, in order to reach zero rather than 30 per cent assistance by \$300 000, the assistance rate in scenarios 3 and 4 declines more rapidly than that in scenarios 1 and 2 as family income rises. This reduces assistance available at every income level over \$130 000. (The Commission has also considered alternative income measures on which to base a means test (including second earner income or a combination of family income and second earner income) and the merits of these are discussed further in the report.)

The level of assistance provided to higher income earners is contentious. On balance, the Commission considers it is possible that additional benefit from providing a minimum subsidy per child to higher income families may be small — such a payment may not change the workforce participation or ECEC decisions of many of these families.

However, providing some assistance to all families using approved ECEC would reflect the possible spillover benefits for the community of quality ECEC attendance. It also serves as recognition that for most families, childcare is largely used to facilitate participation in the workforce and, as outlined extensively in

submissions, that the cost of care (particularly when combined with Australia's current tax and transfer arrangements) can be a disincentive to work, regardless of family income. A minimum payment for every child may then help stem any reductions in parental workforce participation associated with the removal of the non-means tested CCR, particularly for middle-income families. It is also a more efficient means of assisting middle and higher income parents than alternatives such as tax rebates or deductions.

Ultimately with a constrained budget, the additional benefits of providing a minimum payment to every family should be weighed up against those additional benefits that could be derived from using these funds for other ECEC purposes, such as for assisting greater ECEC attendance by additional needs children.

At this stage, of the four modelled scenarios, the Commission's preference is scenario 1, as this scenario appears likely (as described further below) to give the largest increases in ECEC use and workforce participation across income groups and a reduction in out-of-pocket costs for families in aggregate, compared with the current 2013-14 situation.

Based on the average annual total ECEC expenditure over the next four years (table 2), this scenario requires additional funding of around \$0.3 billion per year. The remaining scenarios are all considered likely to be within the current ECEC funding parameters. The Commission is still actively exploring alternative options for child-based support, including a zero minimum rate of assistance at a family income level other than \$300 000. While the Commission has attempted to make transparent its approach to determining the impacts of reforms, there are considerable uncertainties involved and there are bound to be differing views on the magnitude of benefits and costs from particular reforms. The Commission invites further submissions to assist in improving this assessment.

What these changes will mean

The Commission's recommendations represent significant changes to Australia's ECEC system. The proposed changes would affect all ECEC participants — children and families (as ECEC users), ECEC service providers (both businesses and workers), and governments (as funders and regulators). Where possible, the Commission has quantified the likely impacts of the proposed changes. However, these estimates are preliminary, are intended to provide a broad guide on the impacts of proposed changes and should be viewed as indicative only at this draft report stage.

How would ECEC accessibility and flexibility be improved?

The Commission's recommendations for ECEC assistance reforms, as well as a number of regulatory reforms, should improve accessibility by enabling an increase in the number of subsidised ECEC places available and awareness of where these are, as well as greater flexibility around the operation and use of ECEC services, as outlined below.

To increase the number of places available for occasional care, the Commission recommends scrapping the current Australian Government cap on approved places. When applications have been taken in the past for additional allocated places for occasional care, these re-allocation processes have been over-subscribed two-fold. This would suggest that providers see considerable unmet demand (at current subsidised fees) for these services, at least in some areas or age groups.

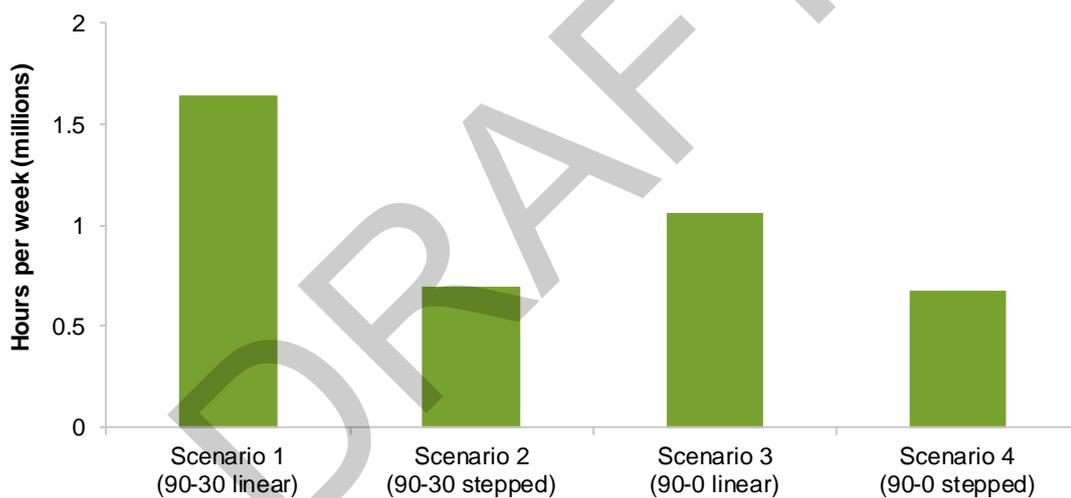
Supplementing this move, the Commission recommends that regulatory barriers (primarily on allowable absences) be removed to allow those parents who have a place in an ECEC service that they do not require for a short period (for example, while on maternity leave), to temporarily return that place to the service provider for use as non-ongoing occasional care by new or existing children in the service. This should increase the flexibility of ECEC places held, including the operation of waiting lists.

The recommended extension of child-based government assistance to enable greater access to home-based care services (such as approved nannies), where these services satisfy appropriate NQF requirements, should also improve the accessibility of ECEC particularly for those families with parents needing to work irregular or non-standard hours (such as shift work or work that involves considerable travel). Similarly, the Commission's recommendation to modify au pair visa conditions to allow an au pair to remain with one family for 12 rather than 6 months should enhance care options for families. The Commission considers that these measures will increase the flexibility of ECEC and enable many parents currently not able to work, or working part-time, to return to the workforce or to increase their hours of work.

The impact of these and other measures (including changes to assistance arrangements) which facilitate increases in ECEC usage under ECLS are illustrated in figure 8. Overall ECEC usage (in hours per week) is expected to rise under the Commission's proposed assistance by 20 per cent, compared with that in 2013-14. It is likely that some of this increase in flexibility will not generate additional workforce participation as it will simply enable parents currently working and using unfunded care to access assistance for that care choice.

The continuation of government assistance for universal access to a preschool program is a key measure that will support ECEC accessibility in the year before children start school. For primary school age children, the Commission is recommending that principals in all schools be required to take responsibility for the organisation of OSHC for their children, where sufficient demand exists to ensure such a service is likely to be viable. For those schools with attached preschools, OSHC should extend to preschool children, as the 15 hours per week over part days that most dedicated preschools operate currently makes workforce participation of at least one parent nearly impossible. More widespread availability of OSHC services would boost the accessibility of ECEC for the 2.6 million children who undertake a combined 8 years of preschool and primary school.

Figure 8 **Additional ECEC use by families with a mother not currently working**



Improving the flexibility of ECEC arrangements should be complemented by improvements in the flexibility of workplaces for parents and others with caring responsibilities. One key measure that is available and tax deductible to employers at present, which could be more widely taken up (if known about and places were available), is the capacity to reserve places at nearby ECEC services for use by their staff with children.

For children with additional needs, the Commission's approach should increase the number of ECEC services able to take these children, as well as the number of (subsidised) hours that these children are able to participate to bring their ECEC access more into line with other children. Concentrated populations of developmentally vulnerable children — such as those in indigenous or new migrant communities, or very low socio-economic areas — would have access to ECEC

services that are integrated with other education, community and health services. For children at risk of abuse or neglect, the Commission's approach will enable immediate access to ECEC services, as currently available under the Special Child Care Benefit, with mandatory reporting to the relevant state or territory department and ongoing review.

In regional and remote areas where there are services which experience wide variations in viability from year to year — such as through fluctuating populations of children — the recommended *Viability Assistance Program* should help ensure continuity in access for children over time. This, coupled with the removal of restrictions on occasional care places and on the hours/weeks of operation that a service must be open in order to attract Australian Government assistance, and a reduction in regulatory obligations of OSHC services under the NQF, should ensure that many of those services, currently struggling to offer ongoing access for local children, are able to remain viable and open on a regular basis.

How would ECEC be made more affordable?

There are a number of aspects of the proposed new child-based assistance scheme (ECLS) which should improve the affordability of ECEC services for families. First, the recommended expansion in the range of approved subsidised services to include existing registered care providers and in-home care services such as approved nannies (where they satisfy appropriate NQF requirements), should enable these forms of care to become a more affordable option for a wider group of families.

Second, the proposed use in centre-based services of the number of children 3 years and over (rather than all children) to determine the number of early childhood teachers required is designed to encourage providers to offer a broader range of services than currently on offer. The Commission anticipates that a range of quality care services for children under 3 years of age could emerge in the ECEC market at a lower cost to families than many LDC services currently on offer.

Third, under ECLS, there is expected to be less incentive for providers to use the current flat fee structures whereby families of younger children are substantially cross subsidised by families of older children. This should result in lower fees charged for services for the majority of children in the 3 to 5 years age groups (but higher fees for those using some forms of care for babies, reflecting the higher costs of this group).

For children with additional needs, changes in affordability under the proposed arrangements will depend on the extent to which Government contributes to the total deemed cost of providing for their additional needs and the extent to which their current usage is subsidised. Some families who currently receive free ECEC services under SCCB may find they face means tested assistance under the proposed ECLS and SECLS, and their out-of-pocket costs will rise. Those currently relying on Inclusion and Professional Support assistance for a capped 15 to 25 hours per week may find under SECLS that they get subsidised (but potentially means tested) assistance for up to 100 hours per fortnight.

The Commission's proposed funding arrangement for preschool is designed to ensure that preschool services are available at a minimal cost to parents — affordability concerns should not prevent use of ECEC in the crucial year before formal schooling starts. Where parents choose, for work or other reasons, to use preschool programs in LDCs, the preschool program component will be subsidised by the Australian Government at the same rate per child as in dedicated preschools.

The costs of ECEC for those parents transitioning between jobs, study and work, or taking time off work for maternity leave could be substantially reduced if the Commission's recommendation for enabling parents to temporarily return unused places to providers were implemented. Providers may charge an administrative fee to facilitate this process, but for parents, this fee should be substantially lower than the out-of-pocket costs of holding a place until they are ready to return to work.

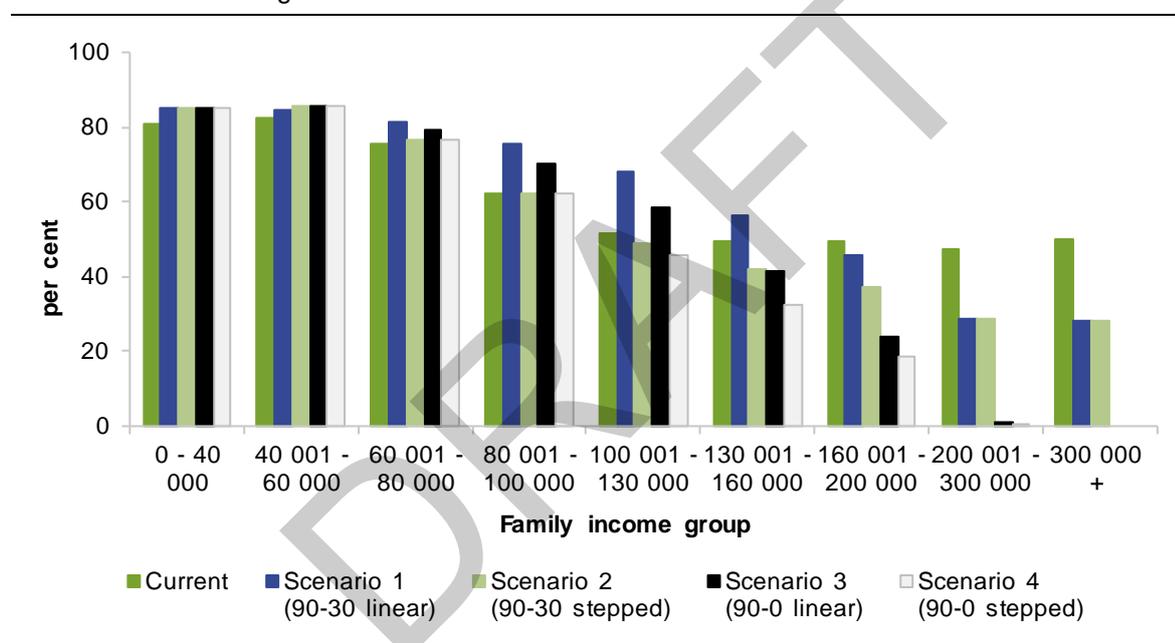
The Commission has *not* recommended extending Government subsidies to the use of au pairs. However, au pairs are a low cost care option for some families and there are regulatory changes which could enable them to be an affordable care option for more families. In particular, the Commission recommends amending working holiday visa requirements to enable au pairs to remain with a family for the full twelve months of their visa, rather than the current limit of six months. This reduces the transition costs for families changing to a new au pair every six months and the continuity and stability that this would enable would also be of benefit for children.

The Commission examined a range of other measures to improve affordability, including allowing income tax deductions or tax rebates for childcare fees. While most childcare costs (particularly for children under 3 years and school age children) are likely to be incurred in order to enable parents to work, tax deductions or rebates are not an effective means of support for the lower and middle income families who, in the absence of ECEC assistance, are likely to have the greatest difficulty affording care.

Implications for family out-of-pocket costs

For those with a family gross income under \$160 000, mainstream ECEC services are likely to be more affordable under the new scheme than under the existing combinations of CCB and CCR (figure 9). For example, the average rate of assistance is 76 per cent for those in the \$80 000 to \$100 000 income range under the preferred scenario, compared with 62 per cent under the current CCB and CCR. Furthermore, while assistance under the current scheme is declining each year for families in this income bracket, it is expected that the rate of assistance under ECLS would be able to be maintained by Government into the future.

Figure 9 ECEC assistance
Average rate of assistance under alternative scenarios^a



^a Scenarios are as defined in table 3.

In aggregate, higher average rates of assistance are associated with slightly lower out-of-pocket costs for families under the preferred scenario 1. Under alternative settings (scenarios 2 and 4), the increase in ECEC usage and lower average assistance rates mean that out-of-pocket costs are similar to current levels, or higher (figure 10).

Box 5 Family case studies: out-of-pocket costs under the current and proposed (scenario 1) ECEC assistance regimes

Family 1: Nicola is a single mother with 2 children aged 2 and 3 years. She works three days a week with a gross salary of \$37 440 per year. Both children attend LDC 3 days per week at a cost of \$88 a day for each child.

Under the current ECEC assistance arrangements, Nicole is eligible for CCB, CCR and FTB part A. Total out-of-pocket expenses from her existing childcare arrangements are \$112.66 per week.

Under the proposed ECEC assistance arrangements, Nicola is eligible for ECLS for both children at a rate of \$7.10 per hour for each child. The weekly out of pocket cost would be \$59.33 per week, which is around \$53 per week less than at present.

Family 2: Melissa and Rick have three children aged 1, 3 and 6 years. Melissa earns \$85 an hour and works full time. Rick works shift work, full time with a gross salary of \$110 000 per year. Their combined family income is \$286 800 per year.

Under the current ECEC assistance arrangements, the couple are eligible for CCR. The two youngest children are in LDC 5 days per week at a cost of \$110 a day. The older child attends OSHC for 5 days per week at a cost of \$18 a day. With two children in full time LDC the family currently reaches the CCR cap for the youngest two children after 27 weeks. Total out-of-pocket expenses from childcare are \$595 for the first 27 weeks of the year and then \$1145 per week for the rest of the year (averaging \$856.54 per week).

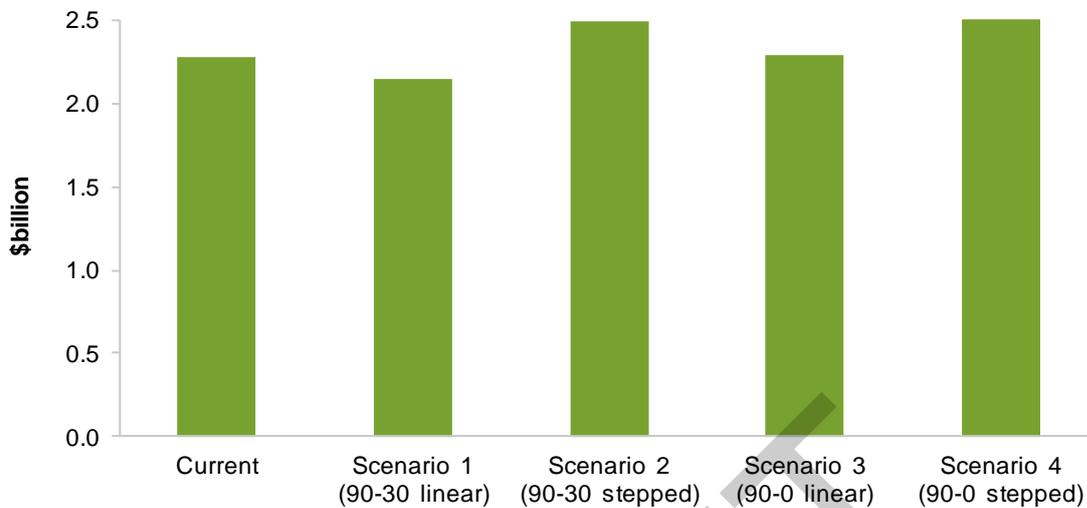
Under the proposed ECEC assistance arrangements, the couple are eligible for ECLS for all three children. They receive \$1.82 per hour subsidy for their oldest child and \$2.63 per hour subsidy for their younger children. Total out-of-pocket expenses from their existing childcare arrangements would be \$873.66 per week (they will be worse off by \$17.12 per week, on average).

The couple investigate hiring a nanny for \$30 an hour for 55 hours a week. They receive \$1.92 per hour subsidy for each child (but the eldest child cannot receive the subsidy for the hours they are in school). The total out-of-pocket expenses from hiring a nanny would be \$1390 per week.

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

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

Under the proposed ECEC assistance arrangements, the couple are eligible for ECLS and receive \$4.44 per hour subsidy for their oldest child and \$6.44 per hour subsidy for their youngest child. Total out-of-pocket expenses from childcare would be \$26.66 per week (they will be better off by just under \$32 a week).

Figure 10 **Out-of-pocket costs of families**

^a Scenarios are as defined in table 3.

Implications for workforce participation

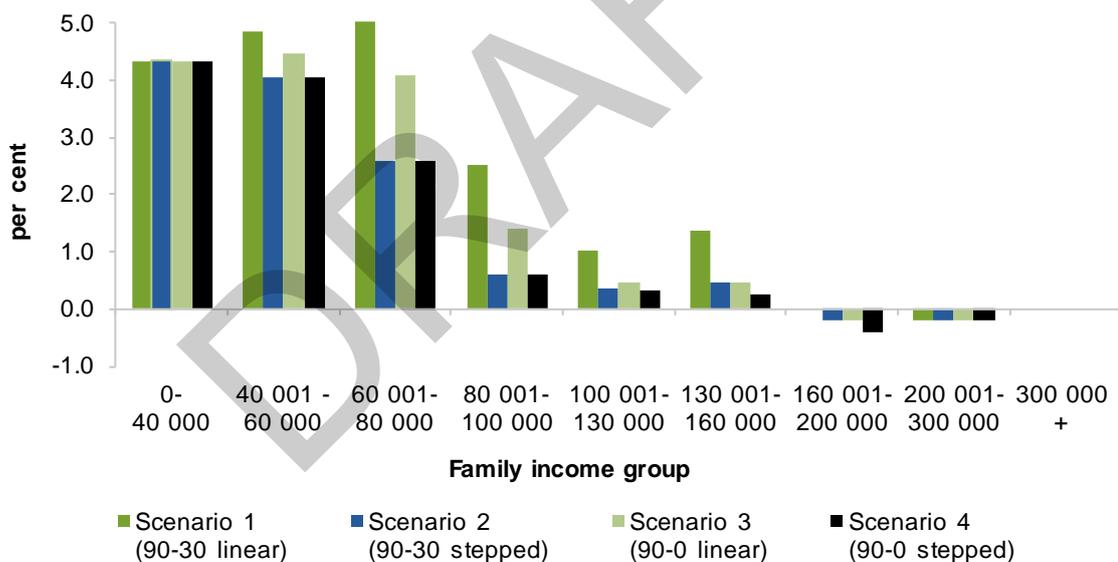
Improving the accessibility and affordability of ECEC creates scope for greater workforce participation of parents, particularly that of secondary income earners.

For those parents who face lower out of pocket costs for ECEC, their demand for ECEC services, and their willingness to work, could be expected to expand and some may substitute formal ECEC services for informal care currently used. For parents facing higher out-of-pocket costs, their demand for ECEC services, and their willingness to work, could be expected to contract, unless they also have access to informal types of care (such as grandparents) which can substitute for higher cost formal care. Some parents (particularly those with higher educational qualifications or a clear career path) may also recognise the longer term financial, career and non-monetary benefits of maintaining workforce participation and be prepared to bear higher out-of-pocket costs for ECEC in the short term. The magnitude of these changes in ECEC demand and workforce participation will vary with factors such as family structures, the nature and flexibility of work available, income levels, parent's preference to care for their children in their home and the age of children. One of the most significant financial factors for many families is the loss in Family Tax Benefits incurred once additional work results in a higher family income. Given the broader welfare settings, there is only so much that changes to ECEC assistance and accessibility can do to improve workforce participation.

The Commission estimates that the expected changes in workforce participation could be significant (figure 11). Under the preferred scenario 1, the number of mothers in employment is expected to rise by around 2.7 per cent, or 46 700 mothers. This is around 12 000-22 000 more mothers employed than under the alternative scenarios that do not include additional funding for ECEC. The increase in numbers employed under the preferred scenario is equivalent to a 0.4 per cent increase in the total labour supply.

Total hours worked is also expected to rise for each family income group up to \$160 000. At higher income levels, hours worked is estimated to remain relatively unchanged in aggregate compared to the current situation, although the modelling currently does not take into account that many higher income mothers choose to work for little short term financial gain, in anticipation of greater longer term benefits from their work.

Figure 11 **Mothers working — change from current system^a**



^a Scenarios are as defined in table 3.

What does the Commission's approach mean for quality and regulation?

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

Extend coverage of quality regulations

A key recommendation that will improve overall quality in the sector is the extension in coverage of the NQF to include all ECEC services which receive Australian Government subsidies or funding. This means that any nanny, grandparent, block funded service (such as the existing Budget Based Funding providers) or other service which wishes to receive Australian Government ECEC subsidies, will be required to satisfy the standards of the NQF. These standards are already tailored to recognise the unique environment provided by Family Day Care, and would need to also be tailored and include a transition plan to reflect the different physical circumstances of services such as home-based care, mobile and other block funded services in some regional areas.

Staff requirements to suit the purpose

There should be more flexibility around the way that staff ratio and qualification requirements are implemented, without compromising the quality of care provided to children. In particular, the Commission recommends that employment of an early childhood teacher be based on the number of children over three years of age in a service (rather than on the total number of children), and that all ECEC workers with children younger than this be required to hold an appropriate lower level of qualification (such as a certificate III) in the relevant area. This is likely to have significant impacts on the composition of the ECEC workforce and the Commission intends to assess further the implications of the proposed changes. Current inconsistencies between states and territories in staff ratios and qualification requirements should be resolved, with all jurisdictions adopting the national requirements as minimum standards.

For OSHC, a nationally consistent set of staff ratios and qualifications for educators should be developed. These should take into account the focus of OSHC on care and recreation rather than education, the staff ratios that are considered acceptable during school hours, and the valuable contribution that can be made to OSHC services by less qualified older workers and university/TAFE students. For OSHC, occasional and mobile care services, the requirement to report against an education plan on an individual child basis should be removed, as such detailed reporting does not contribute significantly to the quality of outcomes for children and is burdensome for providers.

Streamline quality assurance processes

The process by which service quality is assessed under the NQF should be rationalized to enable all services to be assessed (and reassessed) in an acceptable

time frame and to ensure resulting quality ratings reflect the overall quality of the service. There is considerable scope to improve information to ECEC providers about what particular quality requirements mean in practice and what level of reporting is necessary to demonstrate that requirements are being met.

In a number of areas, the national quality standards overlap with existing state, territory and local government legislation. In some instances, such as with food safety, the Commission considers that state and territory legislation should take priority (as it is largely based on the broader national food safety standards which have undergone extensive consultation and negotiation over recent years) and food safety guidelines should be removed from the NQF.

In other areas, such as with local government planning, local governments could play a useful role in supporting, through their strategic planning land zoning processes, the co-location of ECEC services with community facilities, and especially schools. They could also, as Victorian local governments do, provide useful information to potential providers and ECEC users on the range of services available in their area and projected future population growth. Local governments should not, however, be attempting to regulate the quality of ECEC services, including the design or layout of indoor and outdoor spaces — this would be a duplication of the NQF and the Australian Building Code, and an unnecessary burden on ECEC providers.

For dedicated preschools which come under state education legislation, compliance with that legislation should be accepted as compliance with the National Quality Standards. State and territory education departments may need to revise aspects of their education legislation for preschools, in light of the National Quality Standards.

The current inconsistency between jurisdictions in working with children checks should be eliminated as a matter of priority, to reduce the risks for children and regulatory burdens on ECEC workers. The Commission recommends that jurisdictions either implement a single, nationally recognised working with children check, or develop nationally consistent guidelines with mutual recognition of checks undertaken in other jurisdictions.

Economy-wide impacts

If adopted, the Commission's recommended approach is likely to influence the workforce participation and ECEC use decisions of families in complex ways and through multiple avenues. For some families, these effects may provide conflicting incentives. For example, high income families may face lower subsidies for their ECEC (which, in isolation, would potentially reduce demand for ECEC), but the

greater flexibility of care options may encourage increased use of ECEC and workforce participation. In addition, regulatory impediments to the supply of ECEC services should also be reduced, which could support an expansion in the ECEC sector.

Based on this range of effects, the Commission has estimated the first-round economy-wide aggregate impacts of the proposed reforms (that is, ignoring any flow-on impacts) from ECLS alone. The impact on Gross Domestic Product (GDP) associated with the workforce participation effects of the proposed reforms is estimated to be relatively small — an increase of less than 0.4 per cent, or \$5.5 billion, in GDP, compared with that under the current ECEC system in 2013-14.

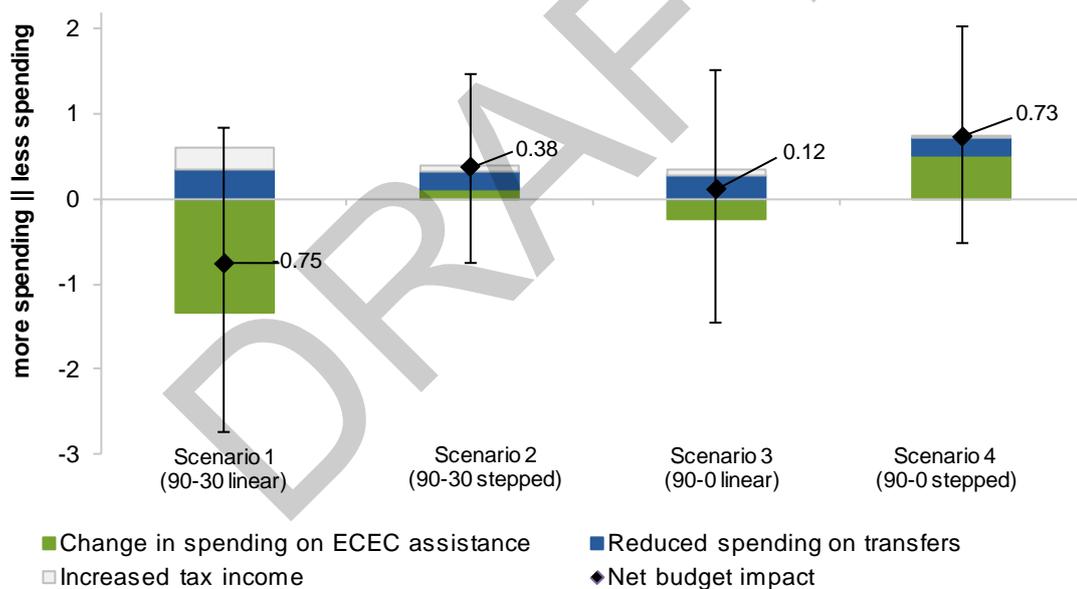
This preliminary estimate is for a single year only and is likely to overstate the impacts of possible workforce participation changes as it does not take into account wage adjustments in the labour market, possible price rises associated with increased ECEC demand, or recognise that those who are not in the workforce are still contributing to the wellbeing of society. Time dedicated to childrearing, maintaining a household and volunteering all add to the wellbeing of society, even though the non-market nature of these activities means they are not measured as part of GDP.

On the other hand, this estimate does not attempt to include a monetary value for any longer term benefits associated with child development outcomes. It is expected that while assistance for preschool access and for additional needs children involves a lower proposed budget allocation than that for use of mainstream services, the additional benefits derived from these may add significantly to GDP in at least the short term. In the longer term, the proposed changes in the ECEC system should result in additional benefits to the community associated with universal preschool attendance, and increased uptake of ECEC by children from disadvantaged and lower socio-economic backgrounds. The extent to which these benefits arise and are evident for not just the children involved but also the broader community, are highly uncertain and contingent on the quality of both ECEC services and the following education system. Without extensive further information linking child development outcomes in Australia to Australia's ECEC system, any estimates of the economy-wide benefits from improved child development would, at best, be informed speculation.

While preliminary and partial, the magnitude of the estimated increase in GDP, achieved largely through changing how the existing quantum of ECEC subsidies are distributed (but also through directing an additional \$0.3 billion to ECEC), suggests that there could be significant benefits to the Australian economy associated with moving away from the current ECEC assistance regime toward the approach proposed by the Commission.

The cost to Government (and therefore taxpayers) of ECEC assistance through ECLS depends on changes in the use of ECEC as well as the ECEC subsidies paid to families, changes in other welfare payments paid and changes in income tax received. Under the preferred scenario 1, additional expenditure of around \$1.3 billion per year (compared with 2013-14) on mainstream ECEC would be partially offset by increased tax revenue and Medicare levy receipts of around \$0.2 billion associated with the increase in workforce participation, and reduced Family Tax Benefit and parenting payments of around \$0.3 billion per year (figure 12). Overall, ECEC assistance for use of mainstream services provided under scenario 1 would cost the Government a further \$0.8 billion per year, after adjusting for increased tax receipts and lower family welfare payments, compared with the level of mainstream expenditure in 2013-14.

Figure 12 **Change in net cost to Government compared with current mainstream assistance^a**



^a Scenarios are as defined in table 3. Expected outcome for each scenario within estimated ranges.

In aggregate for total ECEC assistance, the Commission's preliminary estimates suggest that ECLS (with the preferred scenario 1 assistance rates) could involve ECEC assistance from the Government toward family's use of mainstream services of around \$6.9 billion per year. As noted in table 3, the Commission proposes \$0.7 billion be allocated for assistance to children with additional needs, and \$0.4 billion for preschool services. This brings the total Australian Government ECEC assistance to \$8 billion per year — marginally above the average annual expenditure of \$7.7 billion committed by Government in its forward budget estimates. However, given the budgeted increase in Government expenditure for

mainstream services (from \$5.7 billion in 2013-14 to an average of \$7.1 billion per year thereafter), the proposed assistance of \$6.9 billion under even the most generous ECLS scenario should be considered relatively sustainable for taxpayers.

As noted above, the Commission's preferred scenario appears likely to give:

- the greatest reduction in the average share of fees paid by parents (reducing from 38 per cent to 30 per cent)
- the greatest reduction in the share of fees paid in all income brackets up to \$160 000
- the greatest increase in use of ECEC services (20 per cent increase in hours per week)
- the greatest increase in workforce participation of mothers (2.7 per cent) and in total hours worked (3.6 per cent)
- the greatest increase in total labour supply (0.4 per cent)
- the greatest increase in gross domestic product (up to \$5.5 billion).

**Table 3 Annual ECEC expenditure
— budgeted and proposed under scenario 1**

	2013-14	2014-15 to 2017-18	Proposed Scenario 1	Difference from budgeted
		Budgeted average		
Program area	\$billion	\$billion/year	\$billion/year	\$billion/year
Mainstream use of ECEC services	5.7	7.1	6.9	-0.2
Additional needs ^a	0.6	0.5	0.7	0.2
Preschool access ^b	0.4	0.1	0.4	0.3
Total	6.7	7.7	8.0	0.3

^a The estimate for the proposed scenario includes child-based assistance for additional needs (\$500 million), funding for the Disadvantaged Communities Program (\$100 million), Inclusion Support Program funding (\$80 million) and viability assistance (\$20 million). ^b The Australian Government's contribution to preschool access assistance under the current National Partnership Agreement with states and territories expires in December 2014.

How would this approach be funded?

The above analysis suggests that additional funding for families use of mainstream ECEC services can provide additional workforce participation but that limited increases are possible within the current ECEC funding envelope. It is also expected that assistance for additional needs children and for preschool access would likely generate improved child development outcomes with some community-wide

benefits. Should the Government consider these benefits to outweigh those achievable through alternative uses of taxpayer money, then more funding should be directed to ECEC.

A considerable number of submitters, the 2014 National Commission of Audit and various commentators, suggested that the Government direct at least some of the funding for its proposed Paid Parental Leave (PPL) scheme to ECEC assistance for families, to ensure continuity of support for working parents with young children. The Commission considers that it is unclear that the proposed changes to the Paid Parental Leave scheme — which is more generous than the existing scheme and that recommended in the Commission's 2009 report on paid parental leave — would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. There may be a case, therefore, for diverting some funding from the proposed new scheme to another area of government funding, such as ECEC, where more significant family benefits are likely. Such a move could add up to a further \$1.5 billion per year to Australian Government assistance for ECEC.

In addition to the budgeted funding, it is likely that adoption of the Commission's recommendations would make available additional funds for government expenditure on ECEC. Specifically, the Commission is recommending the removal of fringe benefit tax concessions to not-for-profit ECEC services, as they afford these services an often substantial competitive advantage over commercial services, do not always translate to clear benefits to communities, and are a less transparent means of supporting not-for-profits than providing direct subsidies or grants. At the state and territory level, specific concessions to ECEC providers differ between jurisdictions, but can include exemptions from payroll, land tax and other input taxes as well as municipal rates, and 'peppercorn' rents for use of government property. The Commission has insufficient information on the financial structures of not-for-profit and commercial ECEC providers to be able to quantify this measure. However, the value of these exemptions could be substantial and their removal would likely necessitate a transitional arrangement for those affected.

The Commission is also recommending the removal of the fringe benefit tax exemption for employer provided ECEC, on the basis that this provision provides a largely non-transparent benefit to a small number of families typically on very high incomes, and likely undermines the integrity of the Government's broader approach to ECEC assistance. While the revenue generated by a removal of this exemption is likely to be fairly low, as it is not currently widely used, this means it is perhaps an opportune time to be removed.

Any reductions in administrative expenditures associated with removing these exemptions and streamlining the existing funding arrangements should also be directed into the ECEC budget, however, these are likely to be relatively small. Greater scope to expand the budget for ECEC services would ultimately be provided through additional income taxes and reductions in welfare payments (most notably family tax benefits and parenting payments) associated with any growth in parental workforce participation.

Implications for the sustainability of Government ECEC assistance

Compared with the current ECEC assistance arrangements, there are several key aspects of the proposed ECEC scheme which are likely to move Australian Government assistance to a more sustainable footing over the longer term.

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

The current ‘double-dipping’ of Australian Government funding that occurs for preschool services in some states will be eliminated. Specifically, under the Commission’s recommendations, the Australian Government would provide the same level of assistance for preschool to every child, regardless of whether they participated in a dedicated preschool or a preschool program in a LDC. Bringing preschool services within the state and territory school structure and funding them on the same basis as school age children, provides an ongoing and consistent framework for preschool funding in every state and territory into the future. This should not be viewed as a cost-saving measure for the Australian Government, other than to the extent that it results in administrative savings.

The block funded programs — the Disadvantaged Communities Program, Inclusion Support Program and the Viability Assistance Program — would all have capped budget funding which could be adjusted to fit within budget constraints. The Commission cautions the Government however, to avoid treating these areas as an easy source of savings relative to the broader ECLS assistance program. Any reduction to funding of capped programs should take into consideration the

potential costs of lower assistance to those using the capped programs, compared with the benefits of directing that funding elsewhere.

An area where there is considerable uncertainty around the extent of Government funding required is for additional needs children. The Commission has attempted to estimate the number of children who may be eligible for additional needs assistance, but there is very little information available on the likely costs of meeting these needs. For the additional needs supplement (SECLS), the Commission has noted that ideally, Government assistance would cover the full deemed cost of the additional need, so that these children have the same access to ECEC as children without additional needs. If Government funding is insufficient to meet the full deemed cost of additional care, then options for prioritising available funding would be required. For some additional needs, the Government may choose to cover less than the full deemed cost of the additional need (for example, by adjusting the assistance rate according to family income) and so participation of these children would require an additional contribution from parents.

Transition to new assistance arrangements

There will necessarily be a transition period in the implementation of the new child-based assistance program, with information collected on the provision costs and prices of different types of ECEC services, and considerable education of parents, providers and government agencies charged with implementing the new program. With the recommended cut in the number of programs, and substantial changes to others, there will be some families that are better off, but some will face higher out of pocket costs for the ECEC services they use.

To the extent possible, while trying to deliver on the objectives of a more efficient and equitable system, lower and middle income families and families with additional needs children are the main beneficiaries from the proposed reforms. Some service providers, particularly those that have come to rely on specific programs as a source of funding, may find they need to change their service delivery model. Given that the funding changes will impose costs during transition to the proposed system, a transition strategy is required.

Most families who currently receive CCB and/or CCR will be able to transition directly to the ECLS. This excludes those families that currently have an in-home care place and those that use occasional care, as these providers are not yet within scope of the NQF. For families using ECEC services that are not currently approved (including registered care providers and nannies) they will need to encourage their

provider to seek approval so that they can access the subsidies available to approved services.

The main change for approved providers of mainstream ECEC services is that they will receive the full amount of the subsidy directly for all children. To the extent that the deemed cost is lower or higher than their fees, they may wish to review their fees, including the extent to which the provider cross subsidises between ages 0 to 2 and 3 to 5. Ultimately though, this is a commercial decision for each provider.

There will be a major transition for service providers — mainly nannies, registered care services, occasional care services and Budget Funded Services — which currently fall outside the approved care category. For users of these services to apply for ECLS these providers have to meet the NQF to become approved providers. This may take some time, but most of these providers will have an incentive to make this transition as otherwise, subsidies will not be available to their users. Block funding will also be phased out for those services able to move to the proposed child-based funding. Further, some mainstream ECEC services, such as LDCs, may find it feasible to include home based care positions in their service offerings.

The main effort involved in transitioning current CCB and CCR recipients to the ECLS is administrative. The income data on which the assessment of CCB is based is the same as required for ECLS, and the formula to be applied will be considerably simpler. Most families also already have their CCB paid directly to their ECEC service but less than half of CCR recipients elect to do so. Nevertheless, transitioning to a single means tested payment will require changes to the Department of Human Services payment system. Department of Human Services as the manager of the applications for and payment of subsidies should take the opportunity to streamline the process.

Draft recommendations, findings and information requests

Families using mainstream services — improving the accessibility, flexibility and affordability

DRAFT FINDING 9.1

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

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

- the existing system is complex and some families have difficulty understanding their entitlements under the Child Care Benefit and the Child Care Rebate.*
- the design of these measures is resulting in a declining proportion of assistance to lower income families who are least able to afford ECEC services*
- the Jobs, Education and Training Child Care Fee Assistance program and the Special Child Care Benefit program are not well targeted and have attracted families unable to get low cost access to ECEC under other more targeted programs.*

DRAFT RECOMMENDATION 12.2

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

DRAFT RECOMMENDATION 12.4

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

-
- *assist with the cost of ECEC services that satisfy requirements of the National Quality Framework*
 - *provide a means tested subsidy rate between 90 per cent and 30 per cent of the deemed cost of care for hours of care for which the provider charges*
 - *determine annually the hourly deemed cost of care (initially using a cost model, moving to a benchmark price within three years) that allows for differences in the cost of supply by age of child and type of care*
 - *support up to 100 hours of care per fortnight for children of families that meet an activity test of 24 hours of work, study or training per fortnight, or are explicitly exempt from the criteria*
 - *pay the assessed subsidy directly to the service provider of the parents' choice on receipt of the record of care provided.*

DRAFT FINDING 12.1

It is unclear that the proposed changes to the Paid Parent Leave scheme would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. There may be merit, therefore, in diverting some funding from the proposed new scheme to ECEC to ensure that the Government's workforce participation objectives are met and ECEC services to additional needs children are adequately funded.

DRAFT RECOMMENDATION 12.3

The Australian Government should exempt non-parent primary carers of children, and jobless families where the parents are receiving a Disability Support Pension or a Carer Payment from the activity test. These families should still be subject to the means test applied to other families.

INFORMATION REQUEST 13.1

The Commission seeks information and advice on the costs and risks involved in the transition to the proposed new funding arrangements for mainstream services (including home-based care providers paying for the services of coordinators) and advice on how these costs can be minimised and risks managed.

INFORMATION REQUEST 12.1

The Commission seeks views on the effect on families of having a per child subsidy rate that is not adjusted for the number of children in a family accessing ECEC services.

INFORMATION REQUEST 12.2

The Commission seeks feedback on the impact of adopting the income of the second earner, family income, or some combination as the basis for the means test. If a combination is preferred, the Commission seeks information on how this should be applied and what it would mean for effective marginal tax rates facing most second income earners in a family.

INFORMATION REQUEST 12.3

The Commission seeks information on who is using ECEC services on a regular basis but working below the current activity test of 15 hours per week, or not actively looking for work or undertaking work, study or training. Views are sought on the activity test that should be applied, how it could be implemented simply, and whether some means tested access to subsidised care that is not subject to an activity test should be retained. If some subsidised care without an activity test is desirable, for how many hours a week should it be available, what should the eligibility criteria be, and what are the benefits to the community?

INFORMATION REQUEST 12.4

The Commission seeks information on the best approach to setting and updating the deemed cost of ECEC services. In addition, information on the cost premiums of providing services in different locations, to different ages, and in meeting different types of additional needs is sought.

INFORMATION REQUEST 12.5

The Commission seeks information on the impact that removing the current free access of up to 50 hours a week to ECEC services for eligible grandparents will have on them and the children for whom they care.

DRAFT RECOMMENDATION 8.3

The Australian Government should abolish operational requirements that specify minimum or maximum operating weeks or hours for services approved to receive child-based subsidies.

DRAFT RECOMMENDATION 8.4

The Australian Government should remove caps on the number of occasional care places.

DRAFT RECOMMENDATION 8.5

Governments should allow approved nannies to become an eligible service for which families can receive ECEC assistance. Those families who do not wish their nanny to meet National Quality Standards would not be eligible for assistance toward the costs of their nanny.

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

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

DRAFT RECOMMENDATION 8.7

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

INFORMATION REQUEST 8.3

The Commission seeks feedback on making the places of children who are on an extended absence available to other children on a short-term basis. In particular, the Commission is interested in disincentives or regulatory barriers that discourage or prevent services from implementing these arrangements.

Additional needs children and services — improving the accessibility, flexibility and affordability

DRAFT FINDING 5.1

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

DRAFT FINDING 8.1

Funding to providers has an important role to play in improving accessibility to ECEC for children with additional needs, or who live in locations without access to ECEC. There is scope to improve current programs which deliver assistance directly to providers:

- *the Community Support Program has not achieved one of its main objectives of improving access to ECEC services in rural and remote areas. Further, it is unclear whether it has been effective in bringing ECEC services to disadvantaged areas where they would otherwise not have been provided*
- *services funded under the Budget Based Funded Program are not all ECEC focused and there is a lack of transition pathways for services to become viable and be brought within the mainstream ECEC funding arrangements*
- *the Inclusion and Professional Support Program requires additional resourcing in order to better meet its policy objectives.*

DRAFT RECOMMENDATION 12.6

The Australian Government should establish three capped programs to support access of children with additional needs to ECEC services.

- *The Special Early Care and Learning Subsidy would fund the deemed cost of meeting additional needs for those children who are assessed as eligible for the subsidy. This includes funding a means tested proportion of the deemed cost of mainstream services and the ‘top-up’ deemed cost of delivering services to specific groups of children based on their needs, notably children assessed as at risk, and children with a diagnosed disability.*
- *The Disadvantaged Communities Program would block fund providers, in full or in part, to deliver services to specific highly disadvantaged community groups, most notably Indigenous children. This program is to be designed to transition recipients to child-based funding arrangements wherever possible. This program would also fund coordination activities in integrated services where ECEC is the major element.*
- *The Inclusion Support Program would provide once-off grants to ECEC providers to build the capacity to provide services to additional needs children. This can include modifications to facilities and equipment and training for staff to meet the needs of children with a disability, Indigenous children, and other children from culturally and linguistically diverse backgrounds.*

INFORMATION REQUEST 12.7

The Commission seeks views on the best way to allocate a fixed funding pool to support the ECEC access of children with additional needs and deliver the greatest community benefit. This includes views on the best option for allocating the Special Early Care and Learning Subsidy payments for children with disabilities to ensure that the program enables as many children with disabilities as possible to access mainstream ECEC services.

DRAFT RECOMMENDATION 12.7

The Australian Government should continue to provide support for children who are assessed as ‘at risk’ to access ECEC services, providing:

- *a 100 per cent subsidy for the deemed cost of ECEC services, which includes any additional ‘special’ services at their deemed cost, funded from the Special Early Care and Learning Subsidy program*
- *up to 100 hours a fortnight, regardless of whether the families meet an activity test*
- *support for initially 13 weeks then, after assessment by the relevant state or territory department and approval by the Department of Human Services, for up to 26 weeks.*

ECEC providers must contact the state or territory department with responsibility for child protection within one week of providing a service to any child on whose behalf they apply for the ‘at risk’ Special Early Care and Learning Subsidy. Continuation of access to the subsidy is to be based on assessment by this department, assignment of a case worker, and approval by the Department of Human Services. The Australian Government should review the adequacy of the program budget to meet reasonable need annually.

DRAFT RECOMMENDATION 12.8

The Australian Government should continue to provide support for children who have a diagnosed disability to access ECEC services, through:

- *access to the mainstream ECEC funding on the same basis as children without a disability and up to a 100 per cent subsidy for the deemed cost of additional ECEC services, funded from the Special Early Care and Learning Subsidy*
- *block funded support to ECEC providers to build the capacity to cater for the needs of these children, funded through the Inclusion Support Program.*

The relevant Government agency should work with the National Disability Insurance Agency and specialist providers for those children whose disability falls outside the National Disability Insurance Scheme, to establish a deemed cost model that will reflect reasonable costs by age of child and the nature and extent of their disability. Based on an assessment of the number of children in need of this service, and the costs of providing reasonable ECEC services, the Australian Government should review the adequacy of the program budget to meet reasonable need annually.

INFORMATION REQUEST 12.8

The Commission seeks views on what types of services (that are not the funding responsibility of the National Disability Insurance Scheme) should be provided for children with a diagnosed disability attending ECEC, and how best to prioritise available funding. It also seeks information on the range of needs and the costs of meeting these needs for children of different ages and by the nature and extent of their disability.

DRAFT RECOMMENDATION 13.1

The Australian Government should continue support for the current block funded ECEC services for Indigenous children to assist their transition to mainstream ECEC funding (where there is a viable labour market).

Regulatory authorities should work with providers to assist them in satisfying the National Quality Framework and managing the transition to child-based funding arrangements.

INFORMATION REQUEST 8.1

The Commission seeks further information on the nature of the barriers faced by families with children with additional needs in accessing appropriate ECEC services and the prevalence of children with additional needs who have difficulty accessing and participating fully in ECEC. Information on the additional costs of including children with additional needs is also sought.

INFORMATION REQUEST 12.9

The Commission seeks information on whether there are other groups of children that are developmentally vulnerable, how they can be identified, and what the best way is to meet their additional needs.

INFORMATION REQUEST 9.1

The Commission seeks feedback on regulatory barriers (such as those contained within A New Tax System (Family Assistance) Act 1999), which may prevent services from varying their fees according to the cost of service provision to children with differing needs.

DRAFT RECOMMENDATION 5.2

Governments should plan for greater use of integrated ECEC and childhood services in disadvantaged communities to help identify children with additional needs (particularly at risk and developmentally vulnerable children) and ensure that the necessary support services, such as health, family support and any additional early learning and development programs, are available.

INFORMATION REQUEST 8.2

The Commission is seeking feedback on the role that integrated services can play in making ECEC more accessible for families. In particular, the Commission is interested in:

- the extent to which integrating ECEC services with other family services and schools will deliver benefits to families and/or ECEC providers, and in particular, Indigenous and potentially other disadvantaged communities*
- views on the best way to fund integrated services that provide ECEC, including whether child-based funding would be an appropriate funding model*
- how funding could be apportioned across activities operating within an integrated service, including for the coordination of services, the management of administrative data and an evaluation of outcomes.*

DRAFT RECOMMENDATION 12.5

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

- accessed for a maximum of 3 in every 7 years, with services assessed for viability once they have received 2 years of support*
- prioritised to centre-based and mobile services.*

INFORMATION REQUEST 12.6

What is the case for the Australian Government funding start-up capital or on-going operational support for mainstream ECEC services in rural, regional and remote communities?

INFORMATION REQUEST 13.2

The Commission seeks information on the efficiency and effectiveness of outsourcing the allocation of funding under capped programs that support children with additional needs. Views are sought on the model that should be used to allocate funding under the proposed new funding arrangements and the governance requirements to ensure outsourced allocation services are accountable, and deliver value for money.

Preschool — supporting universal access

DRAFT FINDING 5.2

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

Any decision to extend the universal access arrangement to younger children should be based on an analysis of the effectiveness of the existing arrangements in improving development outcomes and from evidence drawn from relevant Australian and overseas research. This would assist in determining how preschool should ultimately be integrated into the school based education system.

DRAFT RECOMMENDATION 12.9

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

The Australian Government should negotiate with the state and territory governments to incorporate their funding for preschool into the funding for schools, and encourage extension of school services to include preschool.

DRAFT RECOMMENDATION 12.10

The Australian Government should provide per child preschool payments direct to long day care services for 15 hours per week and 40 weeks per year, where long day care services do not receive such funding from the states and territories.

Information request 5.1

What are the optimal hours of attendance at preschool to ensure children's development and what is the basis for this?

DRAFT RECOMMENDATION 5.1

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

DRAFT RECOMMENDATION 7.9

Dedicated preschools should be removed from the scope of the National Quality Framework and regulated by state and territory governments under the relevant education legislation. The quality standards in state and territory education legislation should broadly align with those in the National Quality Framework. Long day care services that deliver preschool programs should remain within the National Quality Framework.

INFORMATION REQUEST 12.10

The Commission seeks views on how best to transition to full state and territory responsibility for preschool delivered in long day care services as well as in dedicated preschools. This includes a transition to the provision of preschool at no cost to parents, in those dedicated preschools attached to public primary schools.

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

DRAFT RECOMMENDATION 7.4

Governments should develop and incorporate into the National Quality Framework a nationally consistent set of staff ratios and qualifications for those caring for school age children in outside school hours and vacation care services. These requirements should take into consideration ratios that are currently acceptable for children during school hours, the uncertainty surrounding the additional benefits of more staff and higher qualifications, and the valuable contribution that can be made to outside school hours care services by less qualified older workers and university/TAFE students.

DRAFT RECOMMENDATION 8.1

The Australian Government should ensure that the requirement (currently contained within the Child Care Benefit (Eligibility of Child Care Services for Approval and Continued Approval) Determination 2000) for most children attending an outside school hours care service to be of school age, is removed and not carried over into any new legislation.

DRAFT RECOMMENDATION 8.2

State and territory governments should direct all schools to take responsibility for organising the provision of an outside school hours care service for their students (including students in attached preschools), where demand is sufficiently large for a service to be viable.

Removal of ECEC assistance to some providers

DRAFT RECOMMENDATION 5.3

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

DRAFT RECOMMENDATION 8.6

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

DRAFT RECOMMENDATION 9.1

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

DRAFT RECOMMENDATION 10.1

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

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

DRAFT RECOMMENDATION 12.1

The Australian Government should remove section 47(2) from the Fringe Benefits Tax Act 1986, that is, the eligibility for Fringe Benefit Tax concessions for employer provided ECEC services. It should retain section 47(8), which enables businesses to purchase access rights for children of their employees without this being considered an expenditure subject to the Fringe Benefits Tax.

DRAFT RECOMMENDATION 12.11

The Australian Government should redirect any additional tax revenue gained, or administrative savings from, removing ECEC related tax exemptions and concessions to expand the funding envelope for ECEC.

For not-for-profit providers of block funded ECEC services to children with additional needs, the tax savings should be included in their block funding arrangements while these programs continue under the current funding agreements.

Workforce participation

DRAFT FINDING 6.1

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

DRAFT FINDING 6.2

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

DRAFT FINDING 6.3

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

DRAFT FINDING 6.4

Secondary income earners in couple families and single parent families with children under school age could potentially face a significant disincentive to work between 3 to 5 days a week due to high effective marginal tax rates from the cumulative impact of income tax and the withdrawal of childcare assistance, Family Tax Benefits and the Parenting Payment.

DRAFT FINDING 6.5

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

DRAFT RECOMMENDATION 6.1

The Fair Work Ombudsman, and employer and employee associations should trial innovative approaches to:

- *increase awareness about the ‘right to request flexible work arrangements’ and individual flexibility arrangements under the Fair Work Act 2009 and National Employment Standards*
- *promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements.*

Information request 6.1

The Commission seeks participants’ views on impediments to employers providing flexible work arrangements for parents.

Quality assurance processes and regulation of ECEC

DRAFT RECOMMENDATION 7.8

Governments should extend the scope of the National Quality Framework to include all centre and home based services that receive Australian Government assistance. National Quality Framework requirements should be tailored towards each care type, as far as is feasible, and minimise the burden imposed on services.

DRAFT RECOMMENDATION 7.1

To simplify the National Quality Standard, governments and ACECQA should:

- *identify elements and standards of the National Quality Standard that can be removed or altered while maintaining quality outcomes for children*
- *tailor the National Quality Standard to suit different service types — for example, by removing educational and child-based reporting requirements for outside school hours care services.*

DRAFT RECOMMENDATION 7.2

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

- *all educators working with children aged birth to 36 months are only required to hold at least a certificate III, or equivalent*
- *the number of children for which an early childhood teacher must be employed is assessed on the basis of the number of children in a service aged over 36 months.*

Information request 7.1

The Commission seeks participants' views on the expected impacts on the development of children under 36 months of focusing required teachers in centre-based care on children over 36 months.

DRAFT RECOMMENDATION 7.3

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

DRAFT RECOMMENDATION 7.5

To provide services with greater flexibility to meet staffing requirements, ACECQA should:

- *remove the requirement that persons with early childhood teacher qualifications must have practical experience for children aged birth to twenty four months*
- *explore ways to make the requirements for approving international qualifications simpler and less prescriptive in order to reduce obstacles to attracting appropriately qualified educators from overseas.*

All governments should allow services to temporarily operate with staffing levels below required ratios, such as by maintaining staffing levels on average (over a day or week), rather than at all times.

The New South Wales and South Australian Governments should allow a three month probationary hiring period in which unqualified staff may be included in staff ratios before beginning a qualification, as was recently adopted in all other jurisdictions.

DRAFT RECOMMENDATION 7.6***Governments and ACECQA should:***

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

DRAFT RECOMMENDATION 7.7***Governments, ACECQA and regulatory authorities, as applicable, should:***

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

DRAFT RECOMMENDATION 7.10***State and territory governments should, as a matter of priority, harmonise background checks for ECEC staff and volunteers by either:***

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

DRAFT RECOMMENDATION 7.11

Governments should remove those food safety requirements in the National Regulations that overlap with existing state and territory requirements.

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

DRAFT RECOMMENDATION 7.12

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

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

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

DRAFT RECOMMENDATION 11.1

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

Ongoing support for evaluation and program assessment

DRAFT RECOMMENDATION 5.4

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

DRAFT RECOMMENDATION 13.2

The Australian Government should establish a program to link information for each child from the National ECEC Collection to information from the Child Care Management System, the Australian Early Development Index, and NAPLAN testing results to establish a longitudinal database.

Subject to appropriate data protection methods, this information should be made available for research, policy analysis and policy development purposes. The ability of researchers to access unit record information should be permitted subject to stringent privacy and data protection requirements.

The Australian Government agency, which is the custodian of the Child Care Management System, should provide a de-confidentialised extract from the database each year that interested parties can use for research and planning purposes.

DRAFT RECOMMENDATION 13.3

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

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

1 About the inquiry

Key points

- Early childhood education and care (ECEC) services within the scope of this inquiry include both those that currently are regulated and receive government support and those more informal types of ECEC that are not currently regulated or funded by governments.
- Shortcomings in the current ECEC system will mean its contribution to children's development and to parents' workforce participation is less than optimal.
- The Commission has developed a set of principles to guide its assessment of ECEC in the remainder of this report.
- Parents, governments and ECEC providers have particular outcomes or objectives that they want ECEC to meet.
- However, an ECEC system that satisfies all parents and providers would be very costly and options that are affordable for every family now may represent a considerable ongoing tax burden for Australian families.

1.1 Background to the inquiry

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

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

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

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

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

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

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

However, it is also apparent to the Commission that there are significant shortcomings with aspects of the operation of the sector and there is substantial scope for improvements in the government assistance programs and regulations that

support it. For instance, some families still struggle to find ECEC services that meet their needs in terms of the type and quality of care they want for their children, and its affordability, availability and flexibility. These and other shortcomings (which are examined in detail in the remainder of this report) have been noted in the inquiry's terms of reference, and by stakeholders in the submissions and comments received by the Commission.

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

1.2 What has the Commission been asked to do?

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

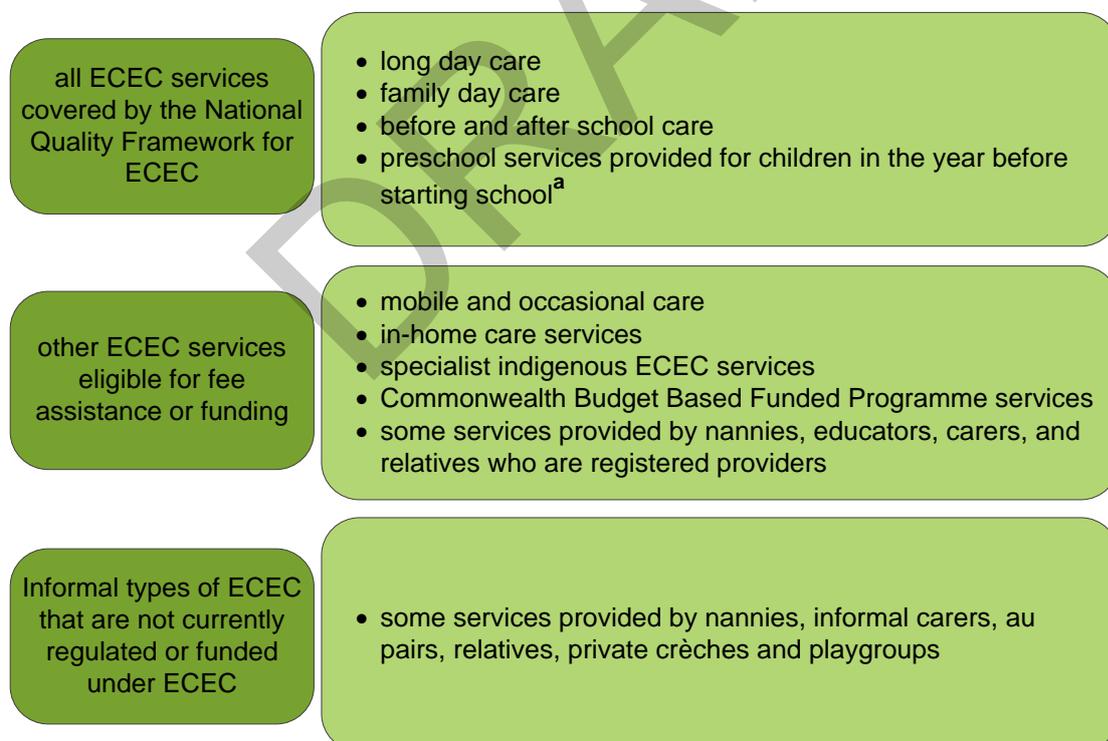
- the contribution that access to affordable, high quality childcare can make to:
 - increased participation in the workforce, particularly for women
 - optimising children's learning and development
- the future needs of childcare in Australia
- affordability of childcare
- accessibility, flexibility and options for improving choice, particularly for families with non-standard work hours, disadvantaged children and for those in rural, regional and remote areas
- whether there are other models of care, particularly international models, that should be considered for trial or implementation in Australia
- the sustainability and appropriateness of funding arrangements
- regulatory change in childcare over the last decade — but taking into account the Australian Government's planned work with the states and territories to streamline the current quality framework arrangements.

Services within scope

ECEC services that fall within the scope of this inquiry are highlighted in figure 1.1. Broadly, these services include those that are currently regulated and receive Government support and more informal types of ECEC services that are not currently regulated or funded. As well as considering the appropriateness of Government support for services in the first group, the Commission also considers whether there is a case for extending Government involvement to cover the forms of care in the latter group.

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

Figure 1.1 ECEC services within the scope of this inquiry



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

Age of children within scope

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

Consideration of options

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

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

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

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

Accordingly, measures proposed in this report have been assessed by the Commission as likely to generate community-wide benefits in excess of the cost of the measure. This means, for example, that the Government should not necessarily fund services in every location where market provision is not viable, nor should it

necessarily support the level of flexibility of services desired by some parents (in this case because of the potential negative consequences for the child, as well as the cost to taxpayers).

Interaction with other policies

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

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

1.3 Desired features of an ECEC system

Objectives and concerns of families

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

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

The priority placed by individual families on each of these objectives will necessarily vary with factors such as family characteristics, the age of children

involved and whether the family is living and working in a metropolitan or regional part of Australia.

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

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

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

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

The most important thing for me, as a parent of three young children, is the quality of care provided to my children in early childhood and outside school hours services. Feeling secure, supported, engaged, stimulated and happy: these are what I want for my children, and this is the high benchmark I expect ECEC and OSHC services and educators to meet. ... I understand that quality costs, and I am prepared to pay whatever it takes for my children to experience high quality education and care. I see this, in every way, as an investment in my children's future, and it is one I choose to make. (comment no. 79)

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

Source: Comments from ECEC users.

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

may depend on the affordability and flexibility of care and/or the value they place on the benefits and costs of their children attending ECEC.

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

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

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

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

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

I've over the past few months attempted to access any available kind of daycare for my daughter, who is 1 year old, in order to consider a return to work. This has proven exceptionally difficult as there is simply no availability of any care places, either in centres close to any potential employment, close to my current place of study, or close to home. ... For me, now, this lack of care availability is preventing my economic participation at any level beyond the household and putting huge stresses financially on our family, for whom I have always been the primary breadwinner. (comment no. 11)

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

Source: Comments from ECEC users.

Objectives and concerns of ECEC providers

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

- to deliver quality ECEC (as demonstrated through apparent widespread support for the National Quality Framework, chapter 7)
- to meet the needs of families and their children requiring ECEC services

- a predictable business environment, particularly in relation to the regulatory and funding frameworks within which they operate
- recognition of their role in child development.

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

Box 1.3 Objectives and concerns of ECEC providers

Only About Children:

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

UnitingCare Children's Services:

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

Annie Dennis Children's Centre:

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

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

Goodstart Early Learning:

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

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

ECEC worker:

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

Objectives of governments

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

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

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

The focus on these objectives varies depending on the circumstances of each jurisdiction. For example, the Northern Territory Government submission placed a particular emphasis on concerns relating to Indigenous Australians and children in regional and remote areas, while Tasmanian and Western Australian submissions expressed support for integrating ECEC services with the schooling system (both states already integrate preschool within the schooling system, chapter 7).

These objectives represent a mix of both economic and social goals. Increased workforce participation, particularly by those who experience, or are at risk of, disadvantage, and by those whose participation results in substantial community benefits, could be expected to contribute to an increase in overall economic activity (chapter 6). There may also be benefits associated with an increase in income tax revenue, reduction in dependence on welfare support, maintenance of skill levels and capabilities and increased social engagement. While these benefits rely on policy settings beyond ECEC and other factors such as the flexibility of work environments, they are likely to be more achievable with an ECEC system that is responsive to parents' working environments and funded in a manner that is sustainable for the community (chapters 6 and 12).

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

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

Government intervention to achieve ECEC objectives

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

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

At face value, the desires of parents and providers may be largely consistent with the objectives of the broader community (as enunciated by governments). However, it is unlikely that all parents and providers will be satisfied with the choices that governments are required to make — an ECEC system for all Australian families is unlikely to be able to cater to every individual family circumstance, and options that are affordable for every family using ECEC now may represent a considerable ongoing tax burden. Furthermore, government intervention to improve ECEC accessibility or affordability for one group may reduce accessibility or affordability for others — that is, the tradeoffs required may affect the welfare of different groups.

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

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

Box 1.4 Rationales for government intervention in ECEC

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

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

Box 1.5 ECEC system — guiding principles for government action

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

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

DRAFT

2 ECEC service providers

Key points

- Early Childhood Education and Care (ECEC) services are provided both by the government regulated formal sector and the informal sector. The informal sector consists of relatives, friends, nannies and babysitters on a paid and unpaid basis. In the formal sector there is a further distinction between 'approved care' and 'registered care'.
- Approved care services (the dominant category of care) are those long day care, family day care, outside school hours care, in-home care and occasional care services approved by government as meeting the eligibility standards and requirements to provide care for the purposes of Child Care Benefit (CCB). Long day care, family day care and outside school hours care are also required to satisfy the National Quality Framework. Approved care attracts both the child care rebate (CCR) and CCB for those that use it.
- There are nearly 16 500 approved childcare services. Long day care accounts for just over 40 per cent and outside school hours care accounts for 55 per cent of these services. Family day care and in-home care account for less than 4 per cent of these services.
- The total number of approved services has been growing steadily over the past decade and increased by 58 per cent in the decade up to 2012-13.
- Some providers have more than one service. More than half of all service providers have only the one service with a further third of the providers providing 2 to 4 services. Just under one per cent of all providers have more than 20 services.
- Just over half of approved services are provided on a for profit basis.
- Registered care is childcare provided by relatives, friends, nannies or babysitters and some childcare facilities who are registered as carers with the Department of Human Services. Children in registered care are only eligible for the CCB.
- There are over 35 000 registered care providers in Australia, but possibly considerably less than this offer services in any year, as only around 6000 had CCB claims in 2013.
- Of the more than 8600 preschools in Australia, governments provided just over 21 per cent, non-government groups provided around 28 per cent and long day care centres provided just over half of these services. In New South Wales, Victoria and Queensland, preschool services are mainly provided by the non-government sector, while in the other jurisdictions the government is the largest provider.
- Although there are limited data on the number of services the informal sector provides — based on the proportion of children attending some type of informal care — it appears to provide a significant number of services, with grandparents providing the majority of informal care.

This chapter looks at the number and type of early childhood education and care (ECEC) services provided, their location and the growth in ECEC services in recent years. The ECEC workforce and workforce related issues are discussed in chapter 11.

2.1 What services are being provided

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

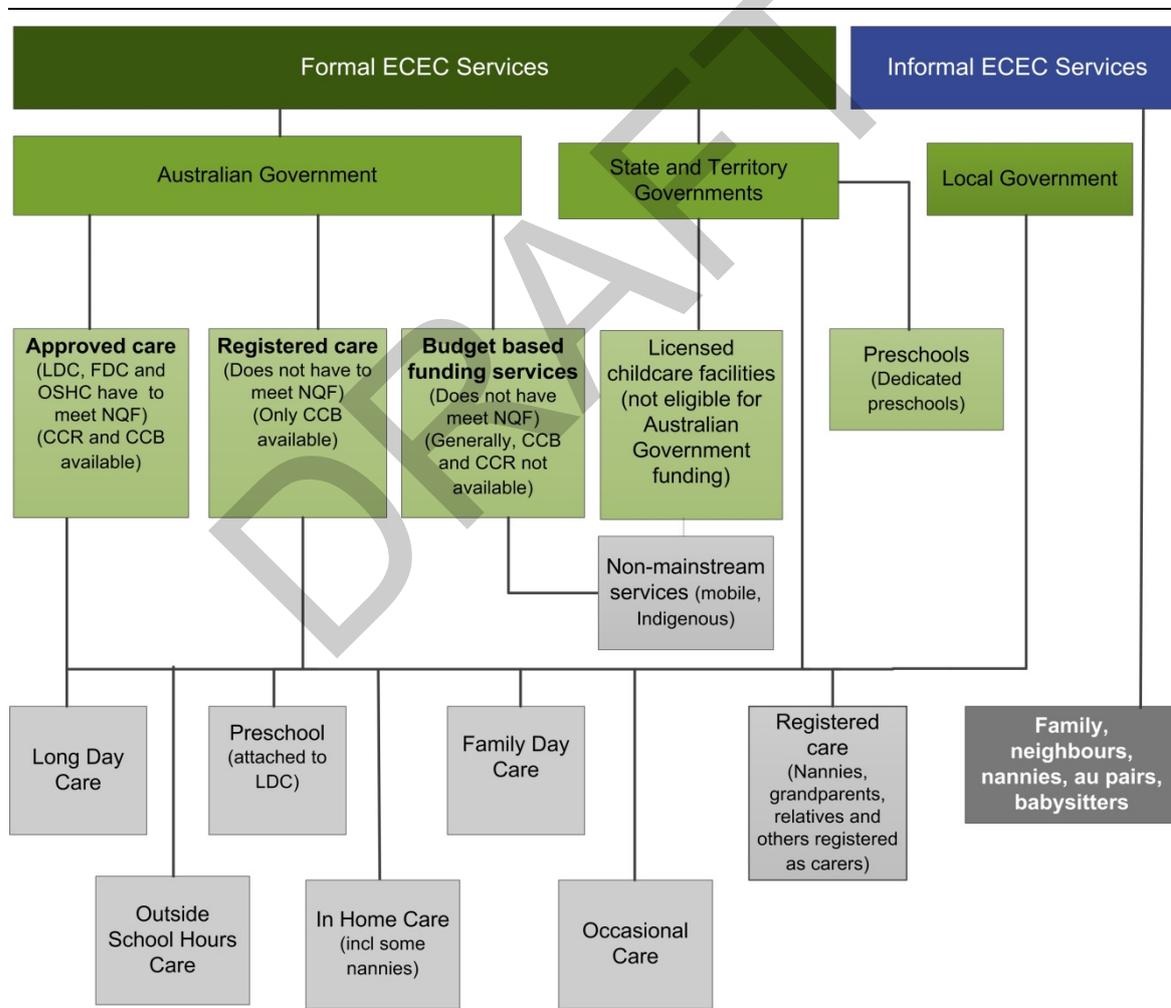
Most of the services provided by the formal sector are provided away from children's homes and include:

- *Long day care* — these are centre based childcare services providing all-day or part-time care for children. Long day care primarily provides services for children aged 0-5 years. Some long day care may also provide preschool and kindergarten programs and care for school children before and after school and during school holidays, where state and territory government regulations allow this. The service may operate from stand-alone or shared premises, including those on school grounds.
- *Family day care* — are those services providing small group care for children in the home environment of a registered or approved carer. Care is primarily aimed at children aged 0-5 years, but primary school children may also receive care before and after school, and during school holidays.
- *Occasional care* — comprises services usually provided at a centre on an hourly or sessional basis for short periods or at irregular intervals for parents who need time to attend appointments, take care of personal matters, undertake casual and part-time employment, study or have temporary respite from full-time parenting. These services are aimed primarily at children aged 0-5 years.
- *Outside school hours care* — these services provide care for school aged children to 12 years old before school, after school, during school holidays and/or on pupil free days. Outside school hours care (OSHC) may use stand-alone facilities, share school buildings and grounds and/or share facilities such as community halls.
- *Preschool* — includes services that deliver early childhood education programs provided by a qualified teacher that are aimed at children in the year before they commence full-time schooling, although different starting ages occur across

jurisdictions. In 2008, the Australian Government and the states and territories agreed that all children would receive 15 hours of preschool education per week for 40 weeks in the year before commencing school by 2013.

- *In-home care* — provides a flexible form of ECEC to children where a carer provides the care in the child’s home. The formal in-home care supported by the Australian Government is only available to children in certain circumstances. They include where: the child or other children in the home have a disability; the parent or carer has a disability which reduces their capacity to care for the child; the child lives in a rural or remote area and/or; the work hours of the child’s carer or their partner are such that no other service is available.

Figure 2.1 Structure of ECEC services



Note: Non-mainstream services are generally not required to satisfy the NQF requirements and only some are licenced by state and territory governments. There are a small number of budget based funding services (7) that are approved for CCB purposes and are required to satisfy the NQF requirements.

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

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

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

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

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

State and territory governments licence some childcare facilities, such as crèches and childcare centres attached to gyms and shopping centres and other facilities, that operate outside the Australian Government funding arrangements. For example, the Tasmanian Government licences 37 centres outside the Australian Government

system comprising mostly play centres and neighbourhood based services, the Victorian Government licences 400 children's services and the Western Australian Government licences around 20 occasional care centres (sub. 390; sub. 416; sub. 418). In addition, around 28 per cent of the non-mainstream services provided under the Australian Government's budget based funding program, which primarily provide services for Indigenous communities, are licensed by the states and territories. These services are discussed further in section 2.5.

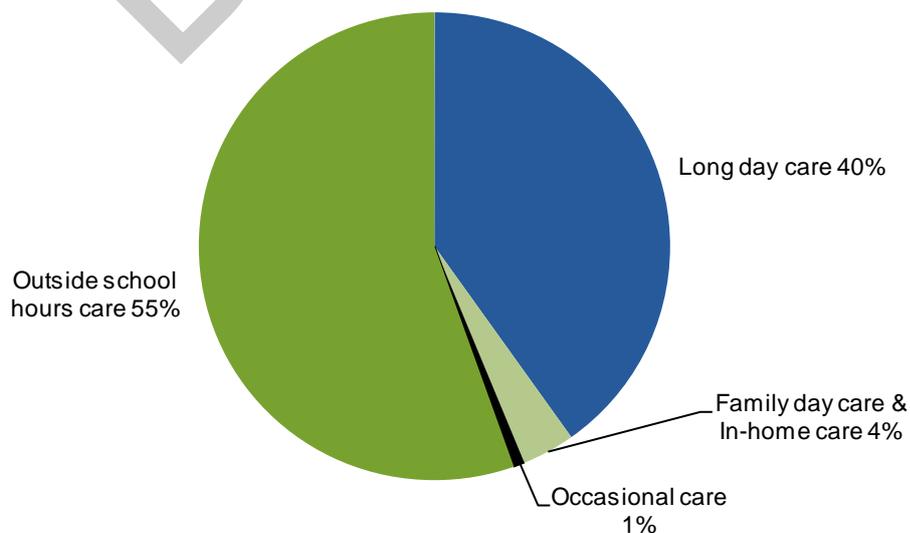
2.2 Approved services

The number and type of approved services

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

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

Figure 2.2 **Approved childcare services by service type**
June 2013



Data source: Department of Education (2013).

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

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

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

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

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

The growth in approved services

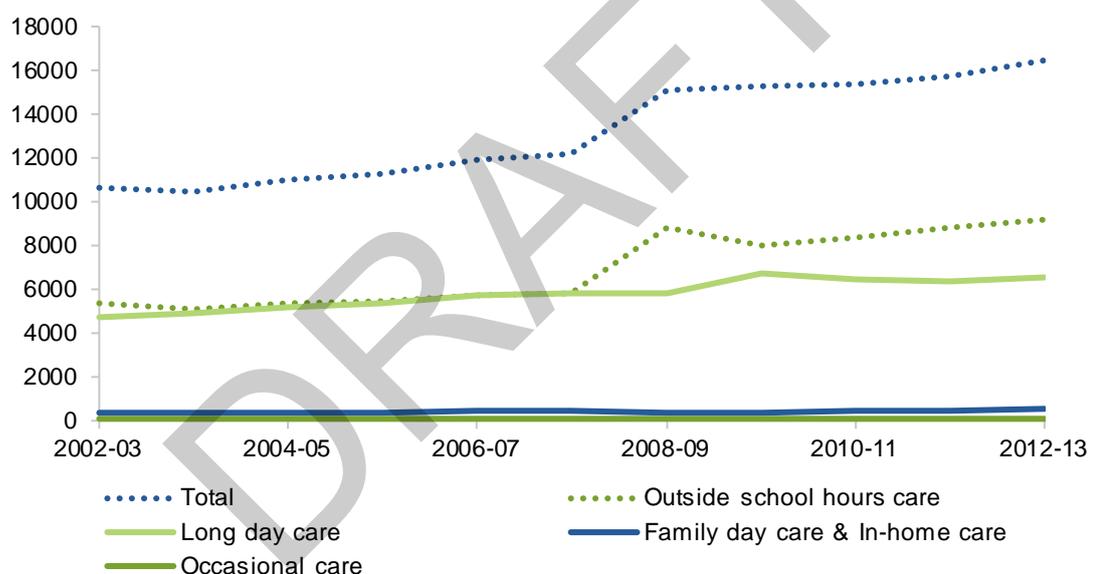
There has been strong growth in the number of approved services in recent years. In the decade to 2012-13, the number of services increased by 58 per cent (figure 2.3). The strongest growth has been in long day care and outside school hours care services. Long day care services increased by 50 per cent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

Most outside school hours care services provide both before school and after school care. Nearly three-quarters (72 per cent) provide both before and after school care, just over a quarter (27 per cent) only offer after school care and less than one per cent only offer before school care. The small number of occasional care services declined slightly over the period and the number of family day care services

remained flat. However, there was a substantial increase in approved family day care services from 512 to 735 services in the 12 month period to 2013-14, an increase of just over 40 per cent (Data from ACEQA).

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

Figure 2.3 Number of approved childcare services a, b



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

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

Where are they located

The distribution of approved services varies to some extent within regions. Long day care accounted for around 40 per cent of services in major cities, inner regional areas and outer regional areas, but for just over half of services in remote and very remote areas.

Family day care made up a larger share of the services in outer regional and remote and very remote areas. In contrast, outside school hours care accounted for a larger share of the services in major cities and inner regional areas (table 2.2).

Table 2.2 Share of approved care childcare services by service type by region
March Quarter 2013

	<i>Major cities</i>	<i>Inner regional</i>	<i>Outer regional</i>	<i>Remote and very remote</i>
	%	%	%	%
Long day care	40.3	39.3	44	52.1
Family day care	2.5	3.7	4.9	5.2
In home care	0.3	0.8	0.7	1.8
Occasional care	0.6	1.4	1.5	0.0
Outside school hours care	56.3	54.8	48.9	40.9
Total	100	100	100	100

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

Approved service providers

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

Some provide multiple services

A number of these providers have multiple services (table 2.3). However, more than half of all providers have only a single service and nearly a third provide 2 to 4 services. Less than one per cent of all providers have more than 20 services. Most of the recent growth in services has been in single service providers.

Table 2.3 Number of approved services per provider

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

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

Profit and non-profit service providers

ECEC services are provided both by profit and not for profit businesses. Around 50 per cent of approved services are provided on a for profit basis. For profit service providers dominated the provision of long day care accounting for nearly two thirds of all long day care services. However, in family day care, occasional care and in-home care most services were provided on a not for profit basis. With outside school hours care, around 60 per cent of services were provided by for not for profit providers (table 2.4).

Table 2.4 Number of approved services by ownership status

	2011-12		
	<i>Not for profit</i>	<i>For profit</i>	<i>Percentage for profit</i>
Long day care	2 149	4 266	66.5
Family day care	236	151	39.0
In-home care	43	24	35.8
Occasional care	73	9	11.0
Outside school hours care	5 356	3 477	39.4
Total	7 857	7 928	50.2

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

Family day care coordination units

Family day care coordination units are often used by family day care services to coordinate, support and monitor the family day care educators working under that service. The coordination unit assists the family day care educators to satisfy the NQF and other government requirements, may assist educators in booking clients and provide advice and information to families in selecting a family day care

service. There were 736 family day care coordination units in Australia as at June 2014 (Family Day Care Australia, pers. comm., 11 June 2014).

Inclusion support agencies and inclusion support facilitators

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

2.3 Preschool services

The provision of preschool in Australia encompasses the learning provided to children in the year before formal schooling commences. In some jurisdictions, this year is referred to as kindergarten whereas in others it is referred to as preschool. Most children commence preschool in the year in which they turn 4 years old (table 2.5). The first year of formal schooling, referred to by various titles across jurisdictions, commences in the year the child turns 5 years old. In some jurisdictions 'Kindergarten' refers to the first year of formal schooling while in others, 'Kindergarten' refers to preschool. As well as 'Kindergarten', the first year of formal schooling is also referred as 'Preparatory', 'Transition', 'Reception' and 'Pre-primary' depending on the jurisdiction. The second year of formal schooling is referred to as year 1 in all jurisdictions (table 2.5).

There is also considerable variation around the 'cut-off date' as to when children turning 4 or 5 years of age can commence preschool and school. For example, in Queensland and Western Australia children who are 4 and 5 years of age by 30 June and in New South Wales by 31 July can commence preschool and school respectively that year whereas in Tasmania children have to turn 4 or 5 years of age by 1 January to start preschool or school that year.

Table 2.5 Preschool year and first year of formal schooling and age of commencement by state and territory^a

	<i>Preschool year and age in the year of commencement</i>	<i>First year of formal schooling and age in the year of commencement</i>
NSW	Preschool (age 4 by July 31)	Kindergarten (age 5 by 31 July)
Vic	Kindergarten (age 4 by 30 April)	Preparatory (age 5 by 30 April)
Qld	Kindergarten (age 4 by 30 June)	Preparatory (age 5 by 30 June)
WA	Kindergarten (age 4 by 30 June)	Pre-primary (age 5 by 30 June)
SA	Kindergarten (age 4 by 1 May)	Reception (age 5 by 1 May)
Tas	Kindergarten (age 4 by 1 January)	Preparatory (age 5 by 1 January)
ACT	Preschool (age 4 by 30 April)	Kindergarten (age 5 by 30 April)
NT	Preschool (entry after 4 th birthday)	Transition (age 5 by 30 June)

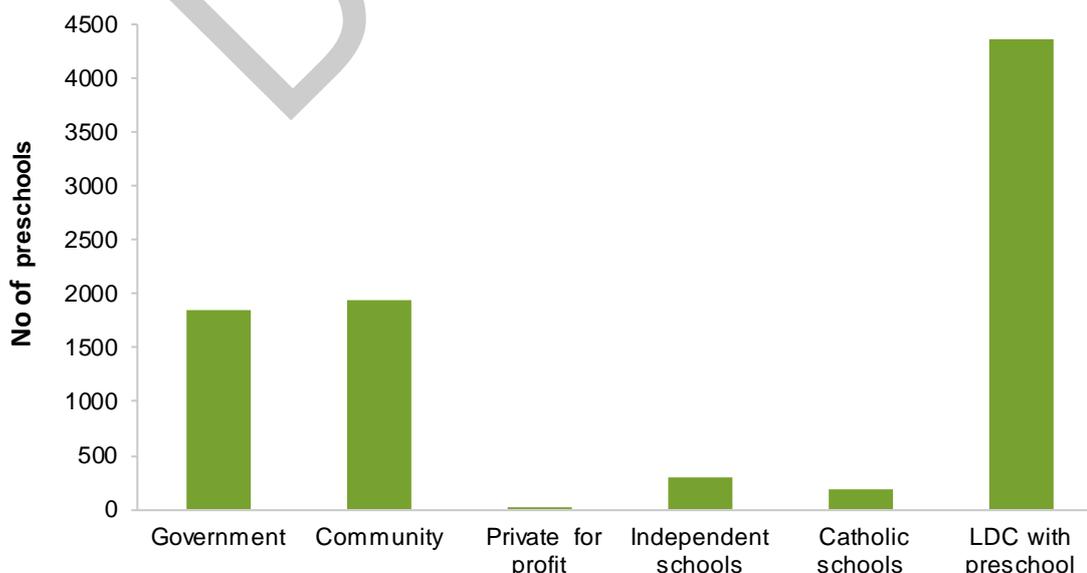
^a Most jurisdictions provide for early entry to preschool, usually at age 3, for Indigenous children and children considered to be at risk or developmentally vulnerable.

Sources: Dowling and O'Malley (2009); Productivity Commission (2013).

Who is providing preschool services?

Preschool services in Australia are provided by government, the non-government sector — including community based groups and private for profits groups and independent and Catholic schools — and through preschool programs within long day care centres (figure 2.4).

Figure 2.4 Providers of preschool in Australia
2013



Data source: ABS (2014).

In 2013, of the 8654 preschools in Australia, governments accounted for just over 21 per cent, the non-government sector around 28 per cent and long day care centres with preschools for just over half (50.5 per cent).

However, the provision of preschool varies markedly between states and territories. In New South Wales, Victoria and Queensland preschool services are predominantly provided by the non-government sector whereas in the ACT just under half of preschool services are provided by the government and in the other jurisdictions the government is the largest direct provider of preschool services, usually in dedicated facilities (table 2.6 and box 2.1).

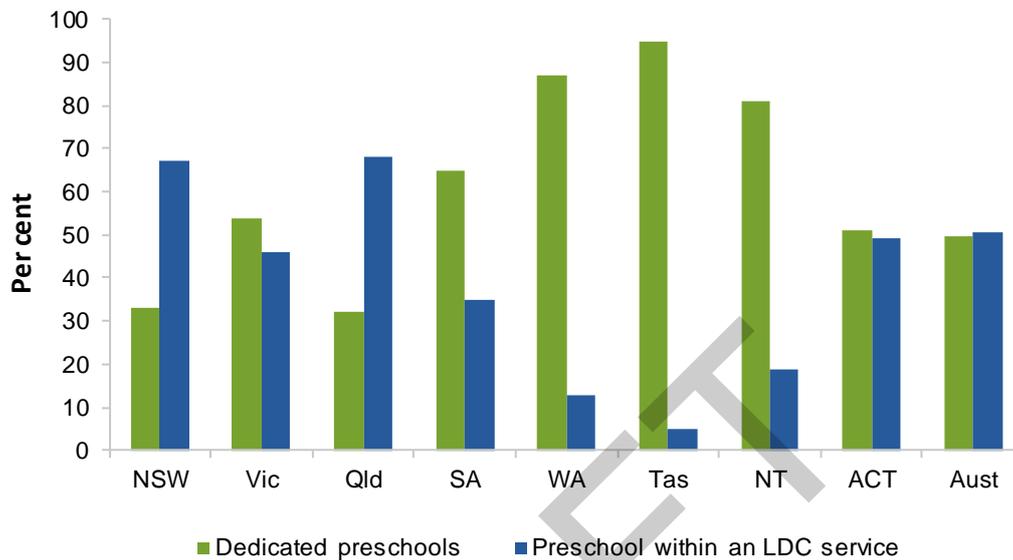
Table 2.6 Preschools establishments in Australia by provider
2013

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>	<i>Aust</i>
Government	156	227	120	343	641	158	134	78	1 857
Non-government									
Community	677	838	421	3	-	-	-	-	1 939
Private for profit	3	9	5	-	-	-	-	-	17
Independent schools	18	87	15	18	114	27	5	5	289
Catholic schools	5	-	4	8	129	31	4	-	181
<i>Total non-government</i>	<i>703</i>	<i>934</i>	<i>445</i>	<i>29</i>	<i>243</i>	<i>58</i>	<i>9</i>	<i>5</i>	<i>2 426</i>
Total dedicated preschools	859	1 161	565	372	884	216	143	83	4 283
LDC with preschool	1 728	983	1 203	203	130	12	33	79	4 371
Total number of preschools	2 587	2 144	1 768	575	1 014	228	176	162	8 654

Source: ABS (2014).

Queensland had the highest proportion of preschools (68 per cent) located within a long day care centre while Tasmania had the lowest (5 per cent). New South Wales was the only other jurisdiction where more than half (67 per cent) of all preschool services were located within a long day care centre (figure 2.5).

Figure 2.5 Proportion of dedicated and LDC based preschools by jurisdiction
2013



Data source: ABS (2014).

Under the National Partnership Agreement the Australian Government and the states and territories agreed to provide 15 hours per week of preschool a week to all children in the year before full-time schooling with a qualified early childhood teacher by 2013. The total Australian Government funding to the states and territories over the five year period to 2012-13 for universal preschool access is \$970 million. Funding arrangements are discussed further in chapter 4.

Box 2.1 Models of preschool provision

In New South Wales, Victoria and Queensland the majority of preschools are non-government owned, but are subsidised by state and or local governments. There are a limited number of government owned and run preschools which are generally targeted at disadvantaged communities. The preschools attached to long day care centres are generally funded by the Australian Government through the childcare rebate and childcare benefit and by parent fees.

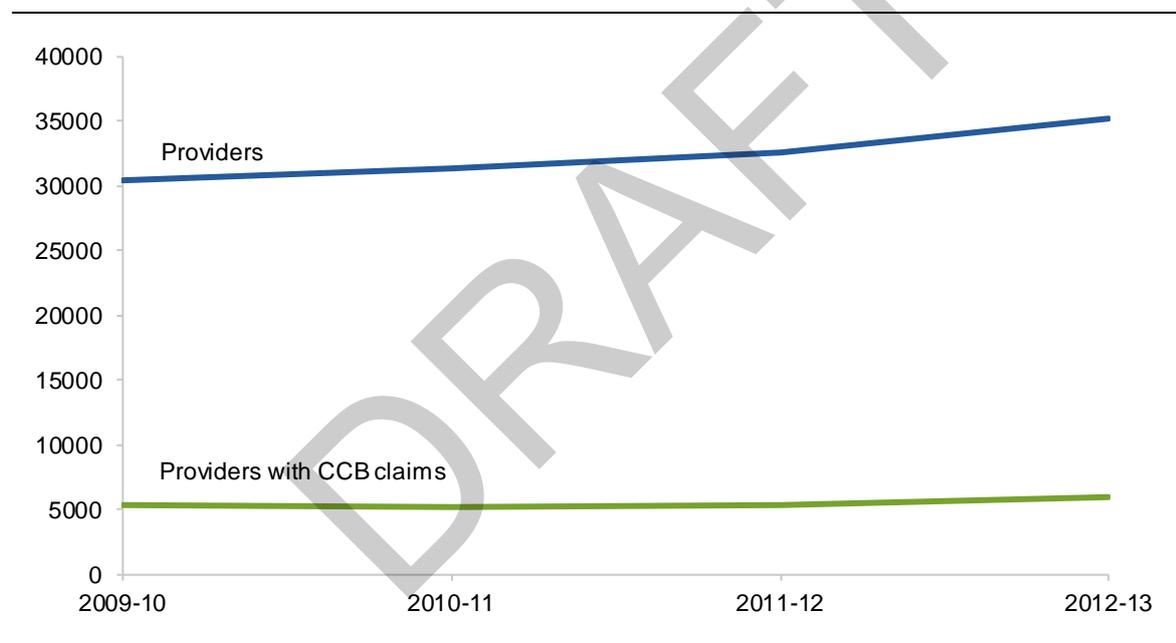
In Western Australia, South Australia, Tasmania, the ACT and the Northern Territory the majority of preschools are government owned and run and are funded similarly to schools in these jurisdictions. These jurisdictions may provide additional funding to community preschools, but generally not to preschool programs in long day care centres.

Source: Dowling and O'Malley (2009).

2.4 Registered care providers

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

Figure 2.6 Registered care providers and registered care providers with CCB claims



Data source: Department of Human Services data.

The majority (around 78 per cent) of registered care providers are located in New South Wales, Victoria and Queensland, which is closely in line with the relative size of their population. In these jurisdictions, between 14 and 19 per cent of the providers had CCB claims against them in 2012-13. In the other jurisdictions, apart from Tasmania, less than 10 per cent of the registered care providers had CCB claims against them in the same period. Nationally, around 17 per cent of all registered care providers had CCB claims against them in 2012-13 (table 2.7).

Table 2.7 Registered care providers and registered care providers with CCB claims by state and territory 2012–2013^a

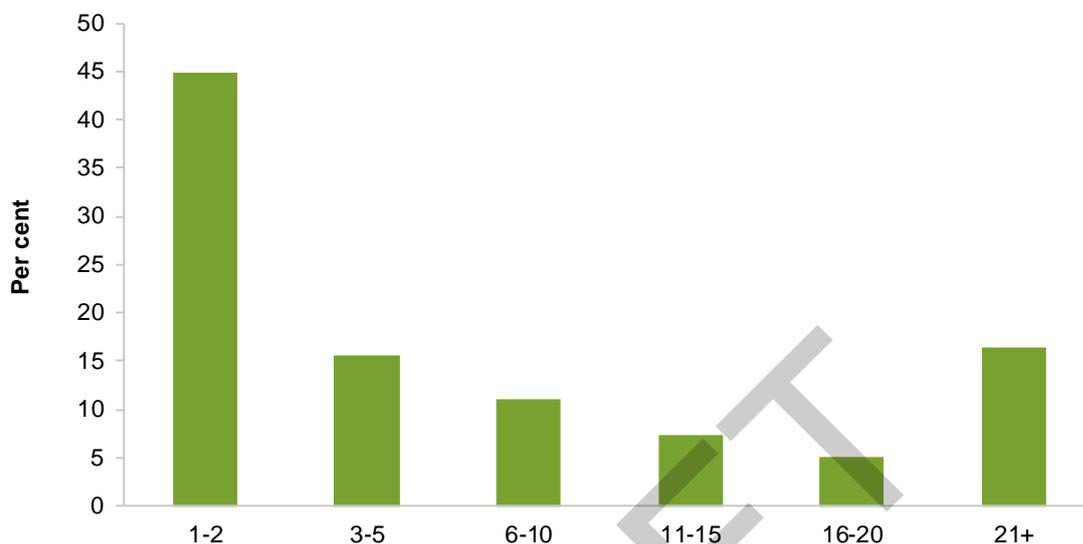
	<i>Registered care providers</i>	<i>Share of total registered care providers</i>	<i>Registered care providers with CCB claims</i>	<i>Share of registered care providers with CCB claims</i>
		%		%
NSW	9 823	27.9	1 865	19.0
Victoria	9 460	26.8	1 712	18.0
Queensland	8 180	23.2	1 138	14.5
South Australia	2 286	6.5	162	7.0
Western Australia	2 149	6.1	197	9.2
Tasmania	723	2.0	76	10.5
ACT	779	2.2	77	9.9
Northern Territory	318	0.9	17	0.5
Location unknown	1 542	4.4	173	
Total	35 260	100	5 981	17.0

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

Source: Department of Human Services data.

Most registered care providers only have a small number of children in their care. Nearly half (45 per cent) of registered care providers with CCB claims cared for 1 or 2 children in 2012-13. A further 15 per cent cared for 3 to 5 children and just over 10 per cent for 6 to 10 children (figure 2.7).

Figure 2.7 Registered care providers with CCB claims by number of children in their care
2012-13



Data source: Department of Human Services data.

2.5 Other service providers

Non-mainstream services

Non-mainstream services include mobile child care services, Multifunctional Aboriginal Children's services (MACS), Indigenous playgroups, outside school hours care, flexible services and Indigenous enrichment programs and crèches. These services are funded through the budget based funding (BBF) sub program in a limited number of locations where the market would otherwise fail to deliver mainstream services. These services are generally not approved to receive CCB (only 7 services are approved for CCB purposes) and the cost to families in using these services are typically minimal (chapter 4). These services are currently largely excluded from the NQF. Around a quarter of these services are licenced by the relevant state or territory government.

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

There are around 340 non-mainstream services operating across Australia and around 80 per cent of these have an Indigenous focus. Over half of non-mainstream services are located in the Northern Territory (35 per cent) and Queensland (24 per cent) (figure 2.8).

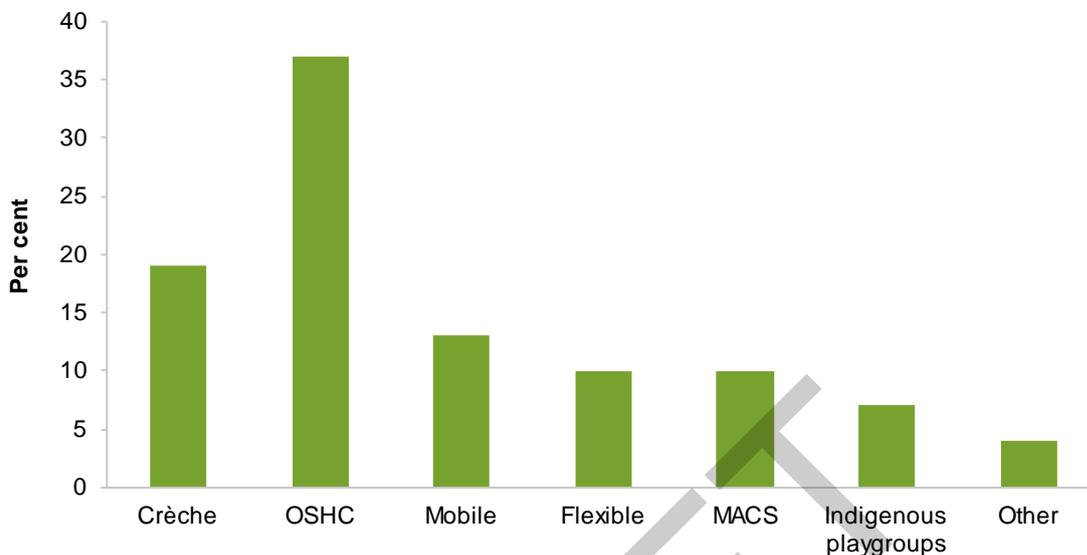
Figure 2.8 Non-mainstream services by jurisdiction
2013-14



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

Outside school hours care accounted for around 37 per cent and crèche for around 19 per cent of non-mainstream services, mobile services for around 13 per cent and MACS for around 10 per cent (figure 2.9).

Figure 2.9 **Non-mainstream services by type^a**
2013-14



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

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

The informal sector

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

Grandparents

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

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

Nannies and au pairs

There are limited data on the number of nannies providing ECEC services. According to the most recent ABS census, around 6500 individuals identified themselves as being employed as a nanny in 2011, although this figure is likely to be an underestimation. The Australian Nanny Association estimated that there were approximately 30 000 nannies currently working in Australia (sub. 254). The Australian Nanny Association noted that some nannies were providing subsidised services such as in-home care and services funded through the special child care benefits scheme. However, as these placements are limited to around 7000 nationally, the majority of nannies were working in private arrangements for families. These nannies are employed on full-time, part-time or casual basis either directly by a family or through an agency (sub. 254). While many are employed through an agency, a large, but unknown proportion are employed directly by families often on 'cash in hand' basis. Au pairs are usually from outside Australia, frequently as part of a cultural exchange and reside with the host family. These au pairs are often in Australia on a working holiday visa (visa subclass 417) or a work and holiday visa (visa subclass 462) which requires them to change employers or families after 6 months of employment. They provide care for the children in the family in exchange for board and some payment. There are estimated to be around 10 000 au pairs currently working in Australian homes (AuPair World, sub. 446).

DRAFT

3 Family use of childcare and early learning

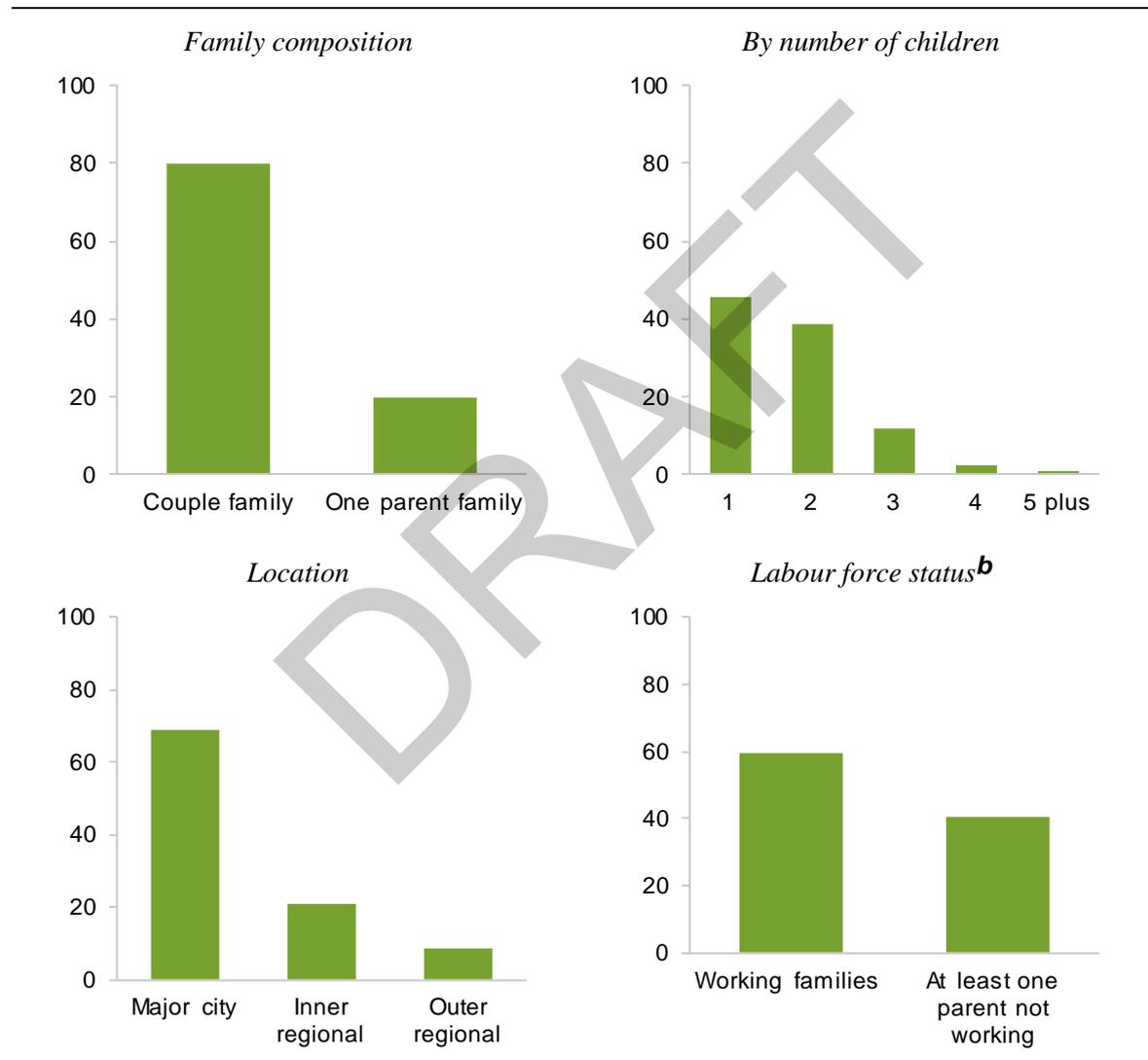
Key points

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

3.1 The nature of non-parental care in Australia

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

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

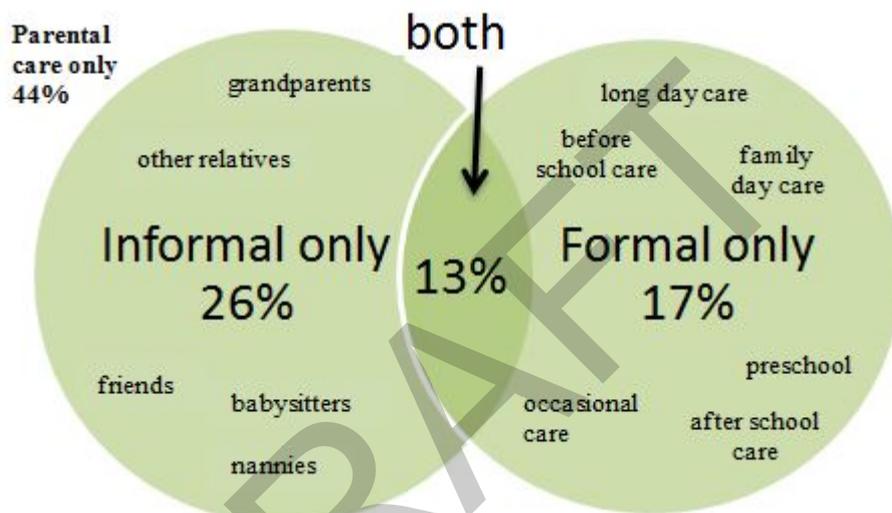


^a Children aged 0–12 years as at June 2011. ^b 'Working families' refers to couple families with both parents employed or an employed single parent.

Data source: ABS (2012), Table Builder.

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

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



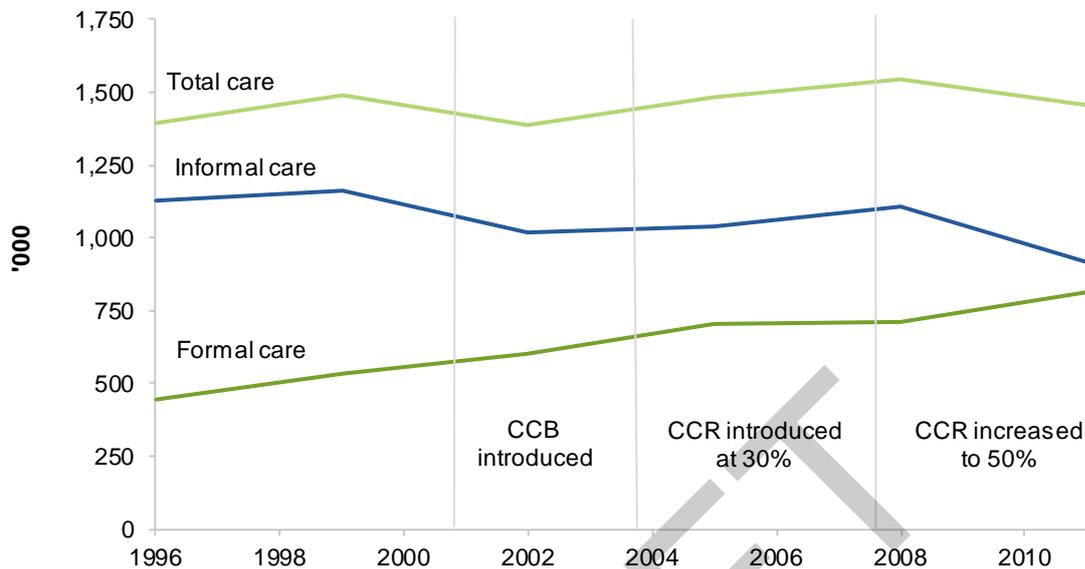
^a Children aged between 0 and 12 and type of care usually attended as at June 2011. The classification of care into formal and informal is based on the ABS definitions. Formal care is defined as regulated care away from the child's home while informal care is unregulated care either in the child's home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

Data source: ABS (2012), Table Builder.

Trends in early childhood education and care

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

Figure 3.3 Children in non-parental care^a
Children 0 to 11 years old



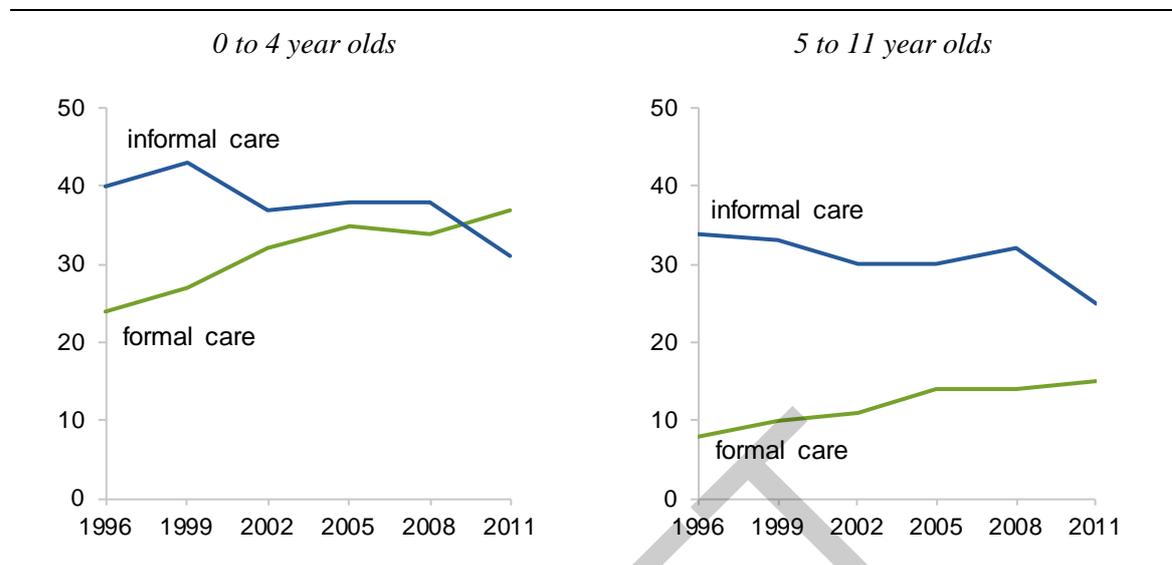
^a Due to changes in data collection, time-series data is only available for: i) type of care attended last week ii) for children 0-11 year olds. Data for March 1996 and June for 1999, 2002, 2005, 2008 and 2011. Intervening years have been interpolated. Preschool is not included in formal care for time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

Data source: ABS (2012).

Reflecting these trends, there is a greater proportion of children attending formal care with a corresponding decline in the relative importance of informal care than previously (figure 3.4). However, there has been no growth in the proportion of children spending time in non-parental care (ABS 2012).

For children aged 0 to 4, there has primarily been an increased reliance on long day care (LDC). However, there has been no increase in the proportion of very young children (under 1 year old) either attending ECEC or being cared for in the informal sector (Baxter 2013). While there has been a growth in the proportion of 5 to 11 year olds attending formal services, overall attendance rates remain lower than the 0 to 4 age group (figure 3.4).

Figure 3.4 Children in formal and informal care^a
Per cent of age group



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

Data source: ABS (2012).

Who is attending formal early childhood education and care?

The decision to send children to ECEC services and the choice of a particular type of ECEC service is often influenced by workforce participation, family composition, demographic characteristics and the type of care parents feel is appropriate for their children at different ages. For example, parents who prefer their children to be cared for and educated in a home environment may favour services such as family day care (FDC). Ultimately, the observed use of formal ECEC is the outcome of the services offered by providers (supply) and parents' preferences (demand) and any trade-offs parents are willing to make to accept the services available. Chapters 8 and 9 discuss issues associated with accessibility and affordability of ECEC.

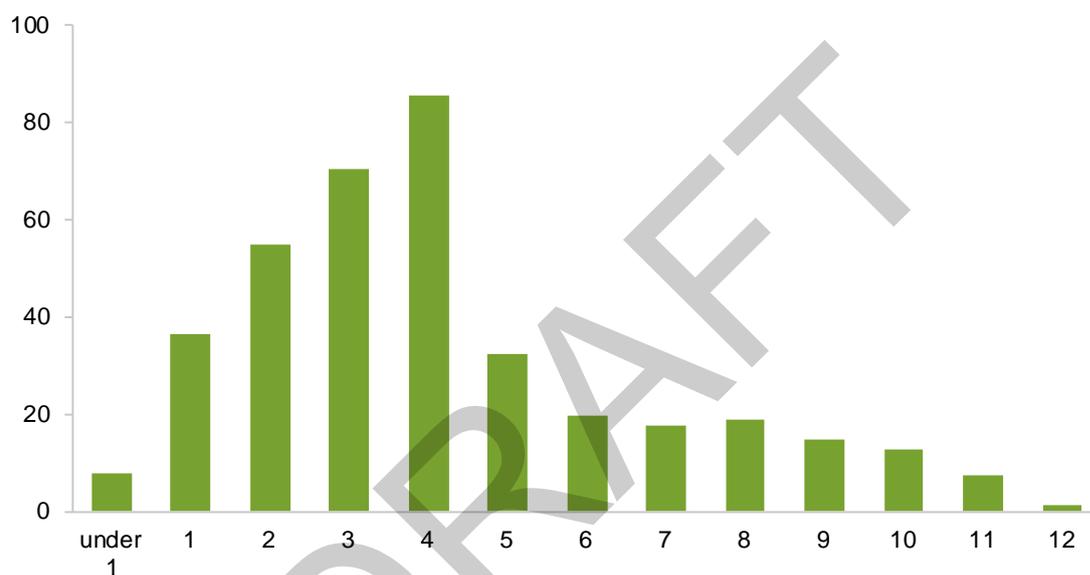
Age of children in ECEC

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

Children under one year old tend not to attend formal childcare, with attendance rates increasing from one year old and peaking at 4 years old (preschool year), and dropping significantly once children reach school age (figure 3.5).

While there are strong family preferences in Australia for babies to be cared for by their parents, among those who do require formal care, participants highlighted the difficulty of accessing childcare for very young children (chapter 8).

Figure 3.5 Children using formal ECEC services by age
Per cent of age group



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

Data source: ABS (2012), Table Builder.

Reflecting the age distribution of children participating in formal ECEC services, the majority of children in Australian Government approved ECEC attend LDC services (table 3.1). FDC, in-home care along and occasional care (OCC) services play a much smaller role in providing non-parental care for children. The number of FDC places were historically capped by the Australian Government, while in-home care and OCC services continue to be capped (chapter 2).

Preschool — targeted at children in the year or two prior to starting school — plays a key role for children aged 3 to 4 years old with around 300 000 children enrolled in preschool (section 3.3).

Before and after school care, the predominant type of formal care for school aged children, caters for about 27 per cent of all children in Australian Government

approved ECEC services (Administrative data provided by Department of Education).

Table 3.1 Children enrolled in ECEC by service type

<i>Type of care</i>	<i>Number of children</i>
Approved care services ^a	
Long day care	831 690
Family day care & In-home care	191 260
Occasional care	13 080
Outside school hours care ^b	462 100
before school care	180 150
after school care	370 200
vacation care	274 020
Total number of children enrolled in at least one type of approved care service^c	1 366 670
Preschool enrolments ^d	288 000
Budget Based Funding services ^e	17 700
Registered care ^f	52 100

^a Data for financial year 2012-13. ^b Outside school hours care includes before school care, after school care and vacation care. ^c Children may attend more than one type of service and will be counted once in each service type but counted only once in the total. Consequently, the type of care components will not sum to the total. ^d Funding for services in rural, remote or Indigenous communities. Data for 2013. Preschool enrolments from standalone preschool providers and preschool programs in LDC. ^e Data for 2012-13 ^f Data 2011-12. Information on use of registered care by type of care is not available.

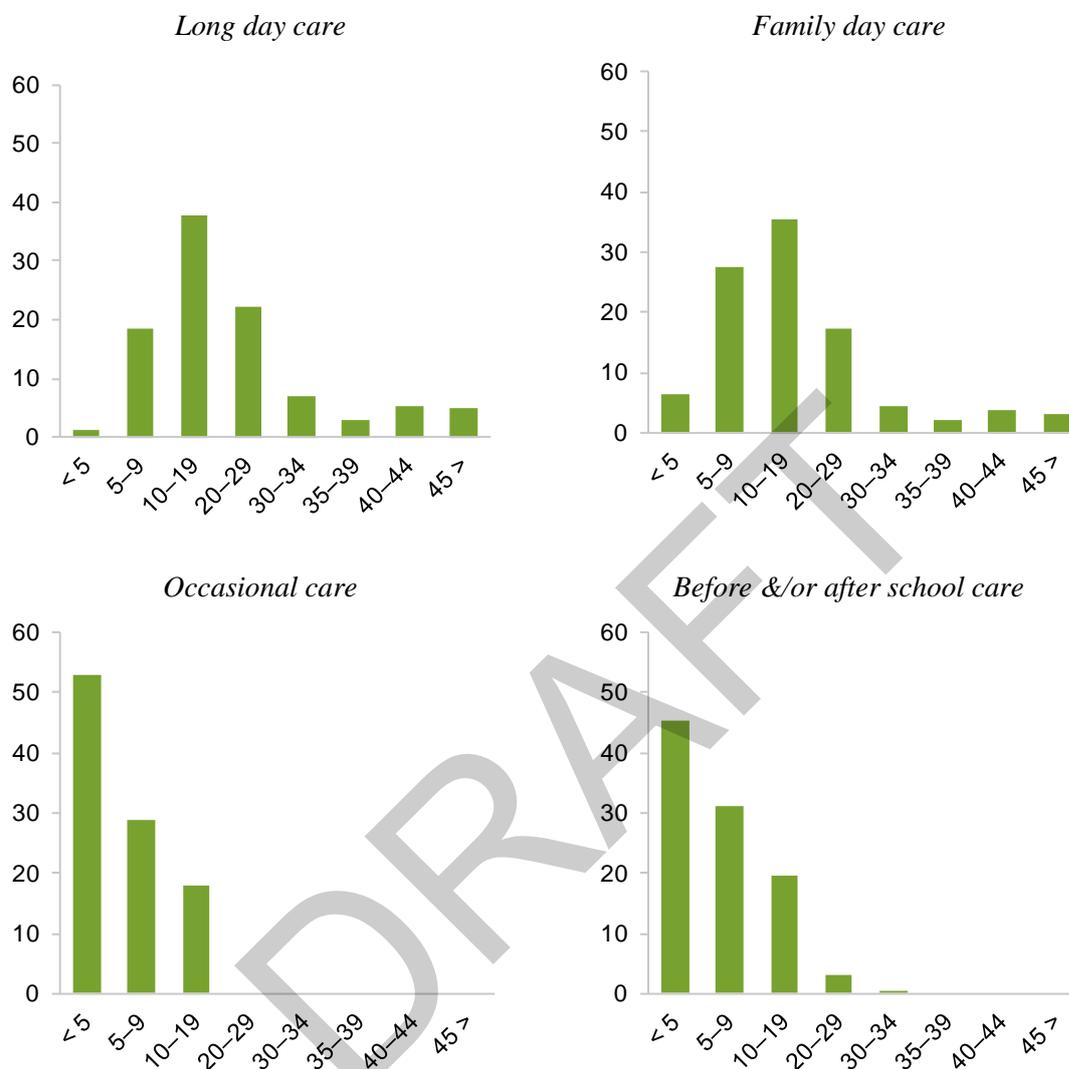
Sources: Department of Education administrative data (2012-13); ABS (2014b); Department of Human Services administrative data (2011-12).

Hours of ECEC

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

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

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



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

Data source: ABS (2012), Table Builder.

Children enrolled in preschool generally attend for 15 hours or more, corresponding to the commitment made by state and territory governments under the national partnership agreement (ABS 2014b) (chapter 2).

Who is using informal care?

Informal care — consisting of grandparents, a non-resident parent, other relatives, friends, babysitters and nannies looking after children — plays a very significant role in the provision of non-parental care (table 3.2). The importance of this sector

is reflected in its size — approximately 1.4 million children (39 per cent of all children) have regular informal care arrangements:

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

Table 3.2 Children cared for in the informal sector^a

Per cent of all children 0 to 12 years old

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

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

Source: ABS (2012), Table Builder.

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

Children in grandparent care

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

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

Box 3.1 The importance of grandparents in providing care to children

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

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

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

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

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

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

Submissions also highlighted the pivotal role of grandparents:

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

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

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

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

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

Children in nanny care

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

Nannies, employed by parents to care for their child or children in their own home, are counted within the informal care sector as they are generally outside the scope of government regulations (with the exception of approved in-home care, see chapter 2). Consequently, parents are not entitled to government subsidies or rebates to assist with the cost of education and care (chapter 4). Based on ABS data, around 2 per cent (or 80 000) of children are usually cared for by nannies and babysitters (ABS 2012b). While usage at any given point in time is much lower than other forms of care, many other families have expressed a desire to use nannies, but currently do not because they cannot afford to do so. Many parents have called for government subsidies to be extended to this form of care (chapter 8).

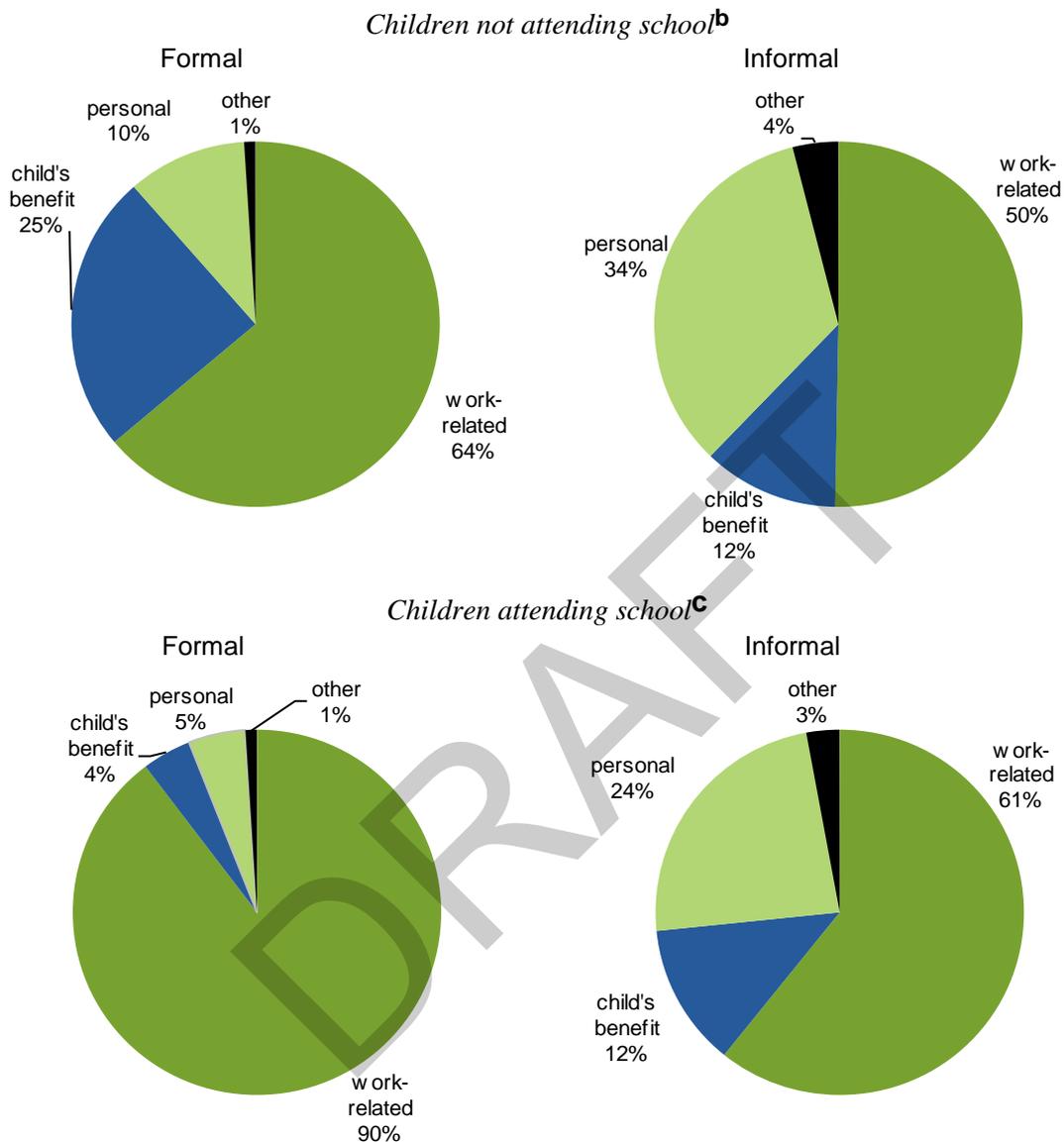
Why is non-parental care needed?

Parents use childcare for a range of reasons that relate to both their own needs and those of their children, including work related reasons, childcare being beneficial to the child and for personal reasons.

Despite there being a variety of reasons for childcare use, ‘work’ is the overwhelming reason parents use non-parental care (figure 3.7).

- Prior to starting school, the main reason parents use formal care for their children is work-related reasons (64 per cent), with a sizable proportion also stating the main reason being for the child’s benefit.
- Parents of school age children almost solely send their children to before and after school care for work-related reasons (90 per cent).
- Informal care is also mainly used for work-related reasons (for both children not attending school and school age children), but a substantial proportion of children have informal care arrangements so parents can attend to personal needs.

Figure 3.7 Main reason for using care by type of care^a
Per cent of children in each type of care and age group



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

Data source: ABS (2012), Table Builder.

Use of non-parental care for personal reasons

Non-parent care for personal reasons includes care to allow parents to:

- go shopping
- attend a social activity

-
- have a break from parenting
 - undertake non-work related study or training (ABS 2012).

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

3.2 Use of non-parental care to facilitate workforce participation

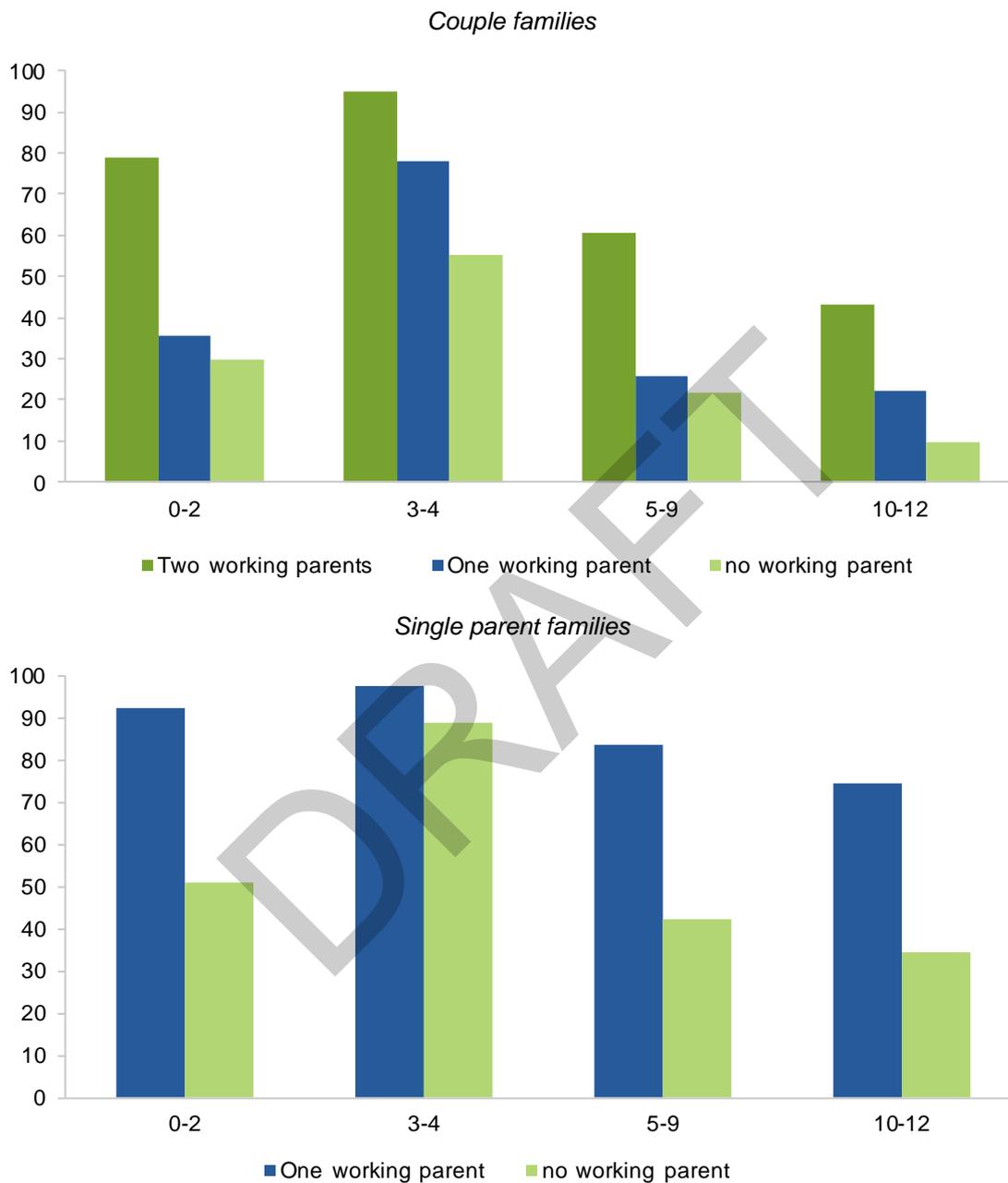
'Working families' — couple families with both parents working and employed single parent families — are more likely to use non-parental care (both formal and informal) across all age groups than families that have at least one parent not working (figure 3.8).

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

- Around 20 per cent of children aged zero to two years old — with both parents working — are cared for solely by their parents. Gray, Baxter and Alexander (2008) found the situation of both parents working, but not using non-parental care, was more likely when the mother worked short hours (1-15 hours per week), was self-employed and the child was being breastfed. These mothers seem to manage their work around their caring responsibilities so that they could be the primary carer.
- Working parents of older children have greater scope to participate in the labour force as children attend school for approximately 6 hours per day. If it is possible for parents to work school hours they may not need to use non-parental care. Nevertheless, comments were received from parents claiming a shortage of before and/or after school care at least in some locations (chapter 8).

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

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



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

Data source: ABS (2012), Table Builder.

Hours of non-parental care

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

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

Use of nannies for work related reasons

Families use nannies for a variety of reasons, but drawing on the qualitative information submitted to the Commission nannies are almost solely used to free up time for parents to work (box 3.2).

An estimated 45 300 Australian families use nannies. For some, nannies are a short-term arrangement until a preferred ECEC service is available. For other families, nannies are used because parent working arrangements (such as shift work or long hours) do not fit within the standard operating hours of LDC or FDC and and/or families prefer children, especially very young children, to be cared for at home. Parents of multiple children have also highlighted the logistical benefits of having a nanny care for children at home, allowing them to better manage being in the workforce, including traveling to and from work. Chapter 8 discusses flexibility of current ECEC services.

Box 3.2 Reasons why parents use nannies

Working extended hours or irregular hours or shift work

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

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

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

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

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

Short-term use due to lack of formal care

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

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

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

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

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

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

Preferred form of care

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

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

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

Logistics

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

3.3 Use of non-parental care for developmental reasons

As noted above, for some parents their child's development is their primary motivation for using non-parental care, particularly for children not yet attending school. Higher rates of attendance in formal ECEC for 3-4 year olds (figure 3.5), even among children of not-employed mothers, reflects that as children grow out of infancy, parents increasingly believe the experience of ECEC is good for children's development (Baxter 2013).

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

Use of preschools

The demand for formal ECEC services for child development reasons is facilitated by preschool programs in each state and territory. As discussed in chapter 2, under the national partnership agreement there is a commitment that every child will have access to a preschool program in the 12 months prior to full-time schooling for 15 hours per week for 40 weeks a year. Australian governments made this commitment in 2008 with arrangements transitioning until 2013.

The vast majority of children aged 4-5 went to preschool or attended a preschool program (85 per cent) (ABS 2012) with an almost even split of children attending standalone preschools (55 per cent) and LDC provided preschool programs (42 per cent) with a small proportion of children enrolled in both types of programs (table 3.3).

Table 3.3 **Children enrolled in preschool education by sector**
2013

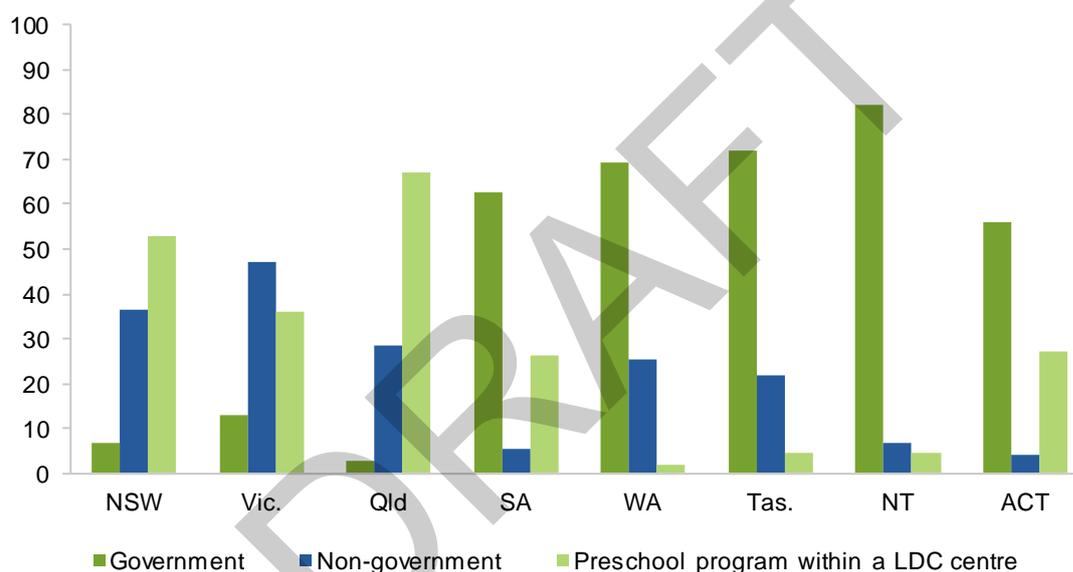
	<i>number of children</i>	<i>% of children enrolled</i>
Total standalone preschool providers	158 523	55
Preschool program in LDC	120 092	42
Children attending more than one type of preschool	9 434	3
Total children enrolled in a preschool program	288 052	100

Source: ABS (2014b).

Variation in the types of preschool used in the year before school was apparent across jurisdictions, given that some states have an emphasis on preschool delivered through the education system, with preschool often attached to schools (government model) and other states have a greater emphasis on ECEC delivered through non-government providers and the LDC sector. Queensland had the highest proportion of children enrolled in a preschool program within a LDC centre while the Northern Territory had the highest proportion of children enrolled in government preschools (figure 3.9).

Figure 3.9 **Children enrolled in a preschool program, by provider type, 2013^a**

Per cent of enrolments by state



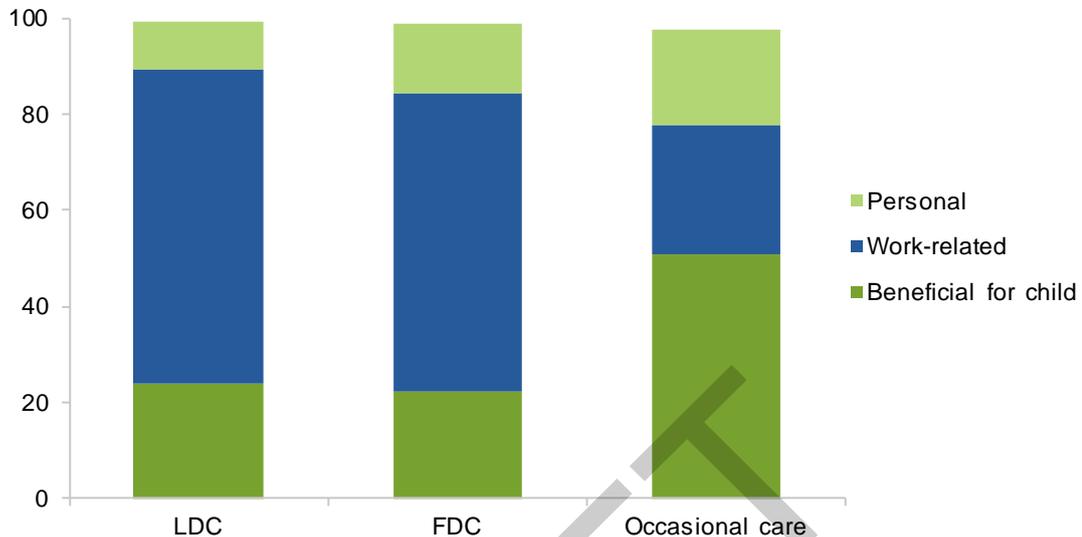
^a Excludes children at multiple preschools.

Data source: ABS (2014b), Table Builder.

Use of formal ECEC for children's development

For various reasons, some children do not attend a preschool program, including not being old enough or services not being available. Around one quarter of parents indicated that 'child development' was the main motivation for sending their child (who is not yet at school) to formal ECEC services (figure 3.10). Parents are more likely to use occasional care for the child's benefit than other types of care (figure 3.10), potentially reflecting the sessional nature of services available (short days), flexibility of days and times.

Figure 3.10 **Main reason for using formal ECEC^a**
Per cent of children by type of care^b



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

Data source: ABS (2012), Table Builder.

Disadvantaged children

The reasons for disadvantage are often varied and specific to each child. However, the disadvantage that some children face can have long term impacts on their life outcomes (chapter 5). Disadvantage in the context of early childhood development is generally associated with a number of characteristics of a child and/or their family that makes the child less likely to meet developmental milestones either now or later (chapter 5). This disadvantage is often closely connected to children being less likely to attend ECEC services, including preschool, than other children. The following groups have been raised as potentially experiencing some disadvantage when it comes to ECEC participation:

- low income families
- children with a disability
- children at risk of abuse or neglect
- children who are developmentally disadvantaged:
 - Indigenous children
 - children from culturally and linguistically diverse (CALD) backgrounds with limited English spoken at home

- children whose parents are long-term unemployed
- children whose mother has not completed high school
- children with a parent or sibling that has a disability
- children who live in remote areas.

Children with these characteristics may face barriers to accessing and/or participating in ECEC (chapter 8) and tend to be under represented in preschool and ECEC relative to their share in the wider population (table 3.4).

Table 3.4 Disadvantaged children use of ECEC and preschool

	0-5 year olds			3-5 year olds		
	Population ^a		ECEC ^b	Population		Preschool ^c
	no.	per cent	per cent	no.	per cent	per cent
Children from NESB ^d	361 200	18.5	21.2	25 457	20.0	10.2
Children with a disability ^e	66 500	4.0	2.9	12 787	6.3	5.1
Indigenous children ^f	86 250	5.0	2.9	14 216	4.8	4.4
Children from regional areas	468 000	27.5	25.2	92 413	28.1	28.9
Children from remote areas	46 800	1.0	2.7	8 286	2.8	2.6
Children from low income families ^{g,h}	354 900	20.4	25.6	n.p	20.1	17.9

^a ABS 2011 Census of Population and Housing, unless otherwise stated. ^b Children aged 0-5. Data for 2013 unless otherwise stated. ^c Children aged 3-5. Data for 2012. ^d NESB – non-English speaking background. ^e Population data for 2009. ^f Population data for 2012. ^g For 0-5 year olds: Children from low income families is defined as those families in receipt of the maximum rate of Child Care Benefit. The data showing representation children from low income families in the population are drawn from ABS Household Income and Income Distribution, Australia, 2011-12. ^h Preschool data related to 4 and 5 year old in the year before school for 2013. Low income is defined to be children residing in an area with a SEIFA IRSD quintile of 1. n.p Not published.

Sources: ABS (2014b; unpublished data); Productivity Commission (2014).

Child and family characteristics and preschool attendance

Nationally, children from regional or remote areas and Indigenous children tend to be represented in preschool enrolment at a comparable rate to their representation in the general population (table 3.4), while children with a disability or from a non-English speaking background (NESB) are underrepresented. However, state and territory differences are substantial.

- Representation of Indigenous children in preschool is similar or higher than the general population in New South Wales, Victoria, Western Australia, South Australia, Tasmania and the ACT. Representation of this group in preschool in

Queensland and the Northern Territory is somewhat lower than their representation in the general community (table 3.5).

- Children with a disability tend to be under represented in preschool, particularly in Queensland, Western Australia, Tasmania and the ACT. In South Australia, there is a greater representation of children with a disability enrolled in preschool (table 3.5).
- Apart from the ACT, children from NESB are also under represented in preschool compared to the general population.

Biddle (2007) also found that Aboriginal and Torres Strait Islander children's preschool attendance declined with the increase in distance from capital cities and this was at a greater rate than that of non-Indigenous children.

Preschool enrolment is also substantially lower for children from families with neither parent working or from a single parent family where their parent is not working (68 per cent) (ABS 2014b).

Preschool age children from a disadvantaged background represented just over 20 per cent of all preschool age children nationally and accounted for just under 18 per cent of enrolments (see table 3.4).

Table 3.5 Are preschool enrolments of special needs children representative?

Proportion enrolled in preschool compared with population by state^a

<i>Special needs group</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>
Indigenous children	same	same	under	over	over	over	over	under
Children with disability	same	same	under	under	over	under	under	np
Children from NESB	under	under	under	na	under	under	over	na
Children from regional areas	over	under	under	same	same	same	over	same
Children from remote areas	same	same	same	same	same	same	..	same

^a The difference between the proportion of children (aged 3-5) enrolled in a preschool program from special needs groups and the proportion of children (aged 3-5) with special needs in the population is considered: i) 'same' if it is ± 1 per cent ii) 'under' represented if it is ≤ -1 per cent iii) 'over' represented if it is $\geq +1$ per cent. **na** Not available. .. Not applicable. **np** Not published.

Source: Commission calculations based on PC (2014).

Demographics, family characteristics and ECEC use

With the exception of FDC, children living outside major cities are less likely to attend formal ECEC services, across service types. A number of inquiry participants have highlighted the lack of suitable services in regional areas:

There is No Family Day Care in my Rural Area whatsoever and the nearest Child Care facility is some 40 km away and permanently booked out in advance. (comment no. 207, ECEC user)

I live in a rural community and there is one family day care in our town which is full and a rural mobile pre school with early care that the [town name] pre school association runs out of our town IF they get enough kids to fill the spots. (comment no. 101, ECEC user)

I currently use a Rural Care Service for after school care 1 day/week as this was the only vacancy available. (comment no. 106, ECEC user)

I live in a rural community in northern inland NSW. I have been disappointed that the [town name] Pre-school has been limited to two days a week. (comment no. 324, ECEC user)

Accessibility issues in regional areas are discussed further in chapter 8.

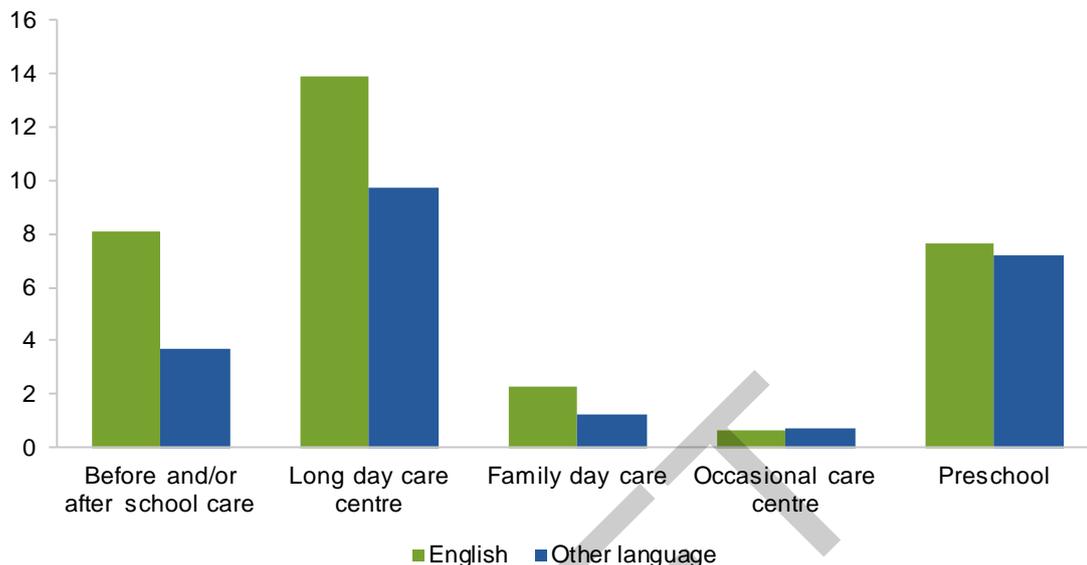
Very young Indigenous children are considerably less likely to attend formal ECEC services compared with all children of the same age. Around 21 per cent of indigenous children aged 0-3 attended formal care compared to 38 per cent of all children aged 0-3 (ABS 2009).

Children from NESB backgrounds often face language barriers and consequently are markedly less likely to be in formal ECEC. In June 2011, 15 per cent of children whose main language spoken at home was not English usually attended ECEC services compared with the 24 per cent of the rest of the child population. Differences appear to be the largest for use of LDC and before and/or after school care (figure 3.11).

In addition to language barriers, children from NESB may also have cultural barriers to participating in ECEC. These can relate to parental attitudes and beliefs, such as parents preferring to have young children at home or parents may have different ways of approaching everyday tasks. For example, a childcare educator with a CALD background described some of the cultural challenges of everyday life for migrant parents:

Parents (from migrant communities) also find things difficult, like understanding Australian food habits and requirements of the centres. Things like lunchboxes, water bottles and those types of things. They don't know about things like sitting at the table with other children to eat. Parents find it very difficult particularly if they are not educated. Of course there are many languages and different cultures. In our culture for example, we eat rice and with our hands. So the child needs some support to learn to use a fork if that is what they are expected to do. (Multicultural Development Association Inc. 2012, p. 5)

Figure 3.11 Children by ECEC and main language spoken at home^a
Per cent of population by main language spoken at home



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

Data source: ABS (2012), Table Builder.

3.4 Future demand for ECEC services

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

Over the fifteen years from 2011 to 2026, the population of children under 13 years old is projected to grow by 23 per cent (or around 833 000 children) (figure 3.12). Based on current utilisation rates, such a growth in the child population will require around 113 000 full-time places in formal care (LDC, FDC, OC, before/after school care and vacation care). These places will be used by more than 113 000 children as most children attend approved care for less than a full-week.

Box 3.3 Population and ECEC demand projections

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

ECEC future demand projections

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

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

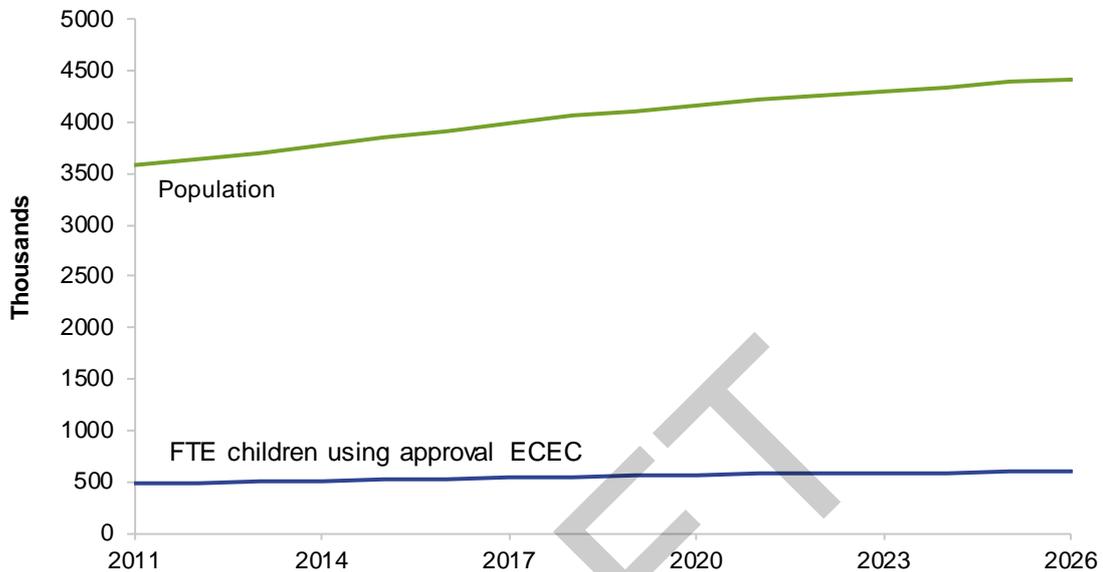
- many children attend multiple service types. For example, children often attend OSHC during school term and vacation care during school holidays.
- it is common practice for children to attend care on a part-time basis.

Full-Time Equivalent number of children in approved care

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

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

Figure 3.12 Child population projections and the full-time equivalent number of children using approved ECEC^a
2011 (base year) to 2026

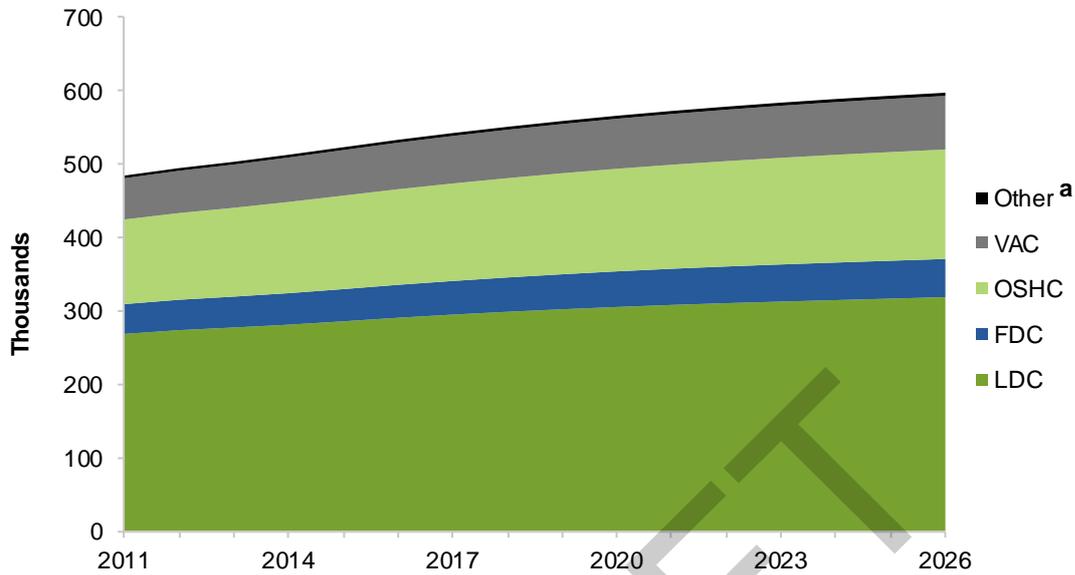


^a Children aged 0-12.

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

The demand for all types of approved care is projected to grow (figure 3.13). It is projected that an additional 50 000 LDC (full-time) places will be needed to accommodate the population growth in children and the subsequent demand for childcare. FDC, OSHC and vacation care are projected to grow strongly (around 30 per cent) over the next 15 years, but off a somewhat lower base.

Figure 3.13 Projections by type of approved care
2011 (base year) to 2026



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

Data source: Productivity Commission calculations based on customised projections prepared for the Australian Government Department of Social Services by the ABS (DoH 2013); ABS (2013); and Department of Education administrative data (2011-12).

4 Government assistance to early childhood learning and care

Key Points

- Governments provide funding to the ECEC sector to meet the objectives of workforce participation, child development and equity of access. The importance of each of these policy objectives has evolved over time.
- Under these overarching objectives, goals of the current ECEC policy agenda include, affordability and accessibility of services for families, quality and flexible ECEC service provision, increased participation in ECEC services for vulnerable and disadvantaged children, universal access to preschool services and support for non-mainstream services.
- Programs to support this agenda draw on substantial funding.
 - Australian and state and territory government expenditure on ECEC has increased substantially in recent years — increasing by 80 per cent, or \$3 billion in real terms, since 2007-08.
 - Today, these governments are spending over \$6.8 billion on assistance to the ECEC sector each year.
 - In addition, local governments also plan, fund and deliver ECEC services, in response to the needs and priorities determined by their community.
- Methods of delivering government assistance to ECEC include fee assistance to families, block grants to providers and the direct delivery of some services.
- The majority of ECEC assistance is funded by the Australian Government and provided to families to help cover fees for approved or registered childcare through the means-tested Child Care Benefit and the non means-tested Child Care Rebate. In 2012-13, \$4.8 billion was provided in fee assistance to over 950 000 families.
- Assistance to providers can take a number of forms including establishment grants, viability grants, regional travel assistance, assistance for staff training and professional development, ongoing operational subsidies and concessions, and assistance to enable providers to better include vulnerable and disadvantaged children in their services. In 2012-13, \$365 million was provided to fund programs to support ECEC services and quality measures.
- State and territory governments are primarily responsible for preschool services, spending over \$1.1 billion on preschool services in 2012-13 (including funding from the Australian Government under the *National Partnership Agreement on Early Education*). The funding and operation of preschools varies considerably between states and territories.
- Common forms of ECEC assistance by local governments include: the direct delivery of services; coordination and planning of ECEC services; the contribution of land and community buildings; peppercorn rents; targeted services for vulnerable and additional needs children and subsidised transport to ECEC services.

Governments in Australia provide assistance to ECEC through a mix of payments to families, support for providers and the direct provision of services. This chapter discusses the objectives of ECEC assistance and provides estimates of total Australian, state and territory government expenditure on ECEC (section 4.1). It then provides a summary of ECEC programs currently provided by the Australian Government (section 4.2), state and territory governments (section 4.3) and local governments (section 4.4). These are evaluated in chapters 8, 9 and 12. Chapter 12 also discusses non-budgeted forms government assistance such as taxation exemptions for employer funded ECEC services. And appendix C provides more detail about assistance programs.

4.1 Funding to meet the objectives of ECEC

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

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

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

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

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

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

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

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

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

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

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

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

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

Box 4.1 Government ECEC assistance, an historical context

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

(continued next page)

Box 4.1 (continued)

- Also in July 2000, new childcare initiatives were introduced with an emphasis on flexibility including the In-Home Care Initiative (for families unable to access mainstream services) and the provision of FDC and OSHC in areas of need.
- In July 2001, incentives were introduced for private operators to establish ECEC services in rural areas where there was unmet demand.
- In 2003, the Budget Based Funded program was introduced to streamline the administration of funding to non-mainstream ECEC services that had been established through a series of measures from the 1970s.
- In July 2004, following pressure from families who were excluded from CCB (by the means test), the non-means tested Child Care Tax Rebate (CCTR) was introduced. It allowed families with a tax liability to offset up to 30 per cent of out of pocket ECEC expenses up to an indexed cap of \$4000 per child per year.
- In July 2005, the Jobs, Education and Training (JET) program was relabelled Jobs, Education and Training Child Care Fee Assistance (JETCCFA) as part of the measures to support Welfare to Work policy changes.
- In July 2006, CCTR was removed from the tax system and delivered as a family assistance payment through Centrelink. Families with no or low tax liability could receive the payment. The cap on the number of OSHC and FDC places was removed (previously OSHC and FDC places were set by the Australian Government based on areas of demand) and the Inclusion Support Subsidy replaced the Special Needs Subsidy Scheme and Disabled Supplementary Services Program.
- In July 2007, the Australian Government announced funding for the delivery of the Home Interaction Program for Parents and Youngsters to 50 communities.
- In July 2008, the CCTR was increased to 50 per cent of out-of-pocket costs with an indexed cap of \$7500 per child per year.
- In 2008, the Australian Government and state and territory governments signed the *National Partnership Agreement on Early Childhood Education* which implemented reforms (from 2009 to 2013) aimed at providing universal access to quality ECEC in the year before full time school and the *National Partnership Agreement on Indigenous Early Childhood Development* to improve outcomes for Indigenous children in their early years (expiring in June 2014).
- In July 2009, the CCTR was renamed the Child Care Rebate (CCR) in recognition that the rebate was no longer a tax offset.
- In July 2011, the CCR cap was reduced to \$7500 (after reaching \$7941 in 2010-11) and indexation was paused for three years until June 2014.
- In 2012, the National Quality Framework for Early Childhood Education and Care was introduced.
- In 2013, a new *National Partnership Agreement on Universal Access to Early Childhood Education* was effected for the period July 2013 to December 2014 supporting increased participation in ECEC in the year before school with a focus on vulnerable and disadvantaged children.

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

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

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

The total amount of government expenditure on ECEC

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

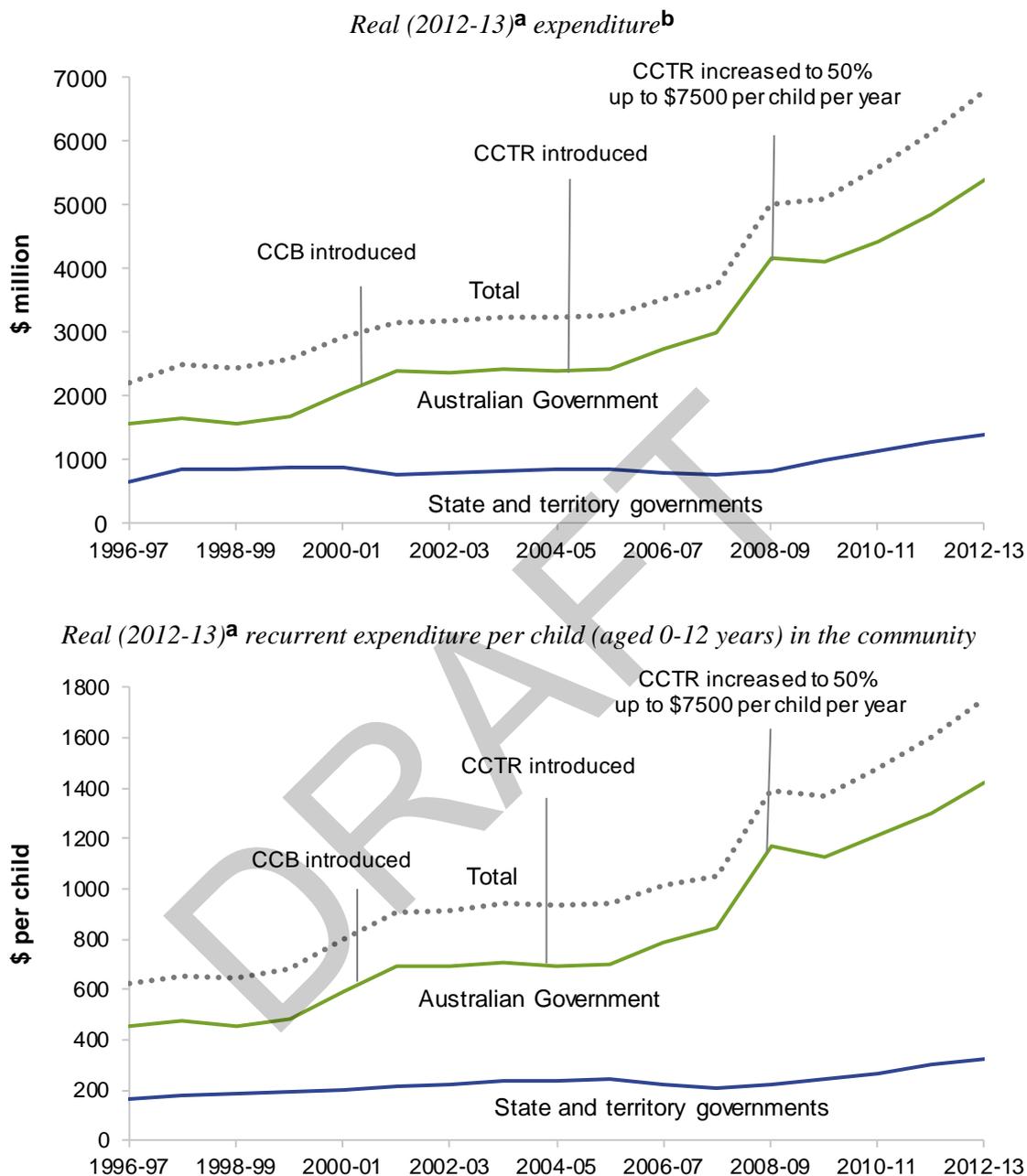
This is the equivalent of Australian and state and territory governments spending an average of \$6100 in 2012-13, on ECEC for every child in formal care². However, it is important to note that average estimates do not provide information on how much each individual child is receiving in government assistance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

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

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

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

Figure 4.1 Government expenditure on ECEC



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

Data sources: PC (2014) and various PC Reports on Government Services.

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

ECEC expenditure per child in the community has also been rapidly increasing. In 2012-13 Australian and state and territory recurrent expenditure was \$1752 per child (aged between birth and 12 years) compared with \$941 per child in 2003-04 and \$622 per child in 1996-97 (figure 4.1). This, of course, does not include other expenditure on children and families such as through Family Tax Benefits, education and health funding, and Paid Parental Leave (chapter 9).

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

4.2 Australian Government assistance

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

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

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

Payments to assist families with ECEC fees represent the bulk of Australian Government funding for ECEC, comprising 84 per cent in 2012-13. The remaining funding is directed to National Partnerships (10 per cent) and services and quality assistance (6 per cent) (table 4.1).

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

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

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

Table 4.1 **Australian Government funding, ECEC**
\$'000

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

^a Includes the Child Care Services Support Program (Community Support Program, Budget Based Funding, Inclusion and Professional Support Program and funding to the Australian Children's Education and Care Quality Authority) the Australian Early Development Index and the Home Interaction Program for Parents and Youngsters. ^b The Australian Department of Education estimates include funding under the National Partnership Agreement on Early Education for Universal Access. Productivity Commission, ROGS estimates (figure 4.1) include expenditure under the National Partnership Agreement on Early Education for Universal Access in state and territory expenditure data. The Australian Department of Education estimates are more recent than ROGS expenditure estimates. ^c In 2013-14 this was transferred to the Department of Prime Minister of Cabinet through Machinery of Government changes.

NP - Not published; - program not funded.

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

Fee assistance for families

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

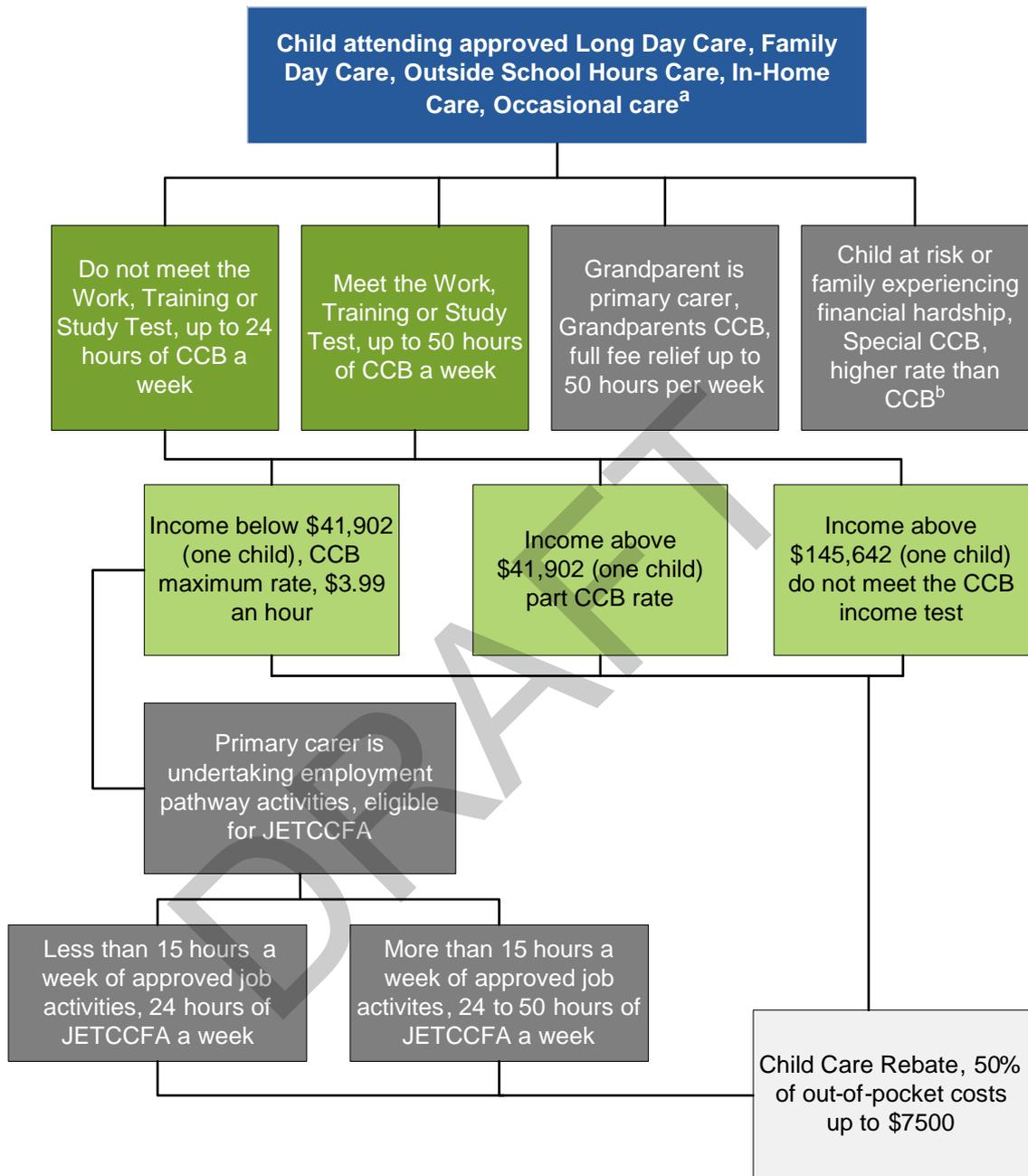
- Child Care Benefit (CCB) is a means tested benefit targeted towards low to middle income families. The CCB that each family receives is primarily dependent on the number of hours families participate in work related activities, the number of children in care and whether they are attending school, the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

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

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

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

Figure 4.2 Australian Government fee assistance, approved care



^a A small number of BBFs are also CCB approved (7 of the 343 BBFs); ^b SCCB for financial hardship is restricted to the weekly limit for CCB (50 hours); SCCB for a child at risk may be approved for more than 50 hours per week. SCCB may also be paid for a period of 24 hour care if either work related reasons or exceptional circumstances apply (appendix C).

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

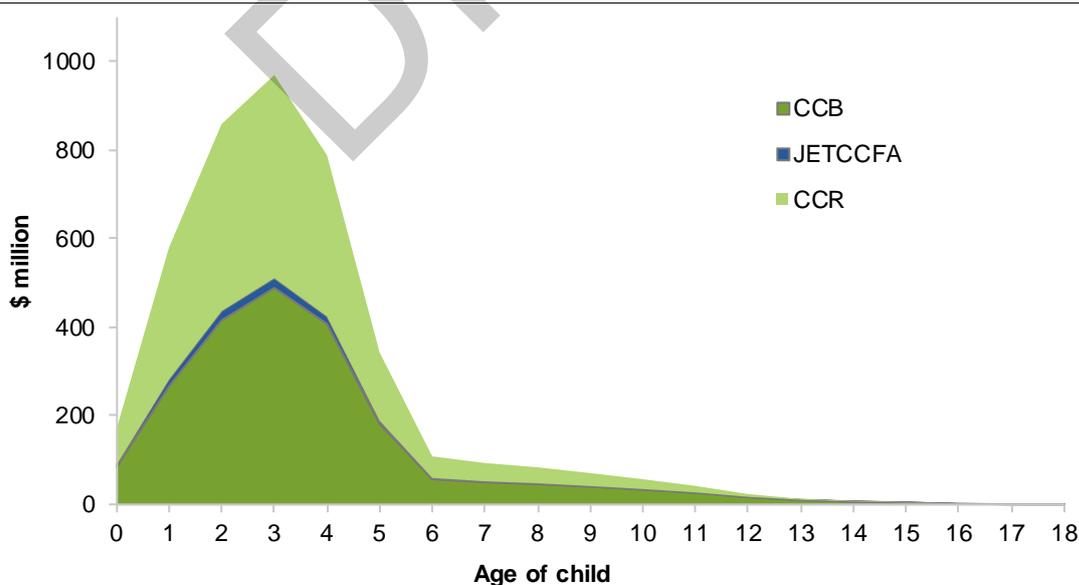
<i>Childcare payment</i>	<i>Number of recipients</i>
Child Care Benefit and Child Care Rebate ^a	583 413
Only Child Care Benefit ^b	76 093
Only Child Care Rebate	212 313
Special Child Care Benefit	18 096
Grandparent Child Care Benefit	4 098
JETCCFA	32 332
Only registered care	24 459
Total	950 804

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

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

By age of child, figure 4.3 shows that the funding required for ECEC fee assistance increases progressively until children reach three years of age — 23 per cent of ECEC fee assistance is provided to families with children aged three years. When children reach school age, families require significantly fewer hours of childcare and accordingly, Australian Government fee assistance is relatively small for families with children 6 years and older (figure 4.3).

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



^a Age of child on 1 January 2012.

Data source: Department of Education administration data (2011-12).

Provider assistance and quality measures

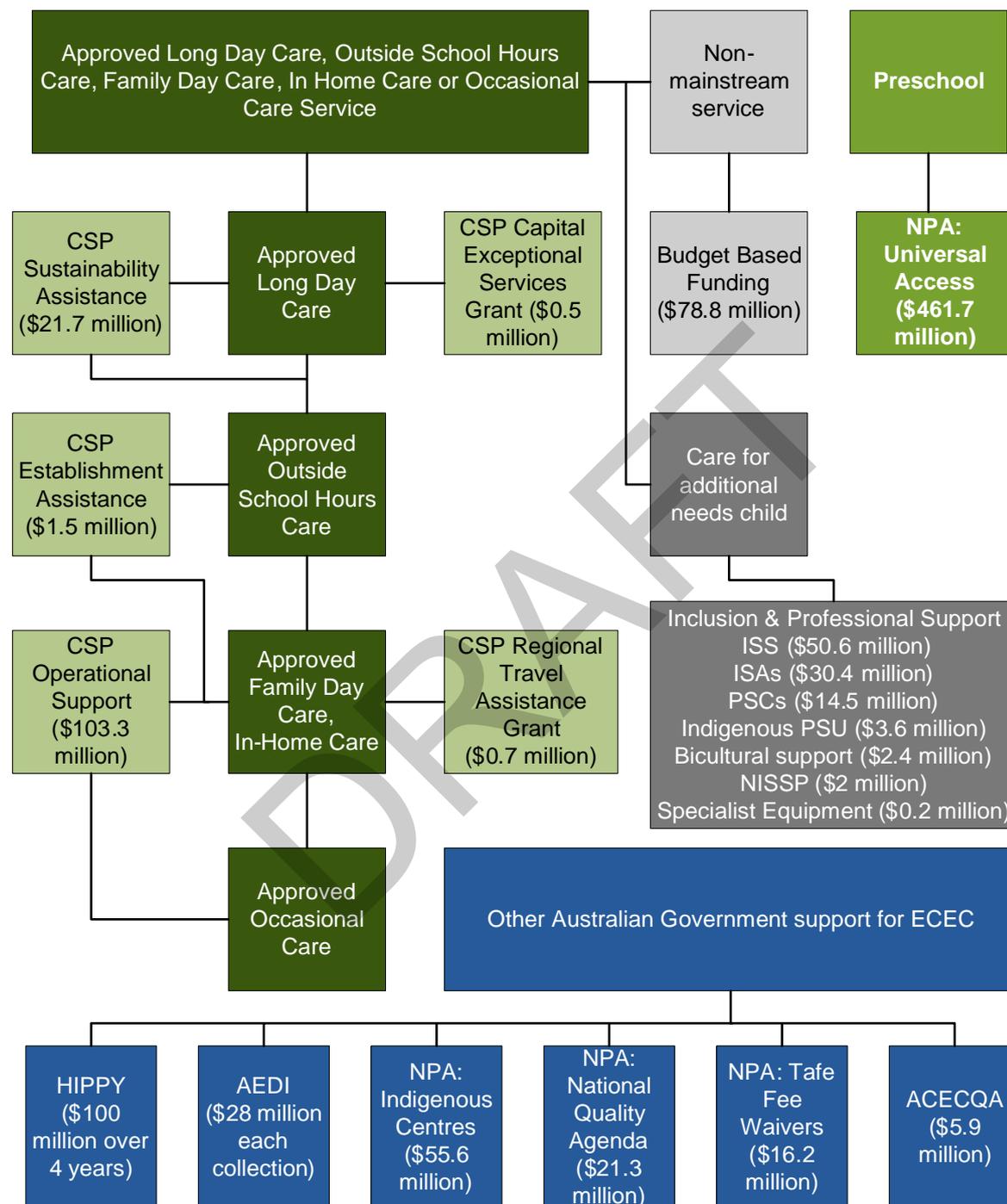
The Australian Government has primary responsibility for providing funding assistance to ECEC providers though it does not engage in the provision of ECEC services. Assistance to providers can take a number of forms including establishment grants, viability grants, regional travel assistance, non-mainstream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

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

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

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

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



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

Data source: Information provided by the Australian Government Department of Education.

The Community Support Program (CSP)

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

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

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

Table 4.3 Number of Providers receiving CSP assistance^a

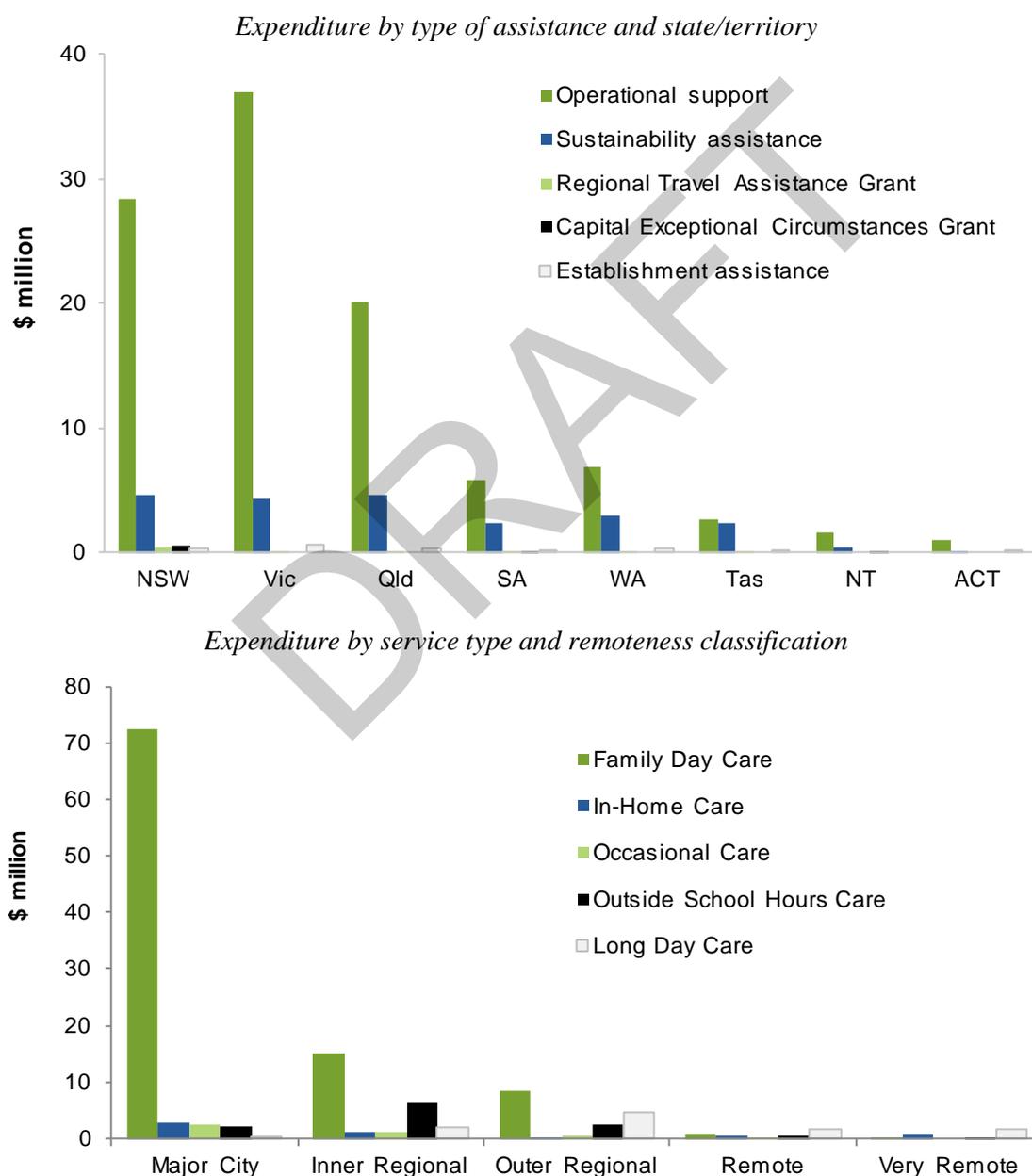
<i>Service Type</i>	<i>Payment type</i>	<i>Number of providers</i>
Family Day Care	Operational Support	429
	Establishment Assistance	92
	Sustainability Assistance	17
	Regional Travel Assistance Grant	70
In-Home Care	Operational Support	72
	Establishment Assistance	1
	Sustainability Assistance	1
	Regional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

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

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

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

Figure 4.5 Community Support Program expenditure



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

Budget Based Funding

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

Generally, non-mainstream services are ECEC services where the Australian Government provides the majority of operational funding by directly funding the services. Non-mainstream services have been established to provide ECEC opportunities where the market would otherwise fail to provide services. They are mostly provided by not-for-profit organisations.

The objectives of non-mainstream services are:

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

BBF was established in 2003 by the amalgamation and consolidation of several historical programs. These programs reflected multiple policy goals and approaches and a wide range of community and government priorities over time. As a result, the current mix of services within BBF is highly diverse. Types of non-mainstream services supported by BBF include Crèches, Multifunctional Aboriginal Children's Services, flexible services, mobile ECEC services, OSHC and enrichment programs (Department of Education 2013b). Box 4.2 provides a description of the Jilkmingan Creche and the Child Care on Wheels Service, Robe — two services currently funded by BBF.

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

BBF provides a contribution to the operational cost of ECEC services in approved locations and is delivered through one year funding agreements. In 2012-13 the Australian Government provided \$79 million to support the BBF program.

Box 4.2 Budget Based Funding, case studies

Jilkminggan Creche

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

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

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

Child Care on Wheels Service, Robe

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

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

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

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

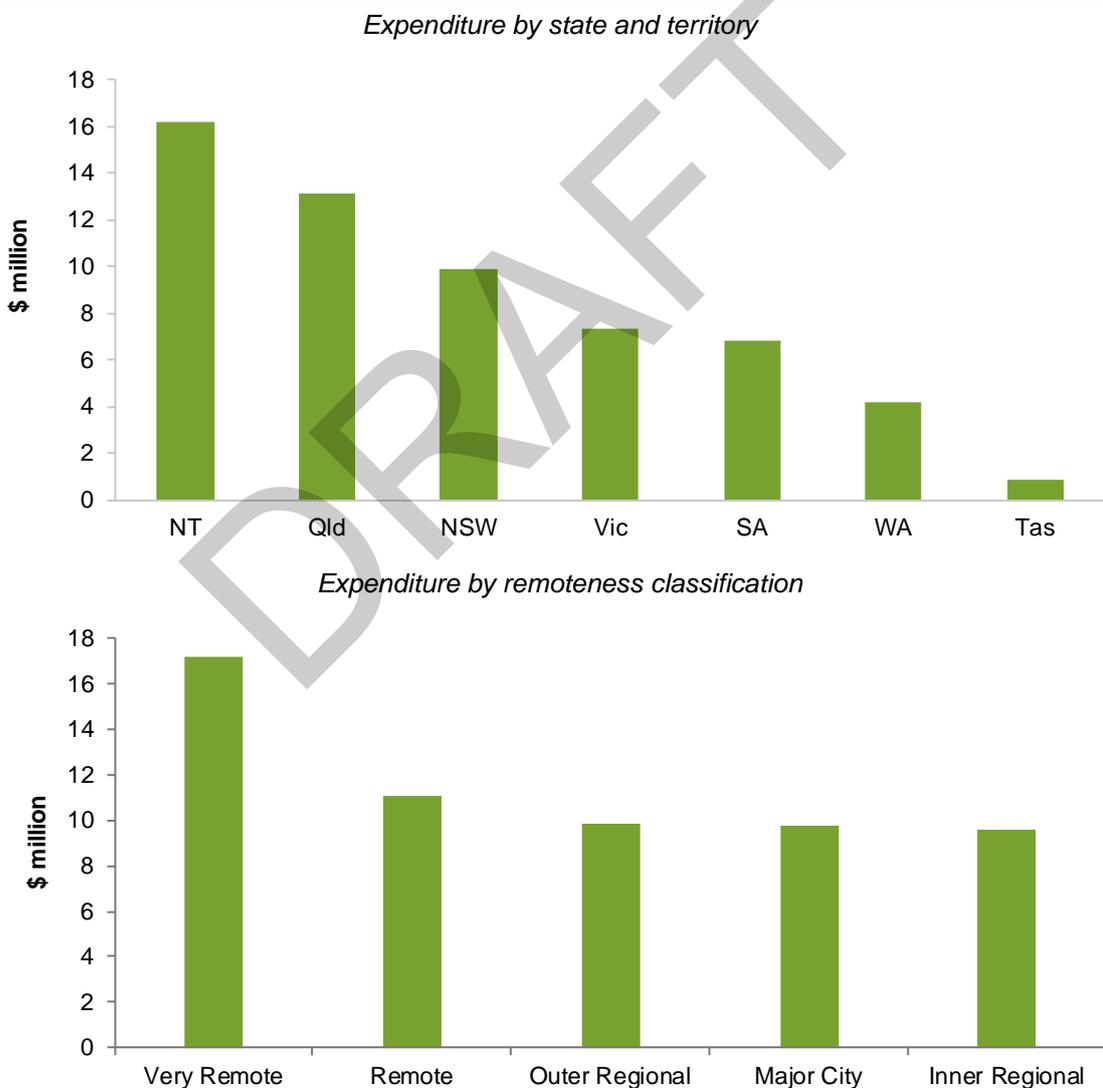
The mobile services are staffed by trained childcare workers from the local community. CCOWS is funded through BBF and supported by the District Council Robe. CCOWS has also implemented a tiered fee system, based on each family's income.

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

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

More than half of BBF in 2012-13 was directed to services operating in the Northern Territory and Queensland. And by the Australian Government's remoteness classification, almost 50 per cent of BBF was directed to services in very remote or remote regions (figure 4.6).

Figure 4.6 **Budget Based Funding expenditure^a**



^a Data does not include expenditure for the BBF Improvement Standards initiative (BBF Quality Measure) and the Indigenous Traineeship program. ^b Some jurisdictions deliver BBF services to a number of states but operate from a single jurisdiction.

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

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

Inclusion and Professional Support Program

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

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

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

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

Box 4.3 summarises the elements of the IPSP.

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

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

Box 4.3 Elements of the Inclusion and Professional Support Program

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

Inclusion Support

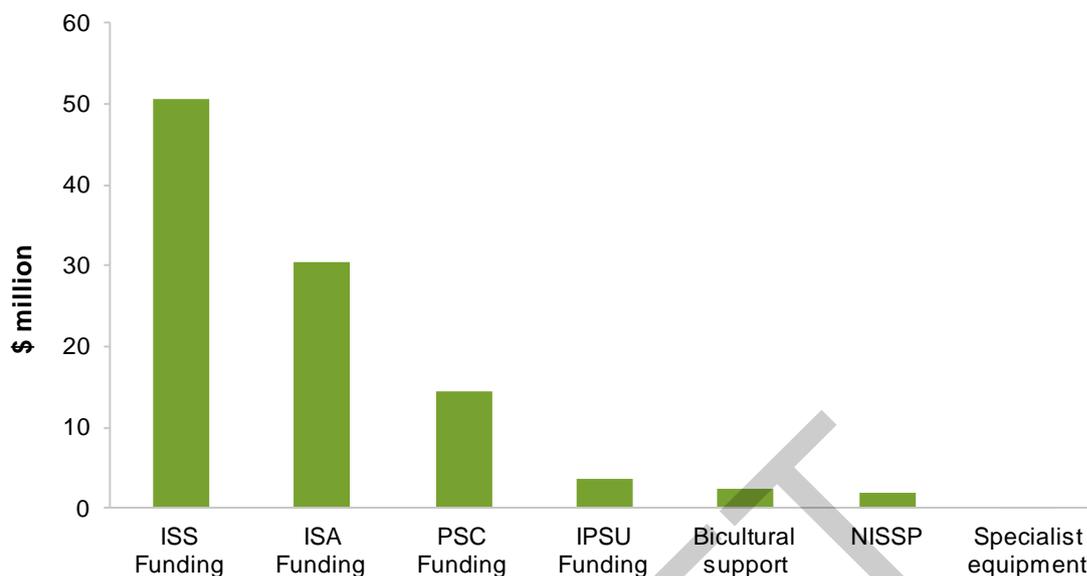
- The Inclusion Support Subsidy (ISS — \$51 million in 2012-13) assists eligible services to improve their capacity to include children with a disability or ongoing high support needs, for example by contributing to the cost of an additional carer or educator. Eligible services include CCB approved and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

Professional Development and Support

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

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

Figure 4.7 **The Inclusion and Professional Support Program^a**



^a FSF and ISF is included in ISA funding.

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

Australian Children's Education and Care Quality Authority (ACECQA)

In December 2009, the Council of Australian Governments (COAG) agreed to the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*. The agreement gave effect to COAG's July 2009 decision to establish a jointly governed system of regulation for ECEC services — the National Quality Framework.

Australian Governments provide funding to ACECQA to oversee the administration of the National Quality Framework including promoting national consistency and continuous quality improvement in ECEC services. In 2012-13, funding to ACECQA included \$5.9 million from the Australian Government (under CCSSP) and \$6.2 million from state and territory governments (ACECQA 2013).

The regulatory role of ACECQA is discussed in chapter 7.

The Home Interaction Program for Parents and Youngsters (HIPPY)

HIPPY is a home based parenting and childhood development program targeted at disadvantaged communities. The program aims at building the confidence and skills of parents to create a positive learning environment to prepare their child for school.

Each program location is staffed by a tertiary qualified coordinator and a team of home tutors. Parents and their children enrol in the program in the year before the child commences formal school (usually around 4 years old) and participate for two years.

The program activities are designed to be integrated into the daily life of the family. The first year of the program provides children with activities which support pre-literacy and pre-numeracy skills. The second year extends these activities and provides parents with additional information about children's learning and development. There are no fees for families participating in the program.

The Australian Government has committed over \$100 million to support ongoing HIPPY programs in 50 locations and expand the program to an additional 50 locations, with a focus on Aboriginal and Torres Strait Islander families. From 2015 HIPPY is expected to be supporting 2350 children in 100 locations (Department of Education 2014).

Australian Early Development Index (AEDI)

Data collections on child development can be used by policy makers, researchers and communities to measure what policies and practises may be contributing to childhood development. The Australian Government funds the Australian Early Development Index (AEDI) to provide a statistical source of information on child development in Australia.

The AEDI provides a snapshot of how children are developing as they start school. The survey collects measures of: physical health and wellbeing; social competence; emotional maturity; language and cognitive skills; and communication skills and general knowledge. More detail about the AEDI including survey results is provided in chapter 5.

AEDI data collections take place every three years, with an ongoing funding commitment from the Australian Government of about \$28 million for each collection cycle (Department of Education 2013a).

National Partnerships

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

- the *National Partnership Agreement on Early Childhood Education* implemented reforms (progressively from 2009 to June 2013) aimed at providing

universal access to quality early childhood education for all children in the year before full time school. A new *National Partnership Agreement on Universal Access to Early Childhood Education* was effected for the period July 2013 to December 2014. It supports universal access to and improved participation by children in quality early childhood education in the year before full-time schooling, with a focus on vulnerable and disadvantaged children.

- the *National Partnership Agreement on Indigenous Early Childhood Development* (1 January 2009 to 30 June 2014) was established to improve outcomes for Indigenous children in their early years and to contribute to the COAG Closing the Gap targets for Indigenous Australians. The agreement establishes 38 Aboriginal and Torres Strait Islander Children and Family Centres (ACFCs) across Australia in urban, regional and remote areas with high Indigenous populations and disadvantage (COAG 2009). Box 4.4 provides an example of an ACFC located in Gunnedah.
- the *National Partnership Agreement on TAFE Fee Waivers for Child Care Qualifications* is a workforce initiative to improve the quality and supply of the ECEC workforce. This agreement removes the regulated course fees for diplomas and advanced diplomas, delivered by a TAFE institute or other government training provider.
- the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care* incorporates a National Quality Framework for Early Childhood Education and Care and a National Quality Standard to ensure high quality and consistent early childhood education and care across Australia, including streamlined regulatory approaches, an assessment and rating system and an Early Years Learning Framework and a Framework for School Age Care (chapter 7).

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

Box 4.4 **Aboriginal and Torres Strait Islander Children and Family Centres**

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

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

The Secretariat of National Aboriginal and Islander Child Care reported:

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

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

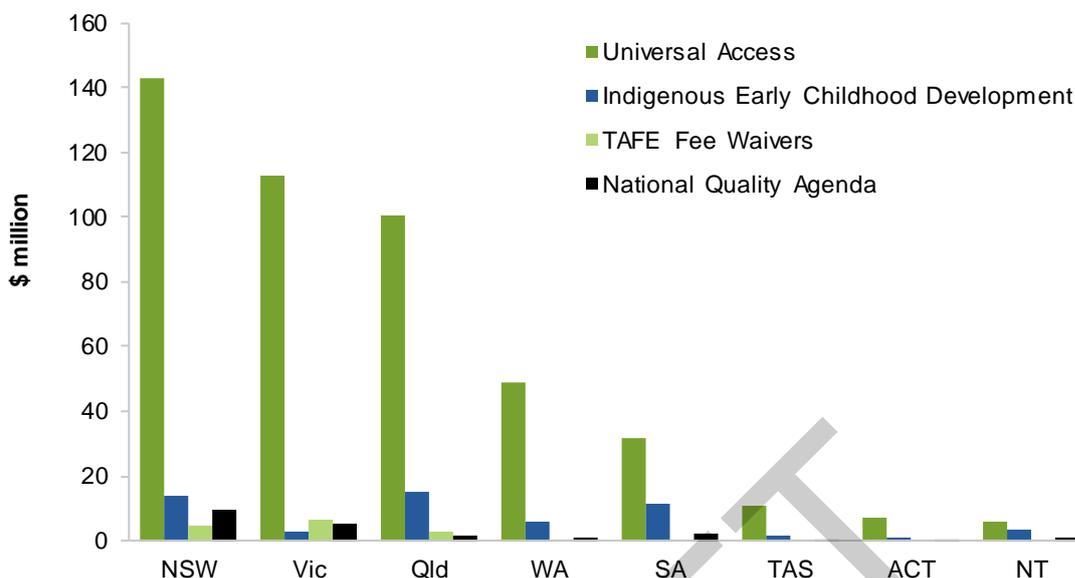
The early learning service was established by UnitingCare Children's Services (UCCS) (with funding from the Indigenous Early Childhood Development National Partnership Agreement) and will be managed by UCCS until July 2014. It is then expected that the centre's service management will transition to a local Aboriginal Board of Management.

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

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

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

Figure 4.8 ECEC National Partnership funding by state and territory



Data source: Australian Government (2014).

And between 2008-09 and 2014-15 the Australian Government is expected to provide over \$2 billion in funding under these agreements. This includes:

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

Other Indigenous ECEC programs

Support for ECEC in Indigenous regions is provided primarily through BBF and the National Partnership Agreement on Indigenous Early Childhood Development (discussed earlier). The Department of Prime Minister and Cabinet supports a number of other early childhood programs for Indigenous children under the

Indigenous Education (Targeted Assistance) ACT 2000. These include supplementary assistance to preschools in Indigenous areas, workforce initiatives, community support and parenting programs (table 4.4).

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

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

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

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

4.3 State and Territory Government assistance

While all State and Territory Governments are responsible for funding and/or providing preschool services other roles can include:

- approval or licensing, monitoring and quality assessment of services in accordance with the NQF and other relevant regulations (chapter 7)
- providing operational and capital funding to non-government service providers
- delivering services directly
- providing information, support, training and development opportunities for ECEC providers (chapter 11)
- planning to ensure the appropriate mix of services is available to meet the needs of the community
- providing information and advice to parents and others about operating standards and the availability of services (PC 2014).

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

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

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

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

Table 4.5 **State and territory expenditure on ECEC**
\$'000

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

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

Source: PC (2014).

Preschool expenditure

Of the \$1.4 billion expenditure by state and territory governments on ECEC in 2012-13, the majority (80 per cent or \$1.1 billion) comprised expenditure on preschool services (table 4.5; PC 2014).

As mentioned earlier (section 4.1), this ROGS estimate also includes funding from the Australian Government through the National Partnership Agreement on Universal Access to Early Childhood Education. Different arrangements apply in each state and territory (depending on how preschool services are delivered) as to how this Australian Government funding is spent to support the objectives of the agreement.

As discussed in chapter 2, the delivery of preschool programs varies within and across jurisdictions with services being provided in a mix of contexts, including stand-alone preschools, kindergartens, LDC, and early learning centres. In Victoria,

New South Wales and Queensland, the integration of preschool programs with LDCs is a feature of the delivery of preschool. In all other states and territories, preschool services are primarily owned and/or delivered by the state or territory government. This difference is reflected in government expenditure data.

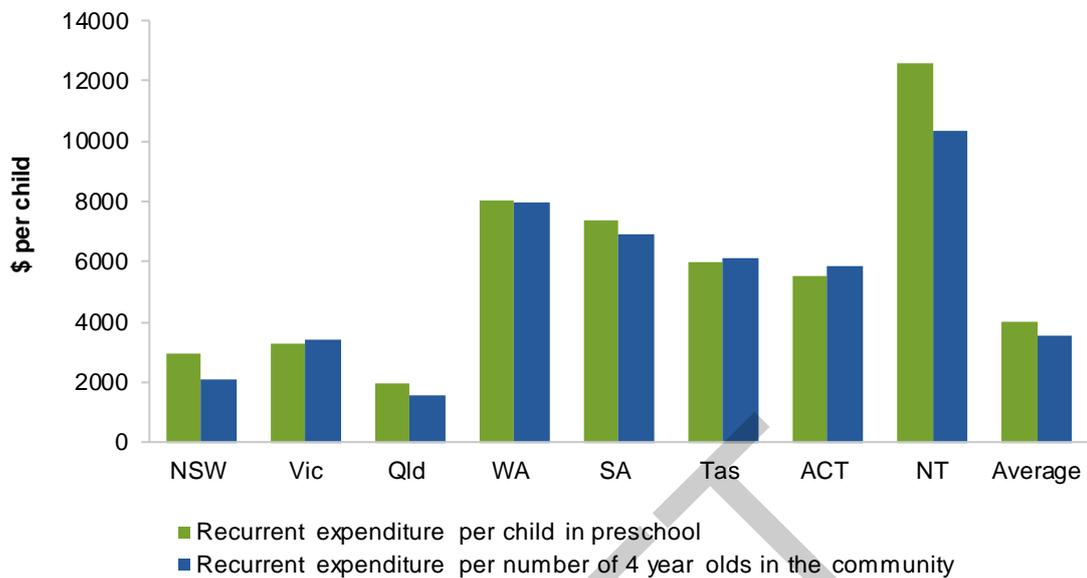
In 2012-13, 43 per cent of recurrent government preschool expenditure in Australia was from funding through the National Partnership Agreement on Universal Access to Early Childhood Education. However, this proportion varied considerably between states and territories. For example, in Queensland (where preschool services are generally privately owned), Universal Access funding from the Australian Government provided 98 per cent of government funding for recurrent preschool expenditure. This compared with less than 20 per cent of preschool expenditure being funded by Universal Access in the Northern Territory and Western Australia (where, preschool services are generally funded by state and territory governments; table 4.5 and chapter 9).

Further, as illustrated in figure 4.9 governments which provide preschool services directly (in the Northern Territory, Western Australia, South Australia, Tasmania and the ACT) are spending significantly larger amounts per child on preschool services than the Australian average and compared with states whose preschool services are predominantly privately owned.

The largest preschool expenditure rates per child are in the Northern Territory — in 2012-13, the Northern Territory Government spent over \$12 000 per child attending preschool or \$10 000 per child aged 4 years in the community. Nearly half of the \$38 million preschool expenditure in the Northern Territory in 2012-13 was funding for public schools to provide preschool services. Preschool expenditure in the Northern Territory also includes funding for multiple programs including mobile preschools, National Partnerships, Indigenous Education Agreements and child development programs. Table 4.6 provides a breakdown of the preschool expenditure program in the Northern Territory.

In Victoria the majority of preschool expenditure is through the kindergarten per capita grant (table 4.6). ECEC providers in Victoria can apply to receive a grant for each eligible child who is enrolled and attending a funded kindergarten program in the year before school. The grant rate may vary depending on the service setting and where the service is located. Other types of preschool expenditure in Victoria include Kindergarten Cluster Management (a contribution to the costs of management and the coordination of services across a cluster) and inclusion support (Victorian Department of Education and Early Childhood Development 2014).

Figure 4.9 **Preschool expenditure^a per child^b, by state and territory**



^a Includes state and territory expenditure funded under the National Partnership Agreement on Universal Access to Early Childhood Education; ^b Data on the number of children in preschool (used to estimate recurrent expenditure per child in preschool) is all children aged 4 and 5 years attending a preschool program. Not all children undertaking a preschool program in a LDC setting in NSW are captured in the estimates; Child level attendance data for Queensland are not available but episode of attendance data were used as estimates; totals for the ACT exclude data for preschools within independent schools.

Data source: PC (2014).

Similarly, in Queensland preschool funding is distributed to providers of approved kindergarten programs through the Queensland Kindergarten Funding Scheme to offset the costs of implementing and operating a kindergarten program (Queensland Department of Education, Training and Employment, sub. 405).

The Queensland Government also provides extra assistance for children in remote areas or with additional needs, through a range of programs such as a Specialised Equipment and Resource program, Disability Support Funding Program (jointly funded by the Queensland and Australian Governments), Pre-Kindergarten Grants Program (to increase the capacity of services to address challenges to kindergarten access and participation of Indigenous and CALD families) and eKindy (Queensland Department of Education, Training and Employment, sub. 405).

Table 4.6 State and territory expenditure on preschool^a

<i>Program</i>	<i>\$'000</i>
Victoria	
Kindergarten Per Capita Grant & Kindergarten Fee Subsidy	211 800
Inclusion Support ^b	19 600
Kindergarten Cluster Management	7 000
Other recurrent expenditure	2 900
Capital expenditure ^c	44 000
Total	285 200
South Australia	
Direct staff cost (preschool staff and support staff for children with additional needs)	111 952
Capital costs (projects addressing capacity, safety and quality of existing facilities)	11 347
Operating costs (including ICT and professional development programs for staff)	6 517
Support services (early intervention and children with disabilities and additional needs)	10 400
Total	140 217
ACT	
Publicly Provided Preschools	26 086
Other Services - Early Intervention Programs	1 754
New Facility – Franklin Early Childhood School	17 726
Universal Access to Preschool – Stage 1 Expansion Works	3 017
Total	48 583
Northern Territory	
Funding to Schools for Preschool Education	17 938
NPA Universal Access to Early Childhood Education	5 926
Other NPAs	2 442
Infrastructure costs associated with preschools	2 151
Mobile Preschools	1 413
Support programs	1 371
Indigenous Education Agreements	964
Children Services unit	942
Access for Immigration Detainee Children	162
Community Development Employment Projects	159
Early Childhood Programs	112
Quality Education & Care NT Policy	56
Principals as Literacy Leaders	8
Corporate Expenditure	1 681
Assets and Depreciation	2 236
Information Technology - including collection of student data	612
Total	38 173

^a New South Wales, Queensland, Western Australia and Tasmania were unable to provide information on preschool expenditure at a more disaggregated level than in table 4.5. NPA National Partnership Agreement. ^b Includes kindergarten, inclusion support for Koorie children and children with disabilities or additional needs. ^c Includes early childhood capital grants and kindergarten information system.

Source: Victoria, South Australia, ACT and Northern Territory Governments.

In New South Wales, the government provides grants to over 750 community based preschools (including preschools operated by local governments). Of the \$200 million preschool expenditure in 2012-13, the majority was funding to community preschools and associated projects (such as programs to provide support for children with disabilities) and the remainder was funding provided to the 100 government preschools operating within public schools. From 2014, under a new preschool funding model, grants of \$150 million will be available to community preschools (information provided by the NSW Government).

The New South Wales preschool funding model targets funding through a base (with rates determined by the level of need in the local government area where the preschool is located) and loadings to support Aboriginal children, those from low income households and children with English language needs. The New South Wales Government also provides extra funding to services in remote areas, in recognition of additional operating costs (NSW Government, sub. 435).

In contrast to these states which predominantly distribute funding to private and community preschool providers, in Western Australia, South Australia, Tasmania the Northern Territory (discussed earlier) and the ACT, preschool expenditure primarily relates to the funding of government operated preschools.

- In Western Australia kindergarten is integrated with school provision and like all other years of schooling it is free of compulsory charges in public schools. The Western Australian Government also provides 75 per cent of the cost of providing kindergarten services in non-government schools (sub. 416).
- In 2012-13, 80 per cent of preschool expenditure in South Australia was for ongoing staff costs (table 4.6).
- In Tasmania the Department of Premier and Cabinet stated, the:
State bears the full costs for the statewide provision of kindergarten infrastructure, staffing and programs (including delivery of the 10 hours). Under the NP on Universal Access Commonwealth funding currently enables the delivery of five additional hours on top of the 10 hours already funded by the State. Other than this no Commonwealth funding is paid in respect of the kindergarten year in Tasmania. ... (Department of Premier and Cabinet Tasmania, sub. 390, p. 8)
- In the ACT the majority of preschool expenditure is for the ongoing cost of publicly provided preschools and capital works in new areas (table 4.6).

Support for childcare

Together, state and territory governments spent almost \$242 million on childcare services in 2012-13. Expenditure estimates ranged from \$112 million in Queensland to \$605 000 in Victoria (table 4.5).

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

- In New South Wales, the Intervention Support Program provides grants for programs designed to support learning and educational development opportunities for children with disability who are below school age and attending not-for-profit early childhood services (NSW Department of Education and Communities 2014).
- In Victoria, the Family Learning Support Program, funded by the Victorian Government provides funding to subsidise occasional care to enable parents or guardians to access vocational education and training (Victorian Department of Education and Early Childhood Development 2013).
- The Queensland Government provides assistance to ECEC through a number of integrated models including Children and Family Centres, Early Years Centres, Child and Family Hubs and the Aboriginal and Torres Strait Islander Funding program (Queensland Department of Education, Training and Employment, sub. 405).
- In Western Australia, the Regional Community Child Care Development Fund supports the development of regional community managed childcare to help meet the needs of families in regional areas. The funding includes support for the inclusion of children with additional needs, operational grants, strategic grants and the development of a Regional Children's Services Plan (Western Australian Government, sub. 416)
- In South Australia, the Remote and Isolated Children's Exercise (RICE) provides a range of programs (including health, wellbeing, Crèches, ECEC and play sessions) for families living in remote and isolated areas of South Australia. RICE is sponsored by both the Australian and South Australian Governments (Remote and Isolated Children's Exercise 2014).
- In Tasmania, the state government provides funding to support occasional care providers to assist with accessibility, usually in rural or small communities (Department of Premier and Cabinet, sub. 390).
- The ACT Government is currently providing capital funding to ACT Government owned childcare centres to upgrade and increase the number of

places in existing community childcare centres (ACT Education and Training Directorate, sub. 376).

- The Northern Territory Government is the only state or territory government which provides a per child subsidy to eligible ECEC services. In 2012-13 the Northern Territory Government provided \$3.8 million in funding for the Early Childhood Services Subsidy (box 4.5). The Northern Territory also has a ‘Families as First Teachers’ program delivered in remote communities to support the development and early learning of Indigenous children (Northern Territory Department of Education 2011).

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

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

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

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

To be eligible, LDC services must operate a minimum of five days a week for at least eight hours per day, 48 weeks per year. As well, three year old kindergartens must operate for a minimum of two sessions per week, 40 weeks per year.

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

Current subsidy rates are:

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

The subsidy is paid quarterly, directly to eligible childcare providers.

Source: Northern Territory Department of Education (2014).

4.4 Local Government assistance

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

The role of local government in ECEC

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

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

For example, Tasmania has only a few councils offering services beyond family day care, whereas in Victoria, local government is a major provider, planner and coordinator of services for children and their families. Victorian councils invest heavily in early childhood infrastructure — 18 of the 79 councils in Victoria directly operate child care centres. (sub. 318, p. 3)

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

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

And in Victoria, the Municipal Association of Victoria reported:

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

The Commission considers that local governments can usefully have a role in land use planning for ECEC services as well as supporting local delivery of ECEC services. Such a role may vary, depending on community need and local government capacity, from provision of information on the demand for ECEC services and identification of suitable sites, to coordination and facilitation of ECEC

services integrated with other community services, to direct provision of particular types of ECEC services to families. The regulatory role of local governments is discussed in chapter 7.

ECEC services commonly provided by local government

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

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

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

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

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

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

Similarly, in 2011, the Municipal Association of Victoria released a report on *The Victorian Local Government Support for Children, Young People and their Families* which provided a snapshot of ECEC services provided by local governments in Victoria (box 4.6).

Box 4.6 Victorian survey of Local Governments

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

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

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

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

- direct provision of childcare services — particularly the operation of occasional care and mobile care services and services in rural and remote areas
- the coordination and planning of childcare and early learning services for children and their families
- subsidised (peppercorn rent) or free access to buildings for childcare services (either on a casual or permanent basis)
- special services for children with additional needs (box 4.7).

Box 4.7 Some examples of local government ECEC assistance***Direct provision of ECEC services*****Penrith City Council**

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

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

Australian Local Government Association

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

Coordination and planning**Yarra City Council**

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

Infrastructure support**City of Darwin**

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

City of Sydney

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

(continued next page)

Box 4.7 (continued)***Support for vulnerable and additional needs children*****Australian Local Government Association**

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

The Local Government Children's Services Reference Group

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

Marrickville Council

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

Monash Council

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

Penrith City Council

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

Frankston City Council

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

Local government funding of ECEC

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

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

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

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

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

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

Newcastle Council identified that it is facing significant financial challenges and an infrastructure backlog of \$117.3 million, citing ageing infrastructure and buildings the major contributors to the backlog. Other councils are looking at how their assets can provide income to support delivery of other services including charging commercial rents for lease of buildings. Services such as early childhood education and care that some councils consider to be ‘non-statutory’ are often the first to go. (Reilly and Bryant 2013, p. 15)

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

DRAFT

5 Childhood learning and development

Key points

- Children's experiences in the early years of their life, both within and outside the home, can have profound impacts on their longer term development.
- There has been extensive research on the impact of non-parental care on children's development.
 - Preschool is beneficial to the general population and delivers significant benefits to disadvantaged children.
 - Children facing disadvantage or who are at risk of poor care in their home environment may benefit from early exposure to high quality childcare and the additional income generated by parental employment.
 - The impact on young children is mixed with some research indicating that long hours in care for very young children (under 12 months old) is associated with behavioural problems later in childhood. Other research indicates that high quality care may lessen these impacts.
 - These risks become less evident as the child ages.
- Family characteristics, such as parent educational attainment and income levels and the home environment, are the strongest predictors of a child's development.
- Overall, most Australian children are doing well developmentally. However:
 - based on the Australian Early Development Index (AEDI) data, Indigenous children, children living in disadvantaged communities and children not proficient in English are more likely to be developmentally vulnerable.
 - the 22 per cent of children that are developmentally vulnerable are spread across all socioeconomic groups.
- While preschool is beneficial to the general population and particularly to disadvantaged children, it is not clear that the current provision of 15 hours per week is optimal from a development perspective.
- To increase attendance rates at preschool for disadvantaged children, receipt of the Family Tax Benefit part A supplement to the parent/carer should be linked to minimal attendance levels at preschool.
- Having disadvantaged children attend preschool would enable any additional learning needs to be identified and additional support provided.
- Integrated services (ECEC services, child health services, play groups, preschool and parenting programs) may enable early identification of at risk and vulnerable children below preschool age who would benefit from ECEC services.
- This approach is being developed through the South Australian Children's Centres, which provides a mix of services depending on the needs of the community. There are other service integration models currently being trialled on a smaller scale.
- When completed, the evaluations of these integrated service models will assist these service providers to more effectively meet the needs of their clients.
- Longitudinal studies of impacts of ECEC on outcomes later in life are required in Australia to fully understand costs and benefits.

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

5.1 What facilitates children's learning and development?

The early learning experience

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

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

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

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

In contrast, harmful experiences can have severe detrimental effects on brain development and longer term effects on physical and mental health into adulthood. Young children who experience poverty, continuous family chaos, recurrent emotional and physical abuse, chronic neglect and severe and long-term maternal depression without buffering adult support can develop toxic stress levels that impact on brain development. Because of this, the establishment of a nurturing relationship with a primary care provider is typically given the highest priority where intervention is required (National Scientific Council on the Developing Child 2007; Shonkoff and Phillips, 2000).

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

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

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

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

Different impacts between childcare and preschool

The research indicates that the impacts of attending childcare on the development and early learning outcomes of younger children (aged 0 to 3 years) are not as consistently positive as the impacts of attending preschool on children aged 3 years

and older. In a literature review for the United Kingdom's National Audit Office, Melhuish concluded:

While the research on pre-school education (3+ years) is fairly consistent, the research evidence on the effects of childcare (0-3 years) on development has been equivocal with some studies finding negative effects, some no effects and some positive effects. (2004, p. 3)

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

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

ECEC and development outcomes for younger children

The findings from Australian and overseas research on the impact of ECEC or childcare on the learning and development outcomes of younger children are mixed. In regard to cognitive outcomes, studies from Sweden reported that children commencing childcare aged between 6 and 12 months achieved significantly higher scores on cognitive ability and academic tests at age 8 and 13 (Harrison et al. 2009). In contrast, a Canadian study found that attending childcare had no significant effect on cognitive outcomes on children at age 4 and 5 (Lefebvre and Merrigan 2002).

In Australia, children's learning abilities in the first year of school were rated lower by teachers for children who had spent long hours in care before 3 years of age (Harrison et al. 2009). A recent Australian study (Lee 2014) concluded that non-parental care from birth through to 3 years did not have adverse effects on children's cognitive outcomes at age 4 to 5, although children who spent longer hours in childcare or commenced at 18 months or older had lower cognitive scores at age 4 to 5. However, in Canada, an analysis of the national longitudinal study of children and youth found no correlation between school readiness and the number of hours spent in childcare (Gagne 2003).

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

Other research has concluded that the provision of high quality care may lessen the negative impacts of the time spent in care (Harrison 2008; Love et al. 2003). The research has tended to find that the potential risks from ECEC or childcare are less evident as the child ages, especially if the care is of high quality. However, the existing evidence is unclear as to the precise age these benefits, at least for the wider population, start to kick in and outweigh any potential negative impacts.

In summarising the research, UNICEF (2008) concluded that:

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

For those children facing disadvantage or at risk of poor care in their home environment there may be benefits from early exposure to high quality ECEC or childcare and the additional income generated by parental employment. Melhuish found that:

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

ECEC and developmental outcomes for preschool and older children

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

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

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

Although the results from the PIRLS (Performance in International Reading and Literacy Standards) and TIMSS (Trends in International Maths and Science Study) scores indicate a link between additional years of pre-primary education in improved test scores for Australian children in year 4 (sub. 395), these results failed to take into account the socioeconomic backgrounds of the children who attended pre-primary education and those that did not (Mullis et al. 2012). Consequently, it is not possible to determine from this study whether better results at primary school are actually related to involvement in pre-primary education or to the family and household-specific factors which have been found in other studies to be critical for child development outcomes.

In the United Kingdom, a longitudinal study on the effective provision of preschool education drawing on 3000 children, the Effective Provision of Preschool Education (EPPE) study, found that preschool attendance compared to none, enhanced all round development in children. Disadvantaged children benefited significantly from quality preschool, especially where they were with a group of children from different social backgrounds (Sylva et al. 2004). In following up these children at age 14, attending high quality preschool predicted better outcomes for maths and science, but not for English, with the benefits of preschool being less evident than at younger ages (Sammons et al. 2012). The effects of attending preschool on promoting improved socio-behavioural outcomes were also found to have faded somewhat by age 14 (Sammons et al. 2012).

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

The research has been more limited as to the longer term benefits (into adulthood) for the general population from attending preschool and early education. A Norwegian study measured the effects, on those aged in their early 30s from the introduction of universal access to early childhood education and care for 3 to 6 years olds in Norway in the mid 1970s. It compared the differences in adult outcomes for children from Norwegian local government authorities in which the program was extensively implemented in the second half of the 1970s and those in which it was not. Drawing on a sample of nearly 500 000 children, the study found that the introduction of this program increased the chance of completing high school and attending college which in turn strengthened labour market attachment and delayed child bearing and family formation as adults. The benefits of education

were mostly to those children with lower educated mothers whereas most of the increases in earnings related to females (Havnes and Mogstad 2009).

Targeted programs in the United States

There has been a considerable literature surrounding a number of experimental early education and preschool interventions that targeted disadvantaged children in the United States. The most high profile of these is the HighScope Perry Preschool Program conducted in Ypsalanti Michigan in the 1960s. This was a randomised trial based on a sample of just over 120 African American children from disadvantaged backgrounds aged three to four years. The program involved a half day, five day per week centre based preschool attendance supplemented with weekly home visits by educators. After 2 years all participants left the program and entered the same public school as the control group and a range of data was collected for both the treatment group and the control group through to the age of 40 (Heckman, Pinto and Savelyev 2013; Heckman 2006; Melhuish 2004).

The positive outcomes from the Perry Preschool Program has seen it widely referred to in policy deliberations around early intervention, early childhood development and preschool programs. Studies on the program found that it significantly enhanced adult outcomes including education, employment, earnings, health and reduced participation in crime. Although the program did not produce long term cognitive gains, it did create persistent improvements in personality and character skills. This substantially reduced aggressive, anti-social and rule breaking behaviour which in turn improved labour market outcomes, health behaviours and reduced criminal activities (Heckman, Pinto and Savelyev 2013; Heckman 2006).

Another widely referred to intervention experiment in the United States is the Abecedarian project. This study commenced in North Carolina in 1972 and also involved a randomised trial of 300 children from disadvantaged backgrounds. The treatment group took part in a centre based early childhood development program from 3 months of age and home visits until the children entered school. Data on outcomes was collected until the subjects turned 21. The treatment group was found to have better cognitive outcomes, improved education and incomes and a later start to their own parenthood. It also provided family benefits, particularly to mothers of the children, from better educational and employment outcomes. However, there was no significant reduction in criminal behaviour (Melhuish 2004).

There is also the Chicago Child-Parent Centre (CPC) program, a large scale public preschool program aimed at disadvantaged 3 to 4 year olds that has been running in Chicago public schools since 1967. It involves a half or full day program focussing on basic numeracy, reading and writing skills and includes parent involvement to

visit the centres and receive support and advice. Those who participated in the program, in comparison to similar children who did not, were found at age 28 to have higher rates of high school completion, higher income, significantly lower rates of substance abuse and lower arrest rates (Heckman and Kautz 2013).

These targeted interventions in the United States, focusing on the provision of high quality early education and family visits, have been subject to cost benefit analysis. Such analysis indicates that the highest returns from preschool and other programs come from investing in the most disadvantaged young people as it raises the ‘payoff from future investments’ (Heckman and Kautz 2013). As Heckman noted:

You go where the marginal returns are the highest and they’re highest with disadvantaged children. (quoted in Solomon 2007)

The targeted interventions in the United States have demonstrated significant returns, in part due to reduced criminal behaviour and lower rates of incarceration (table 5.2). When targeted towards disadvantaged children, the early interventions had much higher returns than later interventions during primary school, in high school or in early adulthood through job training (Heckman 2006).

While the experimental programs and the large scale CPC program conducted in disadvantaged communities in the United States, were highly beneficial to the participants and their communities, it is unclear whether or not such programs would generate as significant benefits in a different cultural context and where the general quality of ECEC services and schooling is different to that of the United States.

What counts as quality?

A considerable focus of the research has been on quality in the provision of ECEC services. (How parents view the quality of ECEC is covered in chapter 7.) The research has found that high quality ECEC services can have positive effects on children’s development (Elliot 2006), although what constitutes quality is difficult to define and measure (Love et al. 2003).

Much of the research into quality has focused on the structural aspects of quality: staff to child ratios; the number of children in the group; and staff qualifications. There are also the process aspects of quality which involves the quality of the interactions between staff and children. Importantly, it is the structural aspects of quality, particularly child teacher ratios and child numbers, which underpin the one on one interactions with children and the process aspects of quality (Sylva et al. 2004).

The Australian policy focus has also been on the structural aspects of quality which are more amenable to regulation and are reflected in the National Quality Framework (NQF). The quality aspects of the NQF are discussed in chapter 7.

There is no consensus from the research on the structural aspects of quality as to the actual threshold effects, the marginal contribution from changes in variables or the optimal balance between them. For example, the impact of staff to child ratios has been widely researched and a vast body of research points to higher staff to child ratios as having a positive impact on the development outcomes of children. Huntsman (2008) concluded that in general, higher staff to child ratios pointed to improvements in quality, although the connection was stronger with younger children than those children over three years old. However, the research does not indicate or emphasise any linear connection between changes in ratios and changes in quality and the difference in outcomes from shifting to a lower ratio, say 1:10 to 1:8, is unclear.

The more children within the group or larger group size has generally been associated with poorer quality (Burchinal, Howes and Kontos 2002). Although group size was less significant than other structural variables, its impact was difficult to isolate and it was often combined with other variables such as staff to child ratios and educational qualifications (Huntsman 2008). Other studies have found none or only very small effects from group size on quality (Zaslow et al. 2010).

Staff qualifications are the aspect of quality that have been found to have the most substantial effect on children's development outcomes. Huntsman (2008) concluded that the most significant effect on quality appeared to be the education levels of the staff, their qualifications and training. Warren and Haisken-DeNew (2013) found that year 3 NAPLAN scores were higher for those children whose preschool teachers had a degree or diploma qualification. Others have questioned the relationship between staff qualifications and quality of outcomes and whether higher staff qualifications will directly improve teacher quality. They have noted that increasing qualifications in isolation will not necessarily improve outcomes and that quality will also depend on the interactions between the teacher and the child (Early et al. 2007). Gialamas et al. (2013), drawing on LSAC data, found that higher quality carer-child relationships predicted improved cognitive ability and improved socio-emotional outcomes at age four to five years and less strongly at age six to seven years. The results of their study also suggested that the qualifications of the carer did not strongly influence the quality of the carer-child relationship, although smaller numbers of children in care appeared to promote high quality relationships.

Cloney et al. (2013) pointed to the uncertainty as to what kind of qualifications best promoted classroom interactions and the role of professional development training in comparison to pre-service training for early childhood educators. Yoshikawa et al. (2013) concluded that guidelines on ratios of teachers to children and staff qualifications helped to increase the likelihood of, but did not assure, supportive and stimulating interactions.

While the importance of quality is widely recognised in early childhood development, the research indicates quality is a complex concept, based on the interplay between various factors which are not easily defined.

Developmental outcomes from the different types of care

There is little detailed research as to the impacts on childhood learning and development from the different types of care, for example the impacts of long day care in comparison to family day care, grandparent care, nannies or care by friends and neighbours.

Different types of care will facilitate different levels of interaction and development opportunities. For example, a child in group care, such as long day care or family day care, will have greater socialisation opportunities in comparison to say a child in the care of a grandparent or nanny. On the other hand, the child in the care of the nanny or grandparent is likely to have increased opportunities for one-on-one interactions with the carer.

Community based playgroups provide an opportunity for children who may not have the opportunity at home to engage with a larger group of children as well as providing different experiences for the child. These groups, while outside the formal ECEC framework, provide the opportunity for greater physical, language and social and emotional developmental for the children attending and an informal support network for the parents (sub. 255). Playgroup Australia were of the view that community playgroups have a complementary role in the provision of ECEC:

Community playgroups and early childcare and education are complementary and not competitive endeavours. The majority of the community playgroups members are also consumers of childcare and education services and utilise both services for the different beneficial aspects. (sub. 255, p. 4)

The importance of family characteristics

The research is clear cut as to the importance of family characteristics for childhood learning and development. Household income, parental and particularly maternal

education and the home learning environment are the strongest predictors of children's development outcomes. In Australia, an analysis of wave 1 data of the LSAC found that family factors such as being read to by a family member, the number of books in the home and the child's access to a computer in the home were stronger determinants of learning and development outcomes than childcare and early education experiences (Wake et al. 2008).

In the United States, the National Institute of Childhood Health and Development (NICHD) in its longitudinal study concluded that parent and family characteristics were more strongly linked to child development than childcare features. It found that children demonstrated more cognitive, language and social development skills when parents were better educated, had higher incomes, provided home environments that were emotionally supportive and cognitively enriched and where mothers experienced little emotional distress (NICHD 2006).

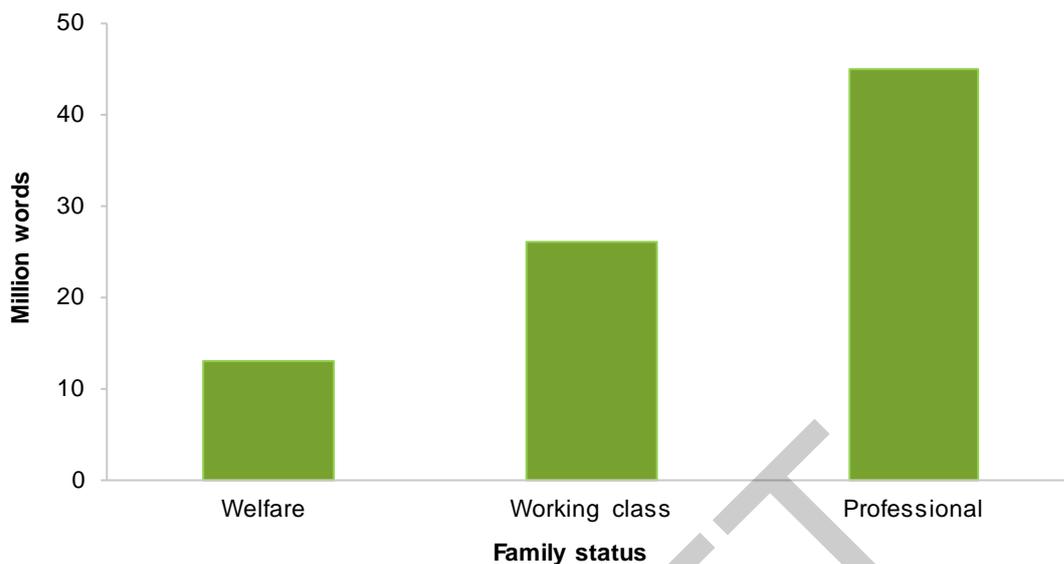
Also, in the United States, Reeves and Grannis (2014), concluded that parenting skills were the key to social mobility given their findings that children from lower income homes with less educated mothers heard fewer words, read fewer books and received less stimulation than children from better off and better educated homes. Better educated and more affluent parents talked and read to their children more and provided a wider range of novel and stimulating environments such as parks, playgroups and other outings.

For example, a United States study found that children from higher socioeconomic status families had larger vocabularies than children from lower socioeconomic status families at age 4 due to the accumulated number of words heard (figure 5.1).

Parents with low levels of educational attainment (such as those who have not completed high school) and income were more likely to be struggling to make a living, may lack a partner for support in parenting and lived in areas with limited choices (Sawhill, Reeves and Howard 2013).

In the United Kingdom, the EPPE study found that the home learning environment and the activities that parents undertook with the children had a strong relationship with the development outcomes of young children. It noted that the home learning environment was only moderately associated with parental income and education and held that it was what parents did with their children rather than who the parents were that was important (Sylva et al. 2004).

Figure 5.1 **Number of words heard in the first 4 years**



Source: Hart and Risley (2003).

In a literature review for the New Zealand Ministry of Education on the outcomes of early childhood education, Mitchell et al. (2008) found the impact of early childhood education on development and wellbeing was small compared to the income (or poverty levels) and education levels of the parents.

Summing up what the research tells us

Summarising the research on children's development and learning, discussed above, the Commission has drawn preliminary conclusions that:

- Family characteristics are usually the strongest predictor of children's developmental outcomes.
- There are positive development outcomes for all children from around 3 years and above from taking part in preschool and ECEC programs. The benefits are even greater for children from disadvantaged backgrounds and can persist into adulthood.
- The impacts of ECEC on younger children are mixed.
 - Quality ECEC even at a young age is likely to provide benefits for disadvantaged children from poor caring environments.
 - The potential for negative effects are greater the closer to birth a child commences ECEC and the longer the time the child spends in care.
 - These negative effects may be lessened by higher quality care and are less evident for older children.

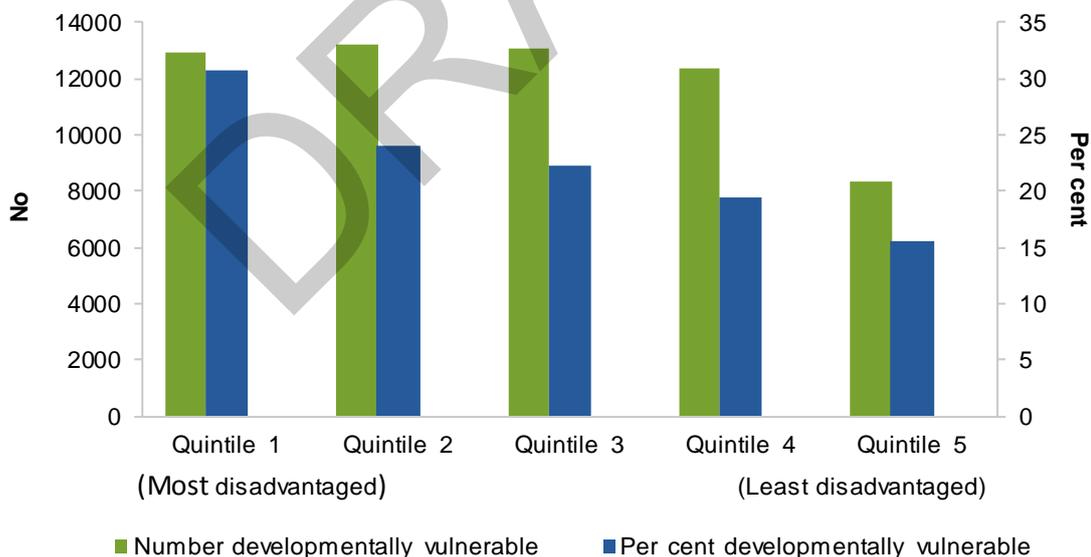
5.2 How are Australian children doing at present?

Results from the Australian Early Development Index

The Australian Early Development Index (AEDI) is a national indicator of children's development as assessed by their teachers in their initial year of formal schooling (box 5.1). Overall, the AEDI results from 2012 found the majority of Australian children were developmentally on track in each of the five development domains as they entered their first year of formal schooling.

However, not all children are doing well. Around 22 per cent of children were assessed as being developmentally vulnerable in one or more of the five development domains. While concentrated in the most disadvantaged group, these children are found in all socioeconomic groups and by number, apart from the top socioeconomic group, are evenly spread across the other socioeconomic groups (figure 5.2).

Figure 5.2 **Australian children developmentally vulnerable on one or more of the AEDI domains by level of disadvantage**



^a Based on the ABS's Index of Relative Social Disadvantage (IRSAD) which summarises information about the economic and social conditions of people and households, including the children, within an area to develop an overall score.

Data source: Information supplied by the Department of Education from the 2012 AEDI data collection.

Box 5.1 The Australian Early Development Index

The Australian Early Development Index (AEDI) is a national population measure of children's development as they enter school. It measures five areas of childhood development from information collected by teachers in children's first year of formal schooling. The five domain areas are:

- physical health and wellbeing
- social competence
- emotional maturity
- language and cognitive skills (school based)
- communication skills and general knowledge.

The AEDI is an adapted version of the Canadian Early Development Index with the first data collection completed in 2009 and the second and most recent completed in 2012. In 2012, AEDI checklists were completed for over 96 per cent of children enrolled in their first year of formal schooling across government, Catholic and independent schools.

The AEDI results are presented as the number and proportion of children in the total AEDI population who are 'on track', 'developmentally at risk' and 'developmentally vulnerable' across the five domains. Children who scored in the top 75 per cent of the AEDI population are considered as being 'on track', children scoring between the 10th and 25th percentile are considered as being 'developmentally at risk' and children who score below the 10th percentile are considered as being 'developmentally vulnerable'.

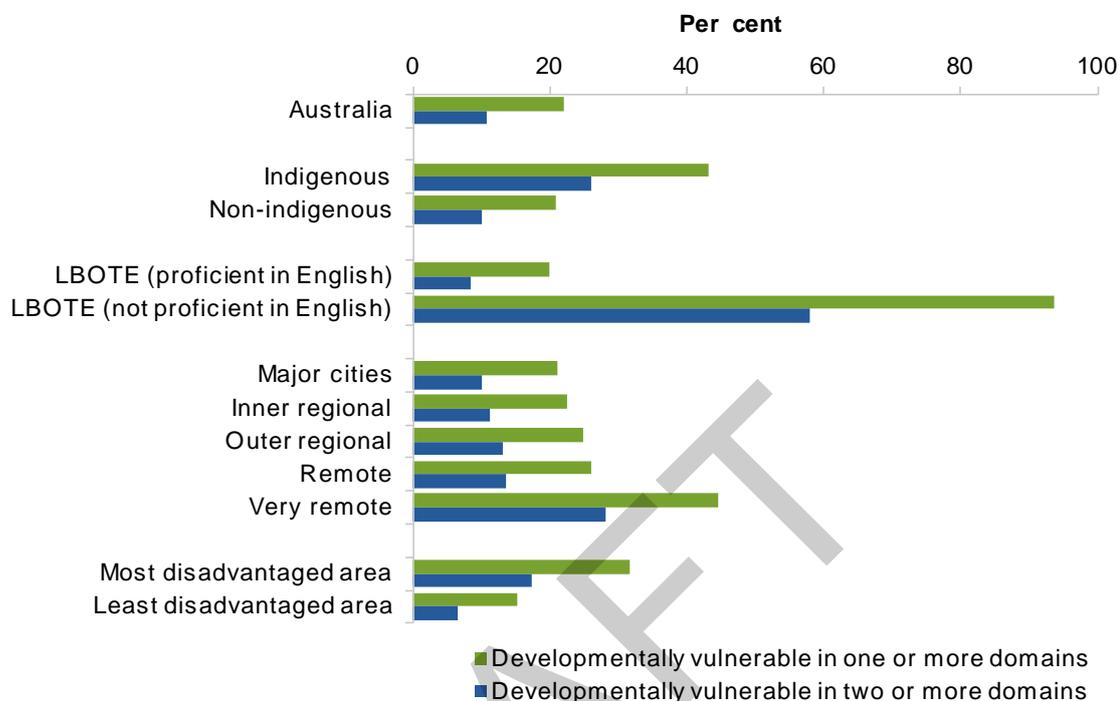
These relative results are reported for communities where the children live and not by their school. This allows communities to see how local children are developing in comparison to other children in the community and with other children in communities across Australia. A number of 'AEDI local communities' (usually a suburb) make up an 'AEDI community' (usually a local government area). These 'AEDI communities' then form a 'region' (usually a statistical division within a state or territory).

Information about children with special needs is not included in the results, due to the already identified development needs of these groups. Special needs children are defined as a child who requires special assistance because of a chronic, medical physical or intellectually disabling condition — such as autism, cerebral palsy and down syndrome — based on a medical diagnosis.

Source: AEDI (2013).

Indigenous children were nearly twice as likely to be assessed as being developmentally vulnerable as non-Indigenous children with over 43 per cent considered to be developmentally vulnerable in one or more of the domains. The proportion of Indigenous children found to be developmentally vulnerable in two or more of the domains (26 per cent) was more than double that of all Australian children (10.8 per cent) (figure 5.3).

Figure 5.3 Proportion of Australian children from selected populations assessed as developmentally vulnerable^a



^a Based on the AEDI development domains from the AEDI 2012 data collection. LBOTE (Language background other than English).

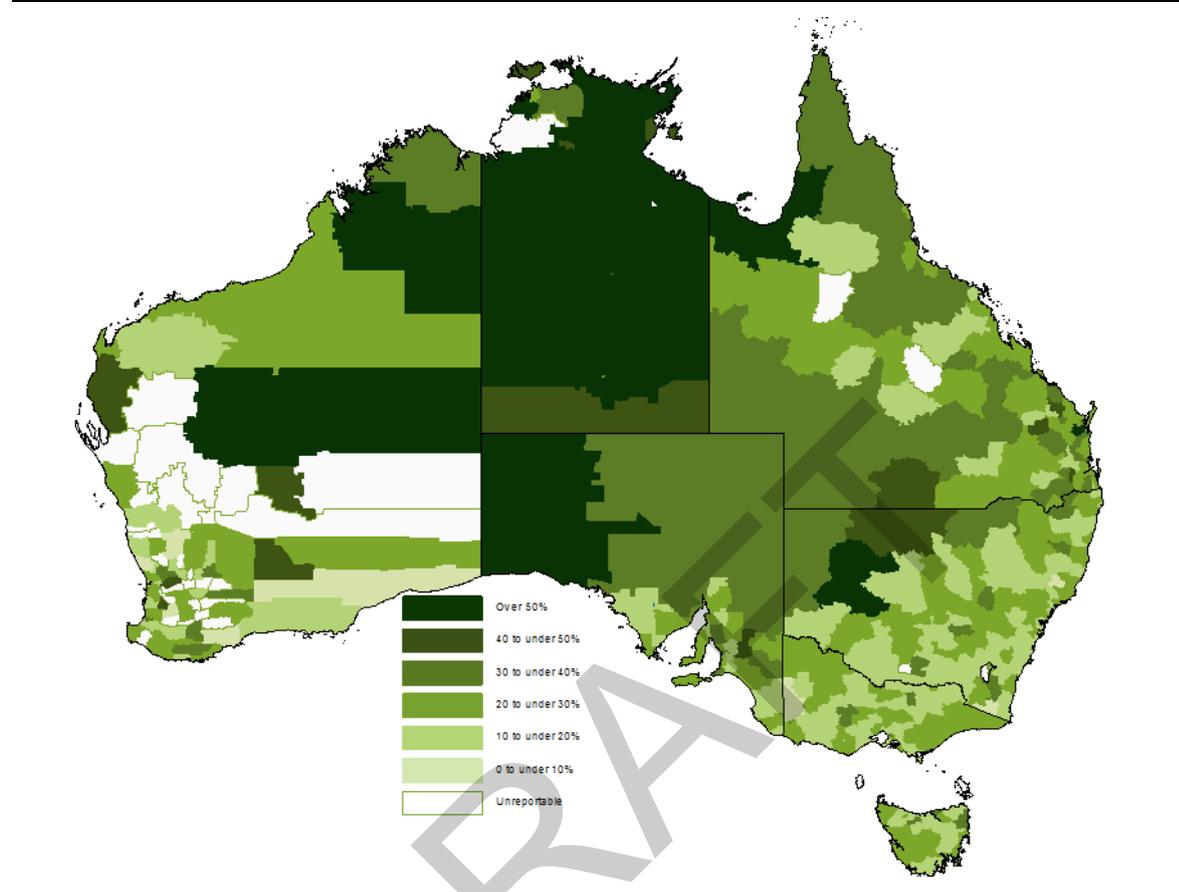
Source: Department of Education (2013).

The difference between Indigenous and non-Indigenous children in AEDI results was particularly marked in the domain of language and cognitive skills. Just under 6 per cent of non-Indigenous children were found to be developmentally vulnerable in language and cognitive skills compared to over 22 per cent of Indigenous children (Department of Education 2013).

There are also significant differences in the AEDI results across socioeconomic areas. The proportion of children living in the most disadvantaged areas who were found to be developmentally vulnerable across two or more domains (17 per cent) was nearly three times that of children living in the most advantaged areas (6 per cent). Based on vulnerability in one or more domain, nearly 32 per cent of children living in the most disadvantaged areas were found to be developmentally vulnerable compared to 17 per cent of children living in the most advantaged areas.

The AEDI results also highlight the development risks for children residing in very remote parts of Australia, although there is likely to be significant overlap between this group and the Indigenous group (figure 5.4). Around 44 per cent of these children were found to be developmentally vulnerable in one or more of the domains compared to just over 20 per cent of children living in major cities.

Figure 5.4 Proportion of children assessed as being developmentally vulnerable on one or more of the AEDI development domains



Note: Unreportable communities are those communities where one or more of the following conditions were met: less than 15 children had valid AEDI scores; less than 2 teachers had completed AEDI checklists for children in that community; or AEDI checklists were not completed for at least 80 per cent of special needs children in that community.

Source: Department of Education AEDI data from the 2012 AEDI data collection.

The most developmentally vulnerable group from the AEDI results were children not proficient in English from non-English speaking backgrounds (homes where they speak another language other than English or have English as a second language status). Nearly 94 per cent of these children were found to be developmentally vulnerable in one or more domains and around 58 per cent were developmentally vulnerable in two or more domains. In contrast, only around 20 per cent of children from non-English speaking backgrounds, but who were proficient in English were assessed as being developmentally vulnerable in one or more domains and 8 per cent in two or more of the domains — a share below that of the Australian population (figure 5.4).

There are also gender differences in development. Boys were more likely to be developmentally vulnerable than girls across all the domains. Nearly 15 per cent of boys were found to be developmentally vulnerable on two or more of the domains compared to just under 7 per cent of girls (AEDI 2013).

There are a range of early childhood related services that impact on the AEDI results. They include the use and availability of early childhood education, health and allied services and family and parenting characteristics.

The AEDI checklists completed by teachers also record children's experiences in the year before entering formal schooling. From the 2012 AEDI results, nearly 85 per cent of children attended a preschool program either in a standalone facility or in a long day care centre in the year before school. For those children who attended a preschool program around 19 per cent were found to be developmentally vulnerable on one or more of the domains. This compares with 30 per cent of children who were found to be vulnerable, but did not attend a preschool program (Department of Education 2013).

Differences in development outcomes using LSAC data

For an AMP.NATSEM *Wealth and Income Report*, Gong et al. (2011) used LSAC data to examine the factors influencing the development of Australian children aged 4-5 years. As well as overall development, the report also investigated three specific development domains: physical health; social and emotional functioning; and learning and cognitive development and provided outcome scores for these domains.

It found that the higher the family income, the higher the overall development score. Those children living in families experiencing multiple forms of financial hardship (such as not being able to pay rent and going without meals) were more likely to have lower development outcome scores than those experiencing none.

The employment status of a child's parents was strongly correlated with a child's development and those children with no parent working had considerably lower average development scores. Children who spoke another language at home, had a long-term medical condition or disability, or were Indigenous generally performed more poorly on average development scores than children who did not have these characteristics (table 5.1).

Table 5.1 **Average development scores by child characteristics, age 4-5^a**
Mean value = 100

	<i>Overall development</i>	<i>Physical health outcome</i>	<i>Social emotional outcome</i>	<i>Learning and cognitive outcome</i>
Child speaking other language at home				
No	100.37	100.32	100.35	100.33
Yes	96.59	97.85	96.87	98.00
Child is Indigenous				
No	100.25	100.08	100.19	100.40
Yes	95.43	99.84	96.70	94.05
Child with medical condition/disability^b				
No	101.09	101.09	100.63	100.85
Yes	90.72	91.42	94.92	93.64
Parental work status				
At least one parent working	100.55	100.20	100.50	100.74
No parent working	94.34	98.16	95.24	94.13

^a Outcome scores have been standardised to have an average value of 100. Based on LSAC Wave 3 cohort, 2007-08 data. ^b Child with medical condition/disability indicates a child having any medical conditions or disabilities that have lasted, or are likely to last, for six months or more.

Source: Gong et al. (2011).

Transitioning to school

Starting school is a significant event for most children and their families. The transition from the home and early childhood education into school is particularly important as 'readiness' for school is predictive of longer term academic achievement (Rosier and McDonald 2011). If a child is not 'school ready' this can lead to disengagement in learning, which can lead to poor educational achievement.

There are a number of factors that impact on the child's ability to successfully transition into school. They include the characteristics of the child such as temperament, personality, social skills and cognitive ability. There are also the parental and family characteristics including parental education and income, the home learning environment and parenting style. The communities in which children live and the services available to them can also influence the child's ability to adapt to school.

Most children do well in transitioning to school and make good progress in their initial year of formal schooling. Less than 3 per cent of children in their first year of formal schooling were reported by their teachers as not making good progress in adapting to the structure and learning environment of school (AEDI 2013).

Attendance at quality ECEC and preschool has been found to positively influence the transition to school, due to the social and cognitive skills and self regulation of behaviour developed in these programs (Australian Institute of Health and Welfare, 2009; Elliot 2006). However, the transition to school can be more difficult for children from disadvantaged backgrounds, Indigenous families and children from non-English speaking backgrounds and children who have involvement with child protection services as well as children who have not attended a preschool or kindergarten program (Rosier and McDonald 2011).

In summary, most children transition to school without difficulty. However, the AEDI results and other studies indicate that there is scope to improve the outcomes for certain children, in particular Indigenous children, children living in socioeconomically disadvantaged communities, those living in very remote areas and children from non-English speaking backgrounds who are not proficient in English. Many of these children are likely to be in one or more of these groups.

DRAFT FINDING 5.1

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

5.3 Meeting the development needs of children

How to ensure the ECEC system meets the development needs of Australian children and improves the development outcomes for those children who are developmentally vulnerable is a key issue for this inquiry. A number of participants commented on the role of the ECEC system in improving development outcomes and reducing disadvantage. Goodstart Early Learning said:

Supporting children's learning and development through high-quality early learning and care is an important public policy objective because it boosts children's performance at school and throughout life, and is a critical lever for reducing disadvantage. (sub. 395, p. 3)

Wollongong University commented:

It is the inequalities that have an impact on our youngest children and their families that are of particular concern. These inequalities influence not only individual development but also the social and economic capacity of our society. (sub. 367, p. 2)

Uniting Care Australia pointed to their experience:

Our experience at the coalface is that the group of children who gain the most from high quality early learning opportunities are those from disadvantaged and vulnerable households, which augers well for boosting productivity and full participation in the economy and society in the longer term. (sub. 387, p. 5)

The Australian Children's Education and Care Quality Authority said:

In particular, evidence indicates that children from disadvantaged backgrounds stand to gain the most from quality education and care. It results in improved developmental outcomes including learning skills and improved quality of life. (sub. 260, p. 5)

Other participants such as SDN Children's Services (sub. 205), Victorian Council of Social Services (sub. 341), Uniting Care Children's Services (sub. 326), the Catholic Education Office of Western Australia (sub. 99) and Contact Incorporated (sub. 206) also commented on the important role that ECEC can play in meeting the development needs of disadvantaged children. These participants also expressed a range of views on the wider benefits of ECEC and its impacts on children's learning and development (box 5.2).

Box 5.2 Participant's views on the benefits and impact of ECEC on children's learning and development

The positive long term outcomes provided by the targeted interventions of the Perry Preschool Program and the Abecedarian Project in the United States were widely referred to by participants as evidence of the benefits of attending ECEC to children's learning and development.

Many of these participants also referred to the cost effectiveness of early intervention through the provision of ECEC to address disadvantage relative to interventions later in life from the work by Heckman (WA Council of Social Services, sub. 256; the Smith Family, sub. 331; Children's Educators ACT, sub. 210; the Independent Education Union, sub. 88; Children's Protection Society, sub. 247; Crèche and Kindergarten Association, sub. 272; Good Beginnings, sub. 340; Australian College of Educators, sub. 78 and the Victorian Council of Social Services, sub. 341).

There was also a view that because of these benefits, ECEC should be considered part of the wider education system (Child Australia, sub. 230) and that at least 2 years of ECEC and/or preschool would help identify developmental delays in children (Denise Harden, sub. 105). Because of the potential social and economic benefits of ECEC, there were calls for Government expenditure on ECEC to increase (Goodstart, sub. 395).

Some were of the view that parental care provided the best learning and development outcomes for children. The Awesome Mother's Association (sub. 303) believed that in-home care by the parent was the best practice model to optimise a child's early learning and development and that ECEC simply attempted to copy or re-create this.

Others held that the benefits of ECEC depended on the child and their family background. For example, an Early Childhood Teacher, observed that for an intelligent child from a loving and learning environment with a mother interested in the child's development a lack of ECEC was not an impediment to their development, but for a child from a dysfunctional family, the more time in ECEC the better (Kay Doyle, sub. 252).

There was also a focus on the developmental benefits provided by preschool. Dr Wendy Jarvie and Dr Trish Mercer (sub. 249) referred to studies that highlighted the links between preschool attendance and improved NAPLAN performance and PISA results to conclude that preschool attendance should be considered a core part of improving Australia's educational performance. The Catholic Education Office of Western Australia (sub. 99) noted a number of advantages from incorporating the preschool system into the schooling system, such as increased numbers of qualified staff, better pay and conditions for staff and a smoother transition to school for children.

Universal or targeted early childhood education and preschool programs

The evidence from the research makes a policy case for targeting disadvantaged children in preschool and early childhood education programs. The significant benefits resulting from the targeted interventions adopted in some countries have also underpinned calls for increased investment and increased participation in early childhood education for all children (Buckingham 2007). This has created some debate as to the relative merit of universal and/or targeted approaches to early childhood education and preschool.

The universal provision of preschool or early childhood development programs provides a number of potential benefits relative to targeted programs. There is an increased participation rate for all children, the difficulty of accurately targeting who should be in the program and what and where the ‘cut-off’ points should be is avoided, as is any stigma attached to participation in a targeted program.

A universal approach is also able to capture children from all socioeconomic backgrounds who are developmentally vulnerable (Charles Pascal, sub. 83; Department of Education, sub. 147; Mustard 2008). Early identification of additional needs allows remedial intervention to commence sooner. Although children from low socioeconomic backgrounds are over represented in the population of developmentally vulnerable children, they do not make up the majority of such children, as the largest numbers of vulnerable children are located in the middle of the social gradient (Goodstart, sub. 395; Playgroup Australia, sub. 255). The AEDI results indicate that while developmentally vulnerable children are over represented in the most disadvantaged group they are spread across all socioeconomic groups (figure 5.2)

However, children from higher socioeconomic backgrounds may not remain developmentally vulnerable. Research in both Australia (Brinkman, Sincovich and Gregory unpublished) and the United Kingdom (Feinstein 2003) found that children from high socioeconomic backgrounds who performed poorly in early tests (United Kingdom) or commenced school with poor development as assessed by the AEDI (Australia) had a tendency to improve academically during primary school and ‘catch up’, whereas similar children from low socioeconomic backgrounds were unlikely to ‘catch up’ and would continue through school on a low educational trajectory.

The wider participation of universal programs can lead to stronger demand for such programs from the community and to advantages from having disadvantaged children being with children from all backgrounds. For example, the EPPE study in the United Kingdom, found that children from disadvantaged backgrounds benefited from attending preschool with children from other backgrounds (Sylva et al. 2004). For Canadian children, two studies (Cleveland and Krashinsky 1998; Cleveland 2012) found that there would be significant benefits to both disadvantaged children and typical children from a high quality universal program.

There are also a number of potential disadvantages associated with universal preschool and early childhood development programs. Children from families most likely to need these programs, such as children from disadvantaged backgrounds, are less likely to attend and so programs are not ‘universal’ in practice. It is not clear why such children do not attend when universal preschool is provided free or on a low fee basis and is easily accessible. Some possible reasons include that education and learning are not highly valued by these families, family dysfunction due to illness or substance abuse and family and relationship breakdown.

Targeted programs are usually high cost intensive interventions and may not work or provide similar benefits when implemented on a universal basis. In the case of most of the well-known targeted programs in the United States, such as the Perry Preschool and the CPC, much of the public benefit from these programs was due to later reductions in crime (from higher education and employment outcomes) which would not apply to the wider community (Heckman, Pinto and Savelyev 2013; Melhuish 2004). There has been an ongoing debate in the United States as to the benefits or otherwise of universal preschool or pre-K (pre-kindergarten) programs for 4 year olds (box 5.3).

In Australia, the National Early Childhood Development Strategy has settled on a mix of universal and targeted services to improve development outcomes for Australian children (COAG 2009).

Box 5.3 Universal pre-K in the United States

In his 2013 State of the Union address, President Obama announced a federally funded universal pre-K program for 4 year olds. Legislation was introduced later that year. A number of states, Florida, Georgia, Illinois, Iowa, Maryland, New York, Oklahoma and West Virginia, have already moved towards providing free pre-K for all children, although concern has been raised about the quality of some of the programs. (Barnett and Frede 2010)

Opponents of the proposed universal pre-K program are of the view that parenting is more important than preschool in ensuring children's readiness for school and success once they get there. They have called for a greater focus on parenting skills and pro-family type policies based on the research that has highlighted the importance of family characteristics in early childhood development. They have noted that pre-K programs were unable to compensate for family breakdown and chaotic homes where children were subject to constant 'transitioning' from disappearing fathers, new step parents who may frequently leave for other relationships and step siblings who are just passing through. (Hymowitz 2013)

There is also a concern that government will be unable to create a large system of quality preschools based on the widely cited Perry Preschool model. Moreover, the results of the Perry Preschool program have been questioned as only providing mediocre gains in income and with those attending the Perry Program ending up in low skilled and low income jobs, but less costly to society with the lower risk that their children will end up back in poverty. (Hymowitz 2013)

Other critics have cited the results from an evaluation of a voluntary pre-K program in Tennessee which is similar to that proposed by the President. This study found that children who had attended the program had at the end of first grade performed below those children who had not. (Whitehurst 2013)

The proponents of the universal Pre-K program pointed to the benefits from attending preschool, including fewer behavioural problems and improved cognitive outcomes, in addressing social disadvantage. (Haskins 2013)

Targeting in the United States was considered to be problematic as it missed many of the children in poverty who should be attending and many who did attend were in programs that were considered to be less than effective. Also, many children from middle income families lacked access to quality preschool programs and some children in this group were considered to be as far behind in educational achievement as children from the low income group. (Barnett and Frede 2010)

As a universal pre-K program would reach more of the disadvantaged children and provide benefits to middle income children, the benefits would more than outweigh the costs of future educational failure. For high income children the costs of the program may outweigh the benefits, but they would contribute benefits to other children through classroom interactions. (Barnett and Frede 2010)

Universal preschool has recently been introduced

Australia has recently introduced universal access to preschool. Under the National Partnership Agreement endorsed by COAG in 2008, the Australian Government and the state and territory governments agreed to provide 15 hours of preschool a week with a qualified early childhood teacher to all children in the year before they commence full-time schooling by 2013.

As these arrangements have only recently been fully implemented, their impact on the development of Australian children in the longer term is yet to be assessed. Moreover, the continuation of these arrangements is unclear at present with the current five year funding agreement set to expire in 2014.

Universal access to preschool should be continued given the existing evidence both in Australia and overseas of improved development outcomes for all children (at least in the short term) and particularly for disadvantaged children from preschool attendance. Continuing with these arrangements would enable a more comprehensive assessment of the benefits to the wider Australian population of preschool attendance in the year before school and provide the basis to make any changes to the provision of preschool. Any assessment should include a longitudinal study to provide insight on the durability of benefits of universal preschool for Australian children.

Should universal access to preschool be extended to younger children?

Some participants called for the universal access to preschool under the National Partnership to be expanded in the future to include all 3 year olds. The Victorian Government (sub. 418) noted that the recently introduced preschool arrangements provided the opportunity to move towards an Australian Government funded system to have all 3 year olds participate in the program. Similarly, the Victorian Children's Council (sub. 437) suggested that in the longer term the participation of 3 year olds in ECEC should be universal.

In contrast, there was a concern that formalised learning was being 'pushed down' on to younger children at the expense of play. Not all children at age 4 or 5 may be ready to engage in formal learning and the inability to complete a required task around basic literacy at this age could result in the children developing mindsets and beliefs that inhibit future learning (Maggie Dent, sub. 3).

The strongest evidence to extend universal access to preschool to younger children comes from the EPPE study conducted in the United Kingdom. It found that an early start at preschool (aged between 2 and 3) was linked to better cognitive

outcomes on entering primary school and an improved ability to socialise with others. It also found that it was not possible to draw firm conclusions as to the optimal starting age for individual children in preschool from the EPPE research (Sammons et al. 2002; Sylva et al. 2004).

There may be a case to extend universal access to preschool to 3 year olds in the future. Some jurisdictions currently provide preschool for specific populations of 3 year olds, such as developmentally vulnerable and at risk children. However, universal access to preschool for 4 year old children (or children in the year before full-time schooling) has only recently been introduced and its impact on the development outcomes of Australian children both in the short term and over time has not yet been assessed. Also, there is no strong evidence from the existing research that having the wider population of Australian children commence preschool at age 3, or younger, would significantly improve developmental outcomes in the long term.

Any decision to extend the universal access arrangements to preschool to younger children should be based on an analysis of the effectiveness of the existing arrangements in improving development outcomes and from evidence drawn from relevant research undertaken in Australia and overseas. The Commission's views on the continued funding of the universal access arrangements are discussed in chapter 12.

DRAFT FINDING 5.2

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

Any decision to extend the universal access arrangement to younger children should be based on an analysis of the effectiveness of the existing arrangements in improving development outcomes and from evidence drawn from relevant Australian and overseas research. This would assist in determining how preschool should ultimately be integrated into the school based education system.

How many hours should children attend preschool for?

It is unclear if 15 hours per week of preschool attendance is the optimal amount for children's development. For example, prior to the National Partnership agreement the New South Wales Government provided 30 hours per week of preschool in public preschools in New South Wales. In New Zealand, there is 20 hours per week of publicly provided early childhood education for all three and four year olds (New Zealand children start school on or shortly after their fifth birthday) (Ministry of

Education - NZ 2014). In 2008, UNICEF established a benchmark to have a minimum of 15 hours per week of preschool for those children aged four to five (box 5.4).

Box 5.4 UNICEF's benchmark for preschool

In 2008, UNICEF developed a number of internationally applicable minimum standards in the form of benchmarks to protect the rights of young children as the transition to increased use of childcare continued in developed countries. The benchmarks were based on input from government officials and academic experts from OECD countries, with additional input from UNICEF and the World Bank.

The benchmark for preschool was for 80 per cent of children aged four to five to be enrolled in a publicly subsidised and accredited preschool for a minimum of 15 hours per week. It was also noted that at this age the benefits from preschool were not in doubt and that parents were generally supportive of their children being in some form of regular group learning activity.

UNICEF suggested that ideally, this enrolment should be virtually 100 per cent as an 80 per cent minimum may disguise or sanction the fact that the other 20 per cent who are not enrolled were likely to be children from disadvantaged backgrounds. An inadequacy of the standard recognised by UNICEF was the hours per day availability of preschool did not reflect the hours worked by parents in full-time employment. As such it suggested that this benchmark, 'should be read as a signpost rather than a destination' (p. 23).

Sources: UNICEF (2008); Early Learning Association (sub. 271).

There is little research on the optimal level of preschool hours. The EPPE study conducted in the United Kingdom found there was a significant link between the duration of months in preschool and progress in cognitive process, but there was no evidence that full-time provision of 10 sessions per week resulted in better outcomes than part-time provision of 5 sessions per week. Taken together, the findings of the EPPE study suggested that extended periods of preschool provision on a part-time basis was likely to provide more advantages than a shorter time period in full-time provision (Sylva et al. 2004).

Information request 5.1

What are the optimal number of hours of preschool to ensure children's development and what is the basis for this?

Improving preschool attendance

As the benefits from attending preschool are likely to be greatest for children from disadvantaged backgrounds, a key issue is how to ensure that these children attend. One approach would be to make preschool a compulsory requirement under the national partnership agreement. Such an approach would make attendance at preschool equivalent to school attendance.

However, there are already high participation rates in preschool. In 2012, just prior to the introduction of universal access to preschool, around 89 per cent of Australian children attended preschool in the year before school (Department of Education, sub.147) and in 2013 most jurisdictions had over 90 per cent of preschool age children attending preschool in the year before school (derived from (ABS 2014).

For children from disadvantaged backgrounds⁴ across Australia, there were lower rates of attendance in preschool. In 2013, only 78 per cent of children from a disadvantaged background attended a preschool program (derived from ABS 2014, unpublished). These children are also underrepresented in national preschool enrolments relative to their share of the national preschool age population (chapter 3).

In examining the impact of preschool on NAPLAN results and the background of children who did not attend preschool, Warren and Haisken-DeNew found that:

... children who did not attend any type of preschool program more commonly lived in low income and lone parent households, and children whose parents did not complete high school were less likely to have attended preschool. (2013, pp. 17–18)

Similarly, Biddle and Seth-Purdie (2013) found that the most vulnerable children were less likely to attend preschool.

There are also differences between Indigenous children and the general population. For Indigenous children, 83 per cent attended preschool in the year before school in 2013. There was some variation between those in major cities and remote areas and those in regional areas. A similar proportion of Indigenous children in major cities and remote areas (80 per cent) attended preschool in the year before school whereas in regional areas a larger proportion (86 per cent) attended (derived from ABS 2014, unpublished).

⁴ This is defined as those children residing in an area ranked in the lowest quintile on the ABS's Index of Relative Social Disadvantage.

As universal access to preschool is only recent, it is not yet clear if participation rates for those from disadvantaged backgrounds will increase over time.

To increase participation in preschool for those children currently not attending, attendance at preschool could be linked to receipt of some portion of the Family Tax Benefit part A. Such an approach would act as an incentive for the parents and carers of those children who currently have lower preschool participation rates and who would receive the greatest benefit from preschool.

A similar approach has been used to encourage immunisation among children whereby a supplement to the Family Tax Benefit part A of up to \$726.35 currently per year can be withheld where children do not meet the immunisation requirements at various ages. Similarly, the supplement can be withheld for those receiving an income support payment if their child does not receive a health check prior to commencing school (Department of Human Services 2014).

While the benefits are greatest for children from disadvantaged backgrounds, there is more to meeting the development needs of these children than just attending preschool. These children are likely to have additional learning needs and require additional support, which may not be met by the existing universal preschool curriculum. However, by having these children attend preschool any additional learning needs can be identified and enable screening for health and other interventions if required. Such an approach provides for the universal preschool program to provide more targeted interventions where required.

DRAFT RECOMMENDATION 5.1

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

Improving preschool attendance will not address the development needs of those younger children from disadvantaged backgrounds below preschool age who may be at risk or vulnerable. Identification of such children prior to their commencing preschool or school is a major difficulty.

Service integration

One approach to meeting the wider needs of children from disadvantaged backgrounds and for the early identification of at risk and vulnerable children is the use of service integration through a 'one stop' shop or child and family centre located in a disadvantaged community.

These centres provide a mix of early learning services, such as childcare, preschool and outside school hours care with family and parenting support services as well as children's and maternal health services. The types of services provided in these centres will depend on the needs of the community, but generally both universal and targeted services are provided to both children and families. Some centres have also been located within schools to further integrate these services into the school years, while other centres maintain close links to their local schools. The services are usually provided by both government, typically state and territory governments, and/or non-government agencies. Integrated services may also be able to be provided on a mobile basis in regional and remote areas.

Service integration is a recent initiative in Australia

Integrated centres are operating in a number of Australian jurisdictions, but they are a relatively recent initiative. To date, most of these centres have been established on a trial basis and evaluation of their long term effectiveness is ongoing. These type of centres have been influenced by the Sure Start Program in the United Kingdom to assist families and children in disadvantaged areas and the Toronto First Duty Program in Canada which began in 2001 as a demonstration to test service integration across early childhood programs: child care, kindergarten and family support, in school-based hubs.

For example, the South Australian Government has established 38 Children's Centres for Early Childhood Development and Parenting following a government inquiry into early childhood services in 2004. These centres provide a range of services for children and families from 0 to 8 years including childcare, playgroups and preschool. They also provide health services and family support programs and develop links to the local school. Each centre may offer a slightly different mix of services depending on the needs of the community and provide both targeted and universal services. The programs and services in the centres are provided by government and non-government agencies and funded by the Government of South Australian (2014).

In Queensland, 4 Early Years centres have been established in Brisbane and in regional areas to provide a one stop shop for long day care, school age care and kindergarten programs, parenting and family support services, child health services and Aboriginal and Torres Strait Islander family support. The mix of services varies according to the needs of the community and includes both universal and targeted services and the centres are operated by non-government organisations and funded by the Queensland Government (Department of Education, Training and Employment, Queensland 2014).

Victoria provides capital grants to community organisations and local governments to establish integrated service centres in disadvantaged areas. These centres provide the infrastructure for child care, playgroups, preschools and maternal and child health services to meet the needs of the local community (Department of Education and Early Childhood Development, Victoria 2014). Doveton College, a recent initiative between the Victorian Government and the Colman Foundation and part of the Doveton Regeneration Project, opened in 2012 and provides integrated services from pre-natal to year 9.

The Western Australian Government is establishing 16 Child and Parent Centres on public school sites in high needs communities. These centres will be run jointly by government agencies and the not for profit sector (sub. 416).

There are also 38 new centres across Australia specifically for Indigenous children and their families. These children and family centres provide integrated child care early learning and parenting and family support for Indigenous children and families. These centres also provide links to other services and support for children and families at risk (Australian Government 2013) (box 5.5).

A number of participants were supportive of the use of such centres to address disadvantage. For example, the Benevolent Society said:

... the Benevolent Society believes that one of the best ways to support disadvantaged families is to embed high quality early childhood education and care in integrated child and family centres where emerging issues within families can be identified early and a range of wraparound health and welfare supports provided. (sub. 86, p. 5)

The Brotherhood of St Laurence commented:

Disadvantaged families often have multiple and complex needs which can benefit significantly from the linkage or integration of various service streams. ... there is good evidence that integration results in improved access and convenience for consumers, which in turn results in improved service effectiveness and efficiency.

For families struggling with disadvantage, it is considered especially important to join together the various education, health and community services so that children and families can engage with the key services they need. (sub. 208, p. 12)

Goodstart Early Learning noted:

ECEC services can impact outcomes for individual children but cannot on their own address cycles of disadvantage for families or the communities in which they live. The whole service system must be supported to work together to approach community-level disadvantage and achieve sustainable change. This requires significant investment and change at policy, services system, and service delivery levels to provide truly integrated services for children and families. (sub. 395, p. 34)

Box 5.5 Winanga-Li Aboriginal Child and Family Centre

Winanga-Li Aboriginal Child and Family Centre is an integrated service centre operating in Gunnedah in New South Wales since 2013. It is managed by Uniting Care Children's Services and Relationships Australia and provides care and education for children from new born children to five year old children. It also provides health and support services to children and families and support services for families of children with disabilities. Around 70 per cent of children attending the centre are Indigenous, although not all children and families attending the centre and utilising the services identify as being Indigenous.

The education services are mostly provided by Indigenous educators which assists in the ongoing involvement and engagement with the local Indigenous community. This has provided increased employment and education benefits for the local Indigenous community with staff at the centre being encouraged and supported to study for and complete qualifications in early childhood education. Local Indigenous community leaders have focused on engaging the local Indigenous community with Winanga-Li to ensure that the community are comfortable in leaving their children at the centre.

The centre provides 'wrap around' services in addition to ECEC services for children. Attendance at Winanga-Li and other similar services enables health and development issues to be identified early and additional services, such as speech pathology, paediatric services and psychological services, to be contacted and provided to the children. Attendance also provides the opportunity to deliver universal type health services such as dental and immunisation services to children.

As with other centres, having the mother make the initial visit to the centre — usually for maternal health matters — acts as the catalyst for the children to attend ECEC services and make use of any required health and support services.

Has service integration worked?

Given the relatively short time that Australia's integrated services have been operating, there is only limited evidence as to their impact on development outcomes. Moreover, any longer term benefits from these type of programs will not yet be evident.

In evaluating the UK Sure Start Program, Melhuish et al. (2011) noted that although the benefits of early childhood interventions can be significant, they do not emerge until 15 years after the intervention begins. This was because the long term benefits of such interventions come in the form of higher earnings in adulthood, lower rates of problematic behaviour and lower rates of offending and crime. However, in the short term the national evaluation of the Sure Start Program found that parents living in those areas where the program operated moved into paid work more quickly than parents in comparison areas. Also, the resulting less harsh discipline in

the home, lower rates of family chaos and an improved home learning environment had the potential to generate benefits in the future (Melhuish et al. 2011).

Evaluations of the Toronto First Duty program found short-term positive effects on children's Early Development Index Scores as assessed by school teachers at the end of kindergarten in comparison to demographically matched children who did not attend the program. The evaluation also found greater parent involvement, reduced stresses on families and improved service quality and coherence (Corter, Zeenat and Pelletier 2012).

In Australia, an evaluation of the Queensland Early Years Centres based on surveys and interviews of parents and children found evidence of improved social, behavioural and development outcomes for children attending the centres. Parents also expressed greater confidence in their parenting skills. However, the extent to which health outcomes had improved was unclear (Department of Education, Training and Employment, Queensland 2013).

The South Australian Children's Centres are currently being evaluated by the Telethon Institute for Child Health Research with the evaluation to be completed in 2015. An interim evaluation report which detailed the finding from focus groups and interviews with those working in, working with or utilising the centres was completed in late 2013. Some of the key impacts of the centres identified by the evaluation were an increased workforce capacity to meet community needs through the exchange of information, knowledge and practice in early childhood teams. There was also an increased utilisation of services by providing access to services for hard to reach children, improved coordination of services and improved family wellbeing through connecting parents with other parents and the wider community in a non-judgmental and 'safe' environment. In general, those centres that had been in operation for longer displayed better levels of integration and coordination of often disparate services than those centres that were not as well as established (Harman-Smith and Brinkman 2013).

Although there is not yet any strong Australian evidence of long term benefits for developmentally vulnerable and at risk children attending these centres, there appears to be some short term improvement in their development outcomes, benefits for parents and the potential for longer term benefits to develop. These 'one stop shop' centres do provide the opportunity for the early identification of additional needs children, particularly developmentally vulnerable and at risk children, and can provide universal services as well as targeted programs to meet any specific needs in early learning, health and parenting support. Also, where it is not feasible to physically establish an individual centre there may be scope to 'virtually' integrate and better coordinate services through information exchanges

between health, family and community support and ECEC service providers as to the needs of children and families.

As service integration is a relatively recent initiative, further monitoring and evaluation of the outcomes of the children attending these centres and receiving these services is required. This will enable an assessment of what particular programs and mix of programs deliver desired outcomes in the short term and do so at least cost. Longer term monitoring of the developmental outcomes will assist in determining which effects persist.

DRAFT RECOMMENDATION 5.2

Governments should plan for greater use of integrated ECEC and childhood services in disadvantaged communities to help identify children with additional needs (particularly at risk and developmentally vulnerable children) and ensure that the necessary support services, such as health, family support and any additional early learning and development programs, are available.

Other approaches to improve development outcomes for children from disadvantaged backgrounds

A range of other intervention measures have been used to improve development outcomes for children from disadvantaged backgrounds. These include home visiting and parent education, mobile childcare facilities and early entry to preschool.

For example, the Home Interaction for Parents of Preschool Youngsters (HIPPO) program is a home based parenting and early childhood development intervention program. It aims to improve interactions between parents and their children, early literacy development and to develop an early learning environment in the home. There are also mobile early learning services, providing both preschool and child care that are used to provide services to rural and remote communities.

A number of jurisdictions provide early entry to preschool for 3 year olds, for certain groups of children considered to be developmentally vulnerable, such as Indigenous children and those from disadvantaged backgrounds. Other interventions include priority of access to ECEC services for particular children where there are waiting lists and there have also been trials of sustained home nurse visits. These interventions are discussed further in box 5.6.

Box 5.6 Other interventions to improve development outcomes**Home Interaction Program for Parents and Youngsters (HIPPY)**

HIPPY is a home based parenting and early childhood development intervention program that commences in the year before school. It provides support to improve interactions between parents and their children with a focus on early literacy development and developing an early learning environment in the home. The Brotherhood of St Laurence holds the licence to operate the HIPPY program in Australia and partners with other agencies to provide the service. In 2008 the Australian Government commenced a roll out of the service in over 50 sites across Australia focusing on disadvantaged communities. The program receives Australian Government funding — \$13 million in 2012-13 — as well as funding from corporate and philanthropic groups (Hippy Australia 2014).

Mobile services

Mobile early learning services provide preschool and child care to serve rural and remote communities, and some mobile services provide parenting and family support services. These services are usually provided by community groups and local governments and funded by the relevant state government and the Australian Government.

Early entry to preschool

Some jurisdictions offer early entry to preschool for selected groups, usually Indigenous children, at risk and developmentally vulnerable children and children with English as a second language. For example, Indigenous children in South Australia, Victoria and the Northern Territory and children considered at risk in Victoria and South Australia can commence preschool at age 3.

Priority entry to ECEC services

Where there is a waiting list for ECEC services, the Australian Government has priority of access guidelines. These guidelines give first priority to children at risk of serious abuse or neglect, second priority to children from low income families who satisfy the work/training/ study test and third priority to any other child. There is also emergency care provided on the advice of a social worker from the relevant state or territory government department of children's and family services. This care is often provided in family day care or occasional care.

Home nurse visits

The use of sustained nurse home visits as part of a wider maternal and early childhood health strategy is also being investigated as another approach to improve children's developmental outcomes. These nurse visits provide a range of health, parenting support and early learning services to families in their home as well providing links to other services in the community. The Australian Research Alliance for Children and Youth and the University of New South Wales Centre for Community Child Health is currently conducting a trial of its *right@home* sustained nurse home visit program (sub. 168).

How successful have they been?

Many of the early interventions discussed above and in box 5.6 have not been evaluated. However, there has been an evaluation of the HIPPY program for the Department of Education, Employment and Workplace Relations and of the Mobile Preschool program in the Northern Territory.

The evaluation of the Mobile Preschool Program used to provide preschool services to Indigenous children in remote communities in the Northern Territory found short term benefits from preschool attendance. Children who attended a full year of preschool were less likely to be developmentally vulnerable, as measured by the AEDI, in their first year at primary school. For every term or 50 days of mobile preschool attendance, children were 70 per cent more likely to not be developmentally vulnerable on two or more of the AEDI domains (Nutton, Bell and Fraser 2013).

The HIPPY program evaluation found improvements in parents' confidence as their child's first teacher, a less hostile parenting style, more involvement in activities with their children and greater contact with the school. However, in terms of outcomes for the child, there were few significant differences between the HIPPY child and children from similar backgrounds who did not take part in the program. The evaluation noted that such benefits may take time to appear and a later assessment of school progress should be undertaken (Liddell et al. 2011).

Although the the HIPPY program has provided benefits to parents and families, the Commission is of the view that programs that primarily focus on building parenting skills lie outside the formal ECEC services and should not be included in ECEC funding. While such programs may well be worthwhile they should be provided as part of the social services support and case management for disadvantaged and at risk families. Options for funding ECEC are discussed in chapter 12.

DRAFT RECOMMENDATION 5.3

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

5.4 What are the benefits to the individual and the wider community from attending ECEC?

A key issue for this inquiry is to examine the learning and development benefits to the individual and the wider community from Australian children's participation in ECEC. It is not easy to empirically verify these benefits due to the difficulty in isolating and establishing the causal effects of participating in ECEC from all the other factors that influence a child's learning and development outcomes and to the relatively few data sets that allow proper analysis.

The research to date does provide a guide as to the benefits available from attending ECEC. As noted in section 5.1, there are benefits for individual children and their families from participation in ECEC, such as: improved cognitive ability and socialisation; and increased readiness for primary school. Those children from homes where the quality of care and the learning environment is below that available in ECEC are most likely to benefit from participation in ECEC. But there is also the potential for negative effects, such as the emergence of behavioural problems later in childhood, the closer to birth the child commences in ECEC and the longer the time the child spends in care.

Moreover, there are benefits from attending preschool in the year before the start of formal schooling. These benefits include lower levels of developmental vulnerability problems at the commencement of primary school and improved academic performance during primary school. Beyond primary school some benefits of preschool attendance for the wider population have been found to 'fade out' over time as the effects diminish relative to other factors — such as family characteristics, the quality of the school experience, peer groups, the surrounding community and life events — that impact on learning and development outcomes.

As noted above, ECEC programmes that target children from disadvantaged backgrounds can lead to improved outcomes for the individual into adulthood and offer the greatest possibility of long term benefits to the wider community. The long term benefits include higher incomes and lower rates of, welfare dependency, substance abuse, criminal behaviour and incarceration. To assess these potential benefits, which take a number of years to appear, requires adequate evaluation and assessment.

To highlight the potential wider economic benefits, ARACY used the results from a Canadian study to estimate the potential increase in Australia's GDP from reducing levels of developmental vulnerability as measured by the AEDI.

Evidence from Canada shows that reducing the costs of early childhood vulnerability from their current rate of 29% to a projected rate of 20% (by 2020) would result in an increase in GDP of more than 20% over 60 years. ... In Australia, it is estimated that

reducing Australia's early childhood vulnerability from 22% to 15% (by 2020), as proposed in this action agenda, would lead to an increase in Australian GDP of 7.35% over 60 years. (sub. 168, p. 5)

However, developing sound estimates of the potential increases in GDP from reductions in measured early childhood vulnerability is extremely contentious, given the multitude of factors that impact on aggregate measures of national output and on learning and development outcomes of individuals from their early childhood through to their adulthood. The nature and extent of the assumptions, projections and estimates used in the Canadian study indicate the difficulties in attempting to link any reductions in early childhood vulnerability to plausible estimates of increases in GDP (box 5.7).

Improving evaluation and avoiding possible pitfalls

There has been limited use of cost benefit analysis to evaluate intervention programs. Most of the evaluations undertaken have been for highly targeted groups in overseas programs and studies, particularly in the United States. Those studies that have followed the children into adulthood, such as the Perry Preschool program and the Abecedarian project, have found significant returns due to higher earnings, reduced welfare dependency, reduced involvement in crime and lower rates of incarceration (table 5.2).

Table 5.2 **Benefit to cost results of selected early childhood intervention programs for disadvantaged children**

<i>Program</i>	<i>Benefit to cost ratio^a</i>
Perry Preschool Project (US)	
Targeted centre based preschool program with parent participation	8.74 (at age 21) 17.07 (at age 40)
Abecedarian project (US)	
Targeted centre based child development program with parent participation	3.23 (at age 21)
Chicago CPC (US)	
Targeted centre based preschool program with parent involvement	7.14 (at age 21)
HIPPY (US)	
Home visits to targeted families	1.80
HIPPY (Australia)	
Home visits to targeted families	0.85 to 2.09 ^b

^a The benefit to cost ratio is based on the return for each \$1 invested (Net Present Value basis). ^b Based on applying discount rates of 3 and 7 per cent with the assumption that medium-term benefits are produced within 15 years and long-term benefits over 30 years.

Sources: Liddell et al. (2011); Mitchell, Wylie and Carr (2008).

Box 5.7 Estimates of increased GDP from lower developmental vulnerability scores in British Columbia

The study aimed to estimate the economic costs of developmental vulnerability of children in the Canadian province of British Columbia. The study used a number of compounding assumptions based on a measured reduction in the proportion of children in the province being assessed on entering kindergarten as developmentally vulnerable in one or more of the Canadian Early Development Index (EDI) domains from 29 per cent to 10 per cent:

- this lower level of vulnerability was used to develop a 'synthetic cohort' of children with a trajectory of assumed improved performance in standardised tests results in years 4 and 7 and then on to year 12
- the projected improvement in year 12 school performance would then be assumed to result in higher levels of high school graduation, an increase in university entrance grades and a reduction in crime in British Columbia.

Translating this into improvements in GDP was based on studies by Hanushek et al. (2008) to determine the importance of quality (cognitive skills as measured by school test scores) relative to quantity (educational attainment or years of schooling) in developing a country's human capital. These studies indicated if a country's population wide test scores for school students aged 9 to 15 were higher than another country's during the 1960s, the first country's annual GDP growth rate would be higher over the following 40 years from the relative improvements in human capital.

Further assumptions were then used to link the relativities of different country's test scores and GDP increases with lower levels of measured developmental vulnerability in British Columbia:

- improvements in educational outcomes in British Columbia from lowering the level of vulnerability were assumed to provide improvements in test performance for the province's school students
- this would then provide additional annual GDP growth (of 0.63 per cent based on Hanushek et al. 2008) which would increase the province's GDP by 20 per cent over the working life of the first cohort of children to benefit from lower levels of developmental vulnerability at school entry.

Sources: Kershaw et al. (2010); Hanushek et al. (2008).

A major difficulty of undertaking cost-benefit analysis of early childhood programs is that many of the benefits cannot be measured until the children in the program reach adulthood. As Karoly (2001) noted:

Although program costs are fairly well known, one issue for any cost-benefit analysis of early intervention programs ... is that many of the benefits that can be readily expressed in dollar terms are not observed until years after the intervention ends and the participating children reach adolescence and young adulthood. (p. 326)

Without longitudinal studies, the important longer term benefits (such as higher income, reduced welfare dependency and lower involvement in crime) cannot be fully assessed, yet they are critical to the overall net benefit of the program. For example, the assessment of the HIPPY program found that until the potential longer term benefits were factored in, the costs of the program exceeded the benefits over the short and medium term (Liddell et al. 2011). Similarly, a modelling exercise of the costs and benefits of implementing a universal ECEC program in the United Kingdom similar to that provided in Denmark or Sweden, found that in the short term the benefits barely exceeded the costs, but that the longer term benefits significantly exceeded costs over a 65 year period (Cleveland 2012).

In a report for the Australian Government Department of Family and Community Services as to the effectiveness of these programs, Wise et al. (2005) said:

The need for longitudinal study after an early childhood intervention is clear. This is important to understand what is needed to sustain and enhance intervention effects, how long programs should last, and to appreciate possible influences of program participation on later stages of development.

A further caution surrounds the transferability of successful programs into other locations. Wise et al. (2005) commented:

Unfortunately, however, no evaluation can demonstrate that a program that worked well in one setting will have similar positive results when adopted in a new location. Thus, evaluations that are conducted in the Australian context are essential to understand the potential benefits of early childhood interventions undertaken here. (p. 51)

Also, what worked in the past may not work as well in the present. The experimental programs from the United States (Perry Preschool and Abecedarian) that delivered significant benefits to specific communities 40 and 50 years ago may not be as successful if implemented on a larger scale today. Karoly (2001) said:

Most of these programs were implemented on a small scale, for specialized populations, during the 1960s, 1970s and 1980s. Thus, there is considerable uncertainty as to whether similar results could be obtained for full-scale versions of these programs, implemented in diverse communities, with a vastly different set of issues facing families and communities today compared with the past. (p. 325)

Comparing and evaluating intervention programs can be difficult. Heckman and Kautz (2013) note that, first many programs are only evaluated with short-term follow ups which can provide upward biased estimates of the returns if the effects of the program dissipate or downward biased estimates if the benefits appear later in the life. Second, not all studies measure similar outcomes. Third, many of these programs target specific demographic groups and applying the findings from one

group to another is problematic if these groups benefit differently from specific programs.

In summary, there is strong evidence from the large volume of literature and research that intervention programs to improve the development outcomes of children from disadvantaged backgrounds provide benefits for those children in the short term and potentially into adulthood as well as for the wider community. The broad approach of these various initiatives to target children from disadvantaged backgrounds and provide parenting support, improved home learning environments and early access to ECEC services and preschool are underpinned by evidence drawn from the research. However, how effective a particular model or intervention program is in addressing the development needs of these children should be assessed by ongoing monitoring and evaluation. Any cost-benefit analysis of a particular intervention should also include the impact on the parent's work force participation.

DRAFT RECOMMENDATION 5.4

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

DRAFT

6 Workforce participation

Key points

- The workforce participation rate of mothers with a child aged under 15 years has grown substantially in recent decades, from 57 per cent in 1993-94 to 66 per cent in 2011-12, consistent with that for all women. This growth is evident for partnered and single mothers, and across different ages and numbers of children. There are notable differences in the rates for these groups.
- More mothers work part time than full time — in 2011-12, around 58 per cent of employed mothers with a child aged under 15 years worked part time. Unlike the growth in the maternal participation rate, there has been little change in the proportion of employed mothers working part time in recent decades.
- Mothers' workforce participation — in terms of the participation rate and part-time share of employment — is well below that of fathers (94 per cent and 7 per cent) and women aged 25 to 54 years without children (87 per cent and 37 per cent). Using the most recent comparable data, Australia's maternal employment rate in 2009 (62 per cent) was below the Organisation of Economic Co-operation and Development average (66 per cent) and trails that of many other countries. In couple families, mothers are often regarded as the second income earner. Mothers also have primary responsibility for the care of their children and household activities.
- Increased workforce participation can result in benefits to the wider community through for example: reduced social and economic disadvantage; increased gross domestic product and economic productivity; and improvements in the Government's fiscal position.
- Roughly 165 000 parents (on a full-time equivalent basis) with children aged under 13 years would like to work, or work more hours (most of them part time), but are not able to do so because they are experiencing difficulties with the affordability and availability of suitable early childhood education and care (ECEC) services.
- The workforce participation of mothers is affected not just by the out-of-pocket costs and availability of suitable ECEC services but also by the preferences of mothers, which in turn can be affected by such factors as the stresses of managing paid and unpaid work at home and, in couple families, the support of partners. Other important determinants are the availability by employers of flexible work and other family-friendly arrangements, and the effective marginal tax rates facing second income earners in couple families and low income single parent families.
- Along with addressing the affordability and accessibility of ECEC services, improving the availability and uptake of flexible work and other family-friendly arrangements would help support the workforce participation of mothers.

6.1 Introduction

There are a range of benefits from increasing the workforce participation of mothers — whether in terms of their joining the workforce or increasing the hours of work of those already in the workforce. Many participants and others have commented on these benefits (box 6.1).

Private benefits (benefits to the mother and her family) include or arise from:

- the mother's receipt of wages, on-the-job training, opportunities for career progression, superannuation and other work-related benefits
- increased satisfaction for the mother in engaging with others in the community beyond the family.

Community-wide benefits from increased maternal workforce participation, which incorporate the private benefits above, may include or arise from:

- a boost in measured economic output
- increased productivity of the workforce by ensuring the continued workforce attachment of educated and skilled working parents
- reduced risk of long-term unemployment and reliance on the welfare system
- increased return on public expenditure on higher education of women
- increased tax revenues and reduced government expenditures (such as on the Newstart Allowance, Parenting Payment and Age Pension)
- improved level of social engagement.

Some studies have estimated the gross value to the economy from improving the workforce participation of women — that is, not including factors such as the value of unpaid activities (such as childcare) undertaken by women prior to entering the workforce. The Grattan Institute (sub. 445, p. 4) estimated that gross domestic product (GDP) would be \$25 billion higher in a decade if Australian women did as much paid work as women in Canada — implying an extra 6 per cent of women in the workforce. The Organisation of Economic Co-operation and Development (OECD 2012a, p. 57) estimated that increasing the workforce participation of women so as to reduce the gap with men by 75 per cent could increase Australia's projected average annual growth in GDP per capita from 2.0 per cent to 2.4 per cent. In chapter 13, the Commission considers that the workforce impacts from changing Early Childhood Education and Care (ECEC) funding had complex effects on GDP.

Box 6.1 The benefits of increasing workforce participation of mothers

... increased female workforce participation ... will generate income growth, create more significant business prospects, enhance inter-firm competitiveness and promote innovative thinking. (Australian Women Chamber of Commerce and Industry, sub. 336, p. 10)

There are a number of policy reasons to encourage workforce participation of women. ... 1. Children in workless households are at greater risk of poverty; 2. Underemployment affects the ability of women to save for their retirement; and 3. Lower participation rates for women than men constitute a significant source of labour to [increase] productivity in the Australian economy. (Coleman and Hodgson 2011, p. 38)

Paid employment generates a range of positive impacts for individuals and families, including higher income, greater savings and the enjoyment and fulfilment derived from work. (Goodstart Early Learning, sub 395, p. 24)

Besides the initial boost to economic growth that comes from increased labour force participation, there are longer-term benefits for both individual women and for the country as a whole. The longer women stay out of the labour force after having children, the more difficult it is for them to return to work, and the more likely they are not to return at all. When they do return, they may do so on lower wages. Because they earn less over their lives, they end up with much lower retirement savings than would otherwise be the case. Not only does this leave many women economically vulnerable as they age, but it also increases the number reliant on the Age Pension and other government support services. (Grattan Institute, sub. 445, p. 6)

The negative implications of middle-ranking women leaving the workforce to look after children at home are extremely severe for the Australian economy and society at large. Firstly, tertiary-educated women dropping out of the workforce results in a massive brain drain for the Australian economy, especially given that 57% [in 2011] of university students are women. This also leads to a major investment loss of the community, as the women who do not participate in the workforce do not repay their HECS [Higher Education Contribution Scheme] debts. ... There is also a long-term cost to Australian employers from training than losing their skilled staff and executives. Secondly, women who drop out of the workforce stop paying taxes, stop contributing to superannuation for their retirement, rapidly lose professional skills and become dependent on their husbands' salaries and government assistance ... Thirdly, the need to care for children directly contributes to the low numbers of women in senior management roles. ... (Louise McBride et al., sub. 431, p. 8)

Employment generates benefits for individuals, their families and the broader community. The benefits of work go beyond the clear financial rewards into other areas such as health, social connectedness and psychological wellbeing. These benefits are not only felt by the person working, they also extend to other family members. (RGWR 2014, p. 24)

The prime child-rearing years coincide with what is known as the 'Golden Decade' for career development, from age 30 to 40, and being out of the workforce during these years – or working in jobs that may be career-limiting rather than career-enhancing – makes it highly unlikely that this parent will be able to reinvigorate their career later in life. The length of parental leave taken also impacts on employees' abilities to re-enter the workforce and maintain their career momentum. This combination of factors has flow-on effects in terms of less accrued human capital substantially reduced superannuation savings and lower lifetime earnings, all of which impact on financial security after existing from paid employment. (Workplace Gender Equality Agency, sub. 89, p. 7)

There are potential tradeoffs in achieving higher maternal workforce participation particularly in terms of reductions in unpaid work currently performed by mothers, reductions in the workforce participation of fathers and those providing informal childcare (for example, grandparents), and the added stresses in achieving work-life balance.

Pursuing an objective of supporting workforce participation through an ECEC system should not be divorced from another important objective — namely, enabling greater child learning and development (discussed in chapter 5). Nor does it mean that having children should be seen as a barrier to the workforce participation of mothers. As one parent commented: ‘children are young for a short time compared to the length of their parents’ working lives. The fact that most parents need to adjust and adapt their working lives needn’t be defined as a problem that needs solving’ (comment no. 96, ECEC user).

This chapter begins by examining current patterns and trends in the workforce participation of parents, particularly of mothers (section 6.2). It then considers whether there is scope for increasing current maternal workforce participation by examining the factors driving participation and possible tradeoffs from any increases (section 6.3). The relationship between participation and future childcare needs is then examined (section 6.4). The chapter concludes by discussing options to support participation focusing on flexible work and other family-friendly arrangements in workplaces (section 6.5). Other options that support participation are covered in chapters 8 (improving accessibility of ECEC services) and 12 (improving affordability and funding of ECEC services and expanding the forms of ECEC services eligible for assistance).

6.2 The workforce participation of parents

Over the past 30 years or so, the workforce participation rate of Australian women in their prime working years has grown substantially. In early 2014, 76 per cent of women aged 25 to 54 years were in the workforce compared with 50 per cent of women in early 1978 (ABS 2014c).^{5,6} In contrast, the workforce participation rate of men aged 25 to 54 years has fallen over the period — from 95 per cent to 90 per cent.⁷

⁵ The participation rate is the proportion of persons of working age in the population who are employed or unemployed, but looking for work.

⁶ This age group was selected as typically resembling the age of most parents with children aged under 15 years. It also includes those age groups of females for which fertility rates are highest, which in 2012 was 25 to 34 years of age.

⁷ Similar numbers and trends are apparent for women and men aged 25 to 34 years.

More women than men work part time, although there is a growing proportion of men who work part time. In early 2014, around 41 per cent of employed women aged 25 to 54 years worked part time, broadly unchanged from the proportion in early 1978 (ABS 2014c). In contrast, the proportion of men aged 25 to 54 years who work part time was 10 per cent in early 2014, compared with 3 per cent in early 1978.⁸

There are a number of factors explaining these patterns and trends, including: lower fertility rates (and the introduction and widespread use of birth control); changes to industrial relations laws and workplace conditions (for example, in relation to anti-discrimination, equal pay and flexibility in work arrangements); changes in the structure of the economy (for example, the decline in manufacturing and increase in services); technological change (leading to new occupations and industries); and the more widespread education of women.

These same factors also explain the patterns and trends in the workforce participation of parents, which is the focus of this chapter. Of additional relevance to parents are such factors as: changing community attitudes to working mothers, particularly those who return to work soon after their children are born (including attitudes to mothers breastfeeding in the workplace); the later age at which women have children and the scope for career development prior to that; changing family structures (particularly, the large growth in single parent families); greater acceptance among employers of providing flexible work and other family-friendly arrangements for their employees; and government policies targeting families such as on childcare (with Australian Government funding first introduced in 1972), the Paid Parental Leave scheme (2011), and welfare payments targeting parents — for example, the Maternity Allowance (1996 to 2004), the Parenting Payment (1998), the Family Tax Benefit (2000), the Baby Bonus (2004) and the Welfare to Work reforms (2006).

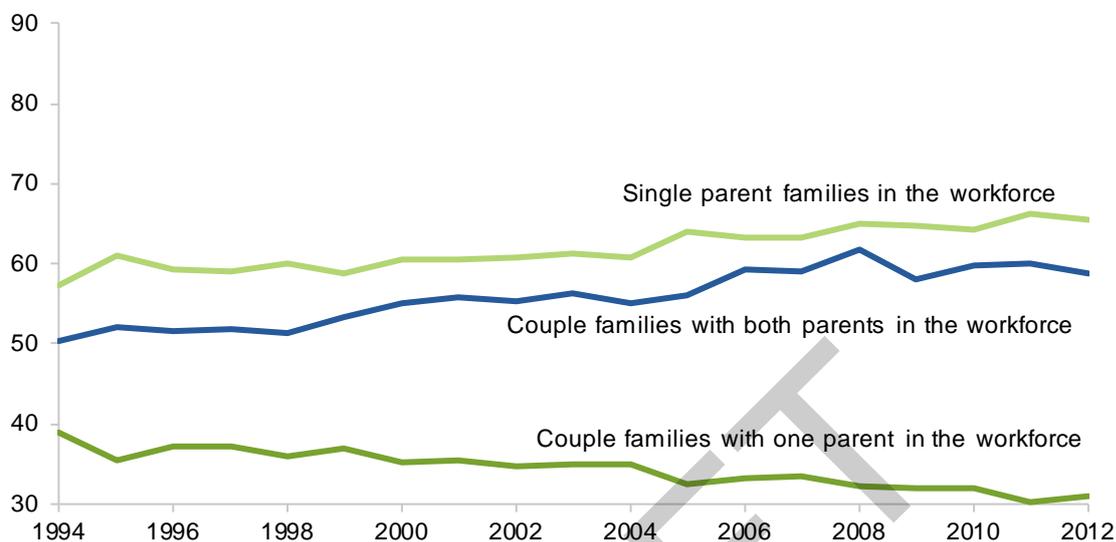
The remainder of this section describes the main patterns and trends in the workforce participation of parents. It draws largely on the Australian Bureau of Statistics (ABS) Labour Force Survey, with more details contained in appendix D.

The traditional model of Australian families in the workforce is changing

The traditional model of couple families with just one parent in the workforce has continued to decline over recent decades, whereas there are increasing proportions of single parent families in the workforce and of couple families where both parents are in the workforce (figure 6.1).

⁸ See footnote 3.

Figure 6.1 Participation rates by family types, with a child aged under 15 years^{a, b}
Per cent



a Year ended June. **b** Workforce participation is measured by the proportion of families within each family type that are in the workforce.

Data sources: Commission calculations based on ABS (2005, 2013c).

Maternal workforce participation rates have risen but remain relatively low

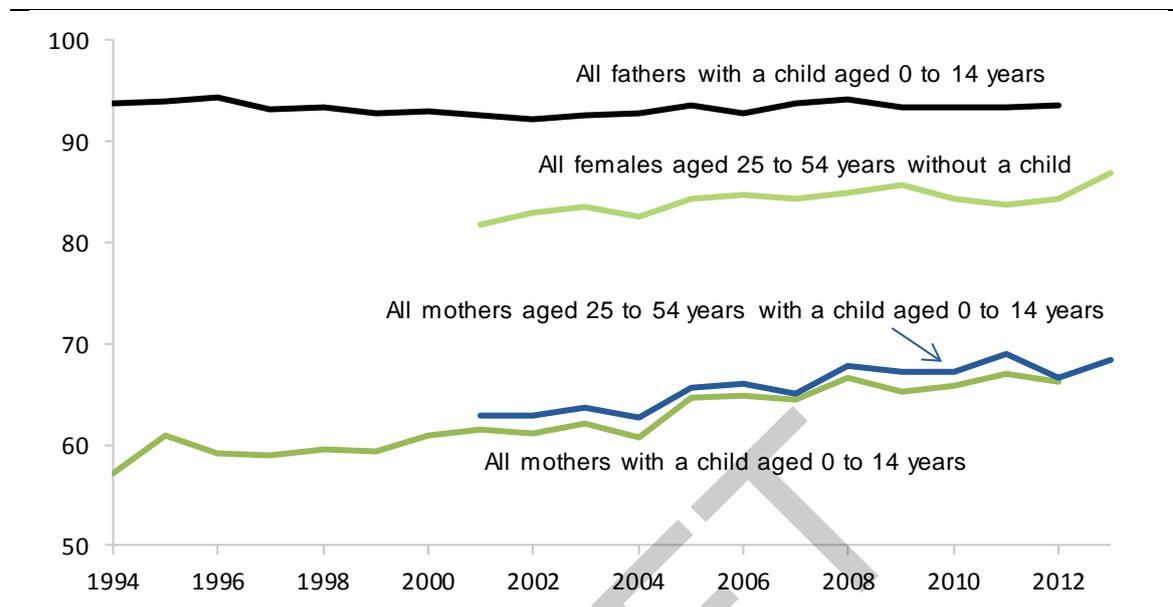
Consistent with the growth in the participation rate of women, the workforce participation rate of mothers has grown substantially in recent decades — from 57 per cent in 1993-94 to 66 per cent in 2011-12 (figure 6.2). However, maternal participation rates are well below those of fathers and women without children (figures 6.2 and 6.3).

The overall growth in the participation rate of mothers is reflected in that of both partnered and single mothers, for mothers with different ages of children, and mothers with different numbers of children.

However, there are notable variations in the participation rates of these different groups (figure 6.3).

- The participation rate of partnered mothers is above that for single mothers across all age groups of children and by numbers of children.
- The participation rate of mothers of older children is substantially higher than that for mothers of younger children.
- The participation rate of mothers decreases with the number of children.

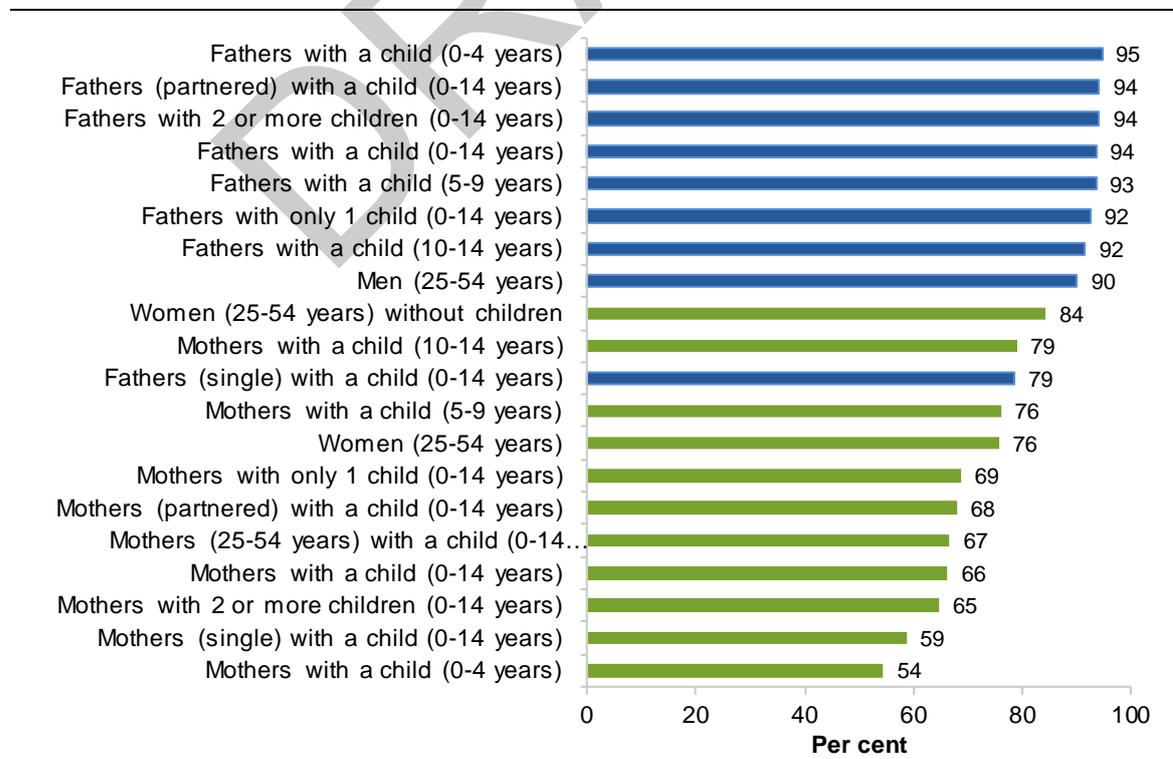
Figure 6.2 Participation rates: parents and females without children^{a, b, c}
Per cent



a Year ended June. **b** All females aged 25 to 54 years includes single females who are assumed to cover 'dependent students', 'non-dependent child', 'other family person', 'person living alone' and 'non-family members not living alone'. **c** The earliest data for females aged 25 to 54 years is 2000-01 whereas the most recent data for all parents with a child aged under 15 years is 2011-12.

Data sources: Commission calculations based on ABS (2005, 2013c, 2014b).

Figure 6.3 Participation rates of various groups^{a, b}



a Year ended June 2012. **b** Based on the age of the youngest child.

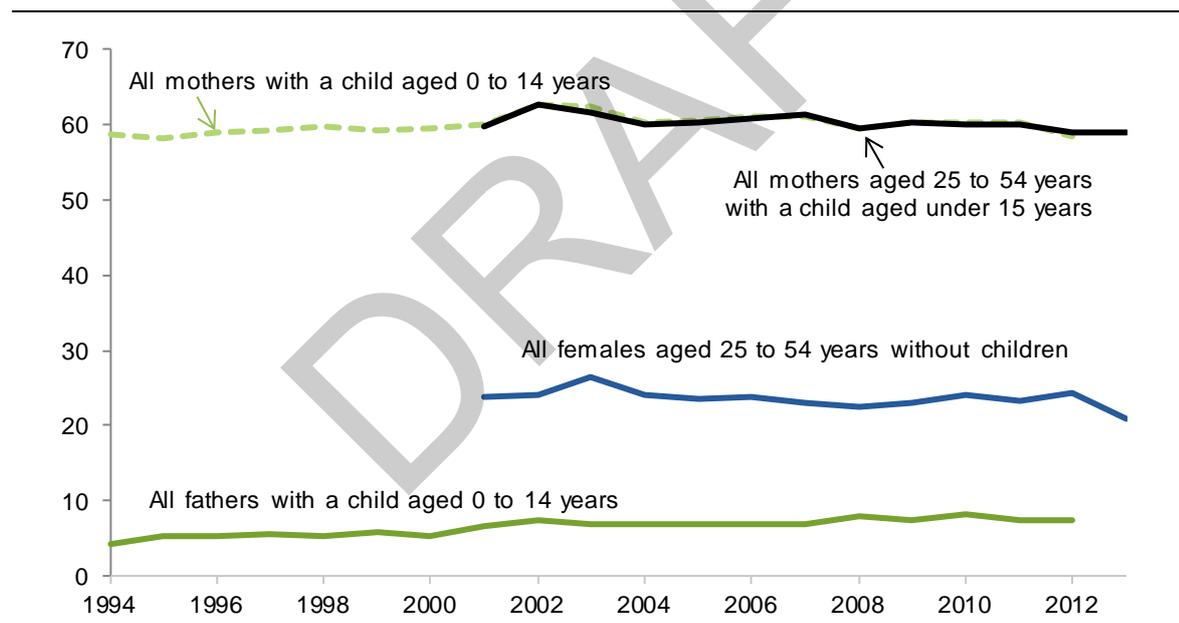
Data source: Appendix D.

More employed mothers work part time than full time

More employed mothers work part time than full time — in 2011-12, around 58 per cent of employed mothers worked part time (figure 6.4). The tendency of employed mothers to work part time occurs largely irrespective of the age group of their youngest child or the number of children they have. It is also particularly noticeable in comparison with fathers and women without children (figures 6.4 and 6.5). Employed partnered mothers are also more likely to work part time compared with employed single mothers, but both groups tend to increase their hours of work as their children get older.

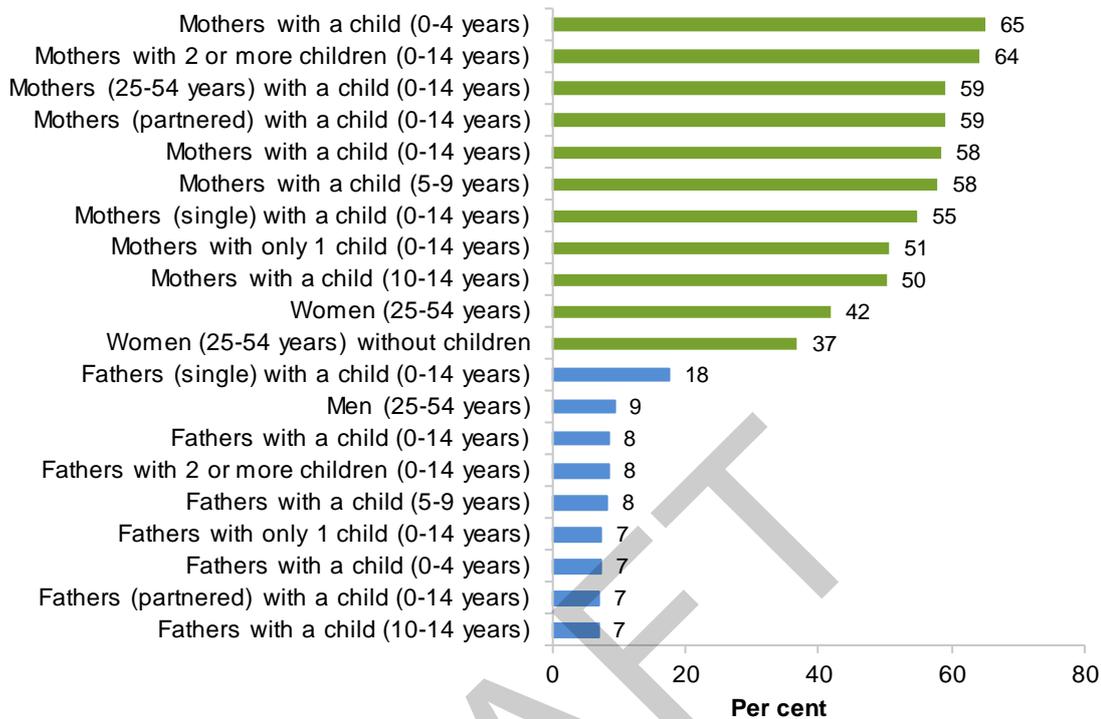
Despite the strong growth in the participation rate of mothers, the proportion of employed mothers working part time is about the same now as it was 20 years ago.

Figure 6.4 Part-time shares of employment: parents and females without children^{a, b, c}
Per cent



a Year ended June. **b** All females aged 25 to 54 years includes single females who are assumed to cover 'dependent students', 'non-dependent child', 'other family person', 'person living alone' and 'non-family members not living alone'. **c** The earliest data for females aged 25 to 54 years is 2000-01 whereas the most recent data for all parents with a child aged under 15 years is 2011-12.

Data sources: Commission calculations based on (2005, 2013c).

Figure 6.5 Part-time shares of employment of various groups^{a, b}

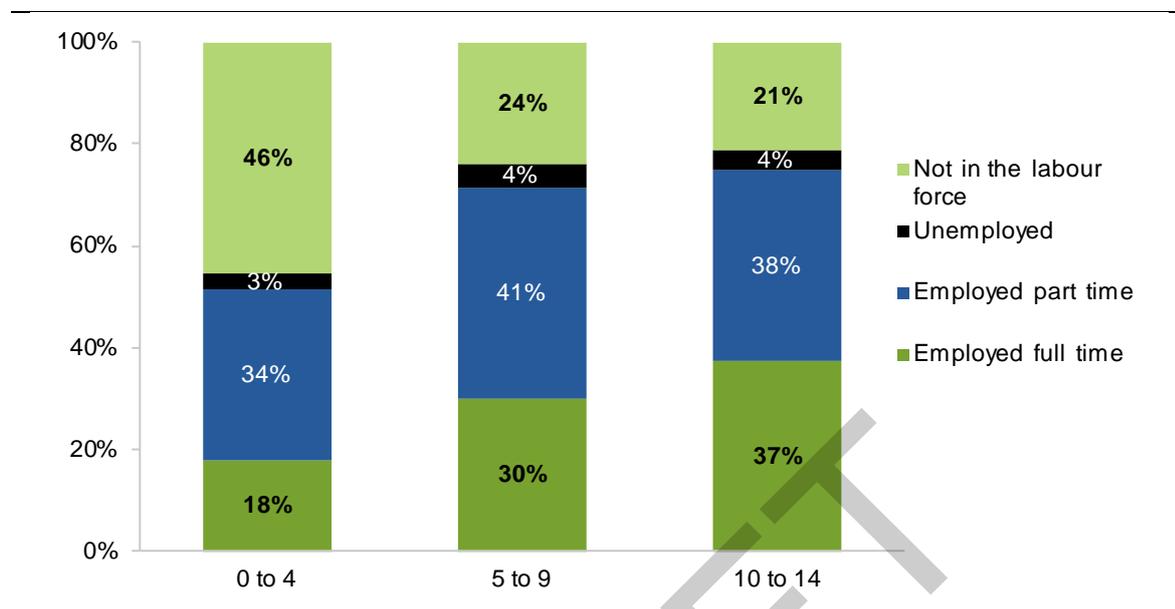
^a Year ended June 2012. ^b Based on the age of the youngest child.

Data source: Appendix D.

Overall workforce participation of mothers increases with the age of their youngest child

The participation of mothers in the workforce — in terms of joining the workforce and hours worked — is highly dependent on the age of their youngest child (figure 6.6). The proportion of mothers in the workforce with a child aged 10 years or older is around 24 percentage points more than that of mothers with a child aged under 5 years. The proportion working full time is also higher amongst those with older children.

Figure 6.6 **Mothers' workforce status by age of youngest child**^{a, b, c}
Per cent



^a Year ended June 2012. ^b The figure shows the proportion of mothers working part time, full time, unemployed or not in the labour force in all mothers by age group of youngest child. ^c The share of mothers working part time in this figure differ from the share of employed mothers working part time in figure 6.2 as the denominators are different — the first has all mothers in the denominator, the second has only employed mothers.

Data source: Commission calculations based on (ABS 2013c).

Looking at the flip-side, there is a relatively large number of mothers, particularly mothers of very young children, who are not in the workforce. Overall, of the 5.5 million persons who were not in the workforce in 2012-13, around 17 per cent (911 400) were women with children aged under 15 years (ABS 2013a). Around 48 per cent (440 800) of these mothers had children aged under 2 years. By comparison, fathers with children aged under 15 years accounted for around 3 per cent of persons (180 500) not in the workforce. Around 30 per cent (54 700) of these fathers had children aged under 2 years.

After the birth of a child, the workforce participation of mothers is very low and there is a strong preference for working part time for those who do participate

Many mothers do not participate in the workforce within the first two years or so following the birth of their child.

- Of mothers with at least one child aged under 2 years (523 300), 61 per cent did not start or return to work after the birth of their child with most of this group designated as not in the workforce (ABS 2012b, p. 4). This group may, however, start or return to work sometime in the future when their child gets older.

- Of mothers with at least one child aged under 2 years who had a job while pregnant (357 500), around 29 per cent left their job permanently (ABS 2012b).

There also appears to be a small number of mothers of very young children who have had little or no workforce attachment prior to the birth of their child. There were around 165 800 women with a child aged under 2 years in November 2011 who did not have a job while pregnant (ABS 2012b, p. 3).⁹

Of mothers who did start or return to work in the two years following the birth of their child (205 500), more than half did so by the time the child was 6 months old (table 6.1). The majority of these mothers (84 per cent) started or returned to work, usually part time — 39 per cent worked up to 15 hours a week and 45 per cent worked between 15 and 34 hours a week (ABS 2012b).

Some of these numbers may well have changed since the introduction of the Paid Parental Leave scheme in January 2011. The scheme provides eligible parents up to 18 weeks paid parental leave pay, which is paid at the rate of the national minimum wage, following the birth or recent adoption of a child. According to an evaluation of the scheme (Martin et al. 2013, pp. xvi, 67), the vast majority of mothers who received paid parental leave (at least 98 per cent) took the full 18 weeks of payments.

Table 6.1 Time taken by mothers to start or return to work after the birth of a child^{a, b}

<i>Age of child when mother started or returned to work after birth</i>	<i>Number</i>	<i>Per cent</i>
	'000	%
0 to 3 months	59.4	28.9
4 to 6 months	57.8	28.1
7 to 12 months	69.6	33.8
13 to less than 24 months	18.7	9.1
All mothers who started or returned to work after birth	205.5	100.0
All mothers with a child aged less than 2 years	523.3	

^a November 2011. ^b Covers mothers with a child under 2 years who started or returned to work after the birth of a child.

Source: ABS (2012b).

Workforce participation rates of fathers resembles that of all prime-aged men

Unlike the growth in the maternal workforce participation rate, the participation rate of fathers has remained steady at around 94 per cent over the past 20 years

⁹ It is not clear how many of these women require more than just ECEC services in order to participate in the workforce.

(figure 6.2). The participation rate of single fathers appears to have increased over this period (from 77 per cent in 1993-94 to 79 per cent in 2011-12),¹⁰ whereas that for partnered fathers is largely unchanged (sitting at around 94 per cent from 1993-94 to 2011-12).

As noted, the workforce participation rate of fathers remains well above the maternal participation rate (figures 6.2 and 6.3). It is also relatively unresponsive to the age and number of children. In contrast to mothers, the participation rate of fathers is slightly lower when they have younger children and slightly higher when they have more children.

As for most prime-aged men, fathers tend to work full time (figures 6.4 and 6.5). Although fathers have a much lower part-time share of employment than mothers (7 per cent compared with 58 per cent), there has been some growth in the proportion working part time over the past 20 years. This growth is particularly noticeable for single fathers (despite significant variability over the period).

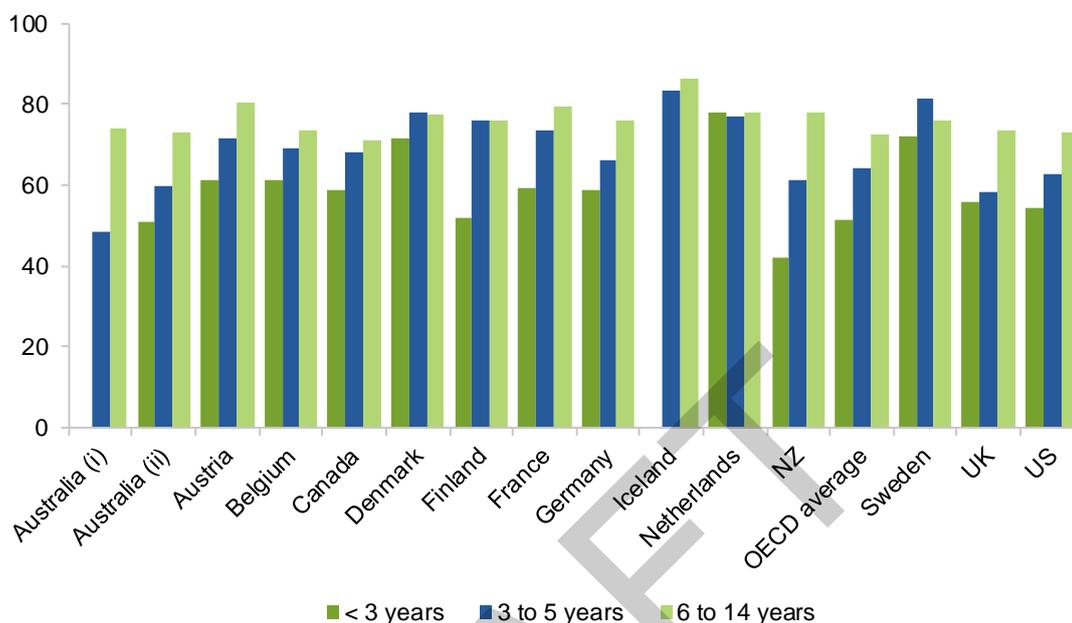
The workforce participation of Australian parents is noticeably different from that of parents in other OECD countries

Compared with the OECD, the workforce participation of Australian parents is noticeably lower. Around, 62 per cent of Australian mothers with a child under 15 years undertook some form of work in 2009. This is about the same employment rate as in New Zealand, but lower than the OECD average of 66 per cent (OECD 2012b).¹¹ The largest discrepancy between Australia and the OECD average is in employment rates for those mothers with a child aged 3 to 5 years (figure 6.7). For this group, the 60 per cent employment rate of Australian mothers is below the OECD average of 64 per cent and trails many comparable countries such as Sweden, Denmark and Canada but is similar to New Zealand and the United States. Australia's employment rate for mothers with a child aged under 3 years is slightly below that for the OECD average and for mothers with a child aged 6 to 14 years is slightly above the OECD average.

¹⁰ There is a very high relative standard error associated with the estimated participation rate and part-time share of employment for single fathers with a child aged under 5 years, which could affect confidence in the estimates for single fathers of a child aged under 15 years.

¹¹ The proportion of persons of working age in the population who are employed.

Figure 6.7 **Employment rates of mothers by age of child in selected OECD countries^{a, b, c, d}**
Per cent



^a 2009. ^b Some of the data underpinning the employment rates refer to different time periods: 2011 for Australia (ii) 2007 for Sweden; 2005 for the United States; 2002 for Iceland; 2001 for Canada; 1999 for Denmark. ^c Some of the data underpinning employment rates refer to different ages of children: data for Australia(i) and Iceland refer to mothers with a child aged less than 5; data for Canada, Denmark, Iceland, Sweden, and the United States refer to mothers with a child aged between 6 and 16. ^d The OECD average covers Australia (i), Austria, Belgium, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Data sources: Australia (i) and all other countries — OECD (2013b); Australia (ii) — DSS (2013b).

The workforce participation of Australian parents also stands out from the OECD average in relation to family type and hours worked.¹²

- Australia's employment rates for single parents (60 per cent for single mothers and 72 per cent for single fathers) are well below the OECD average (67 per cent for single mothers and 80 per cent for single fathers).
- Compared with the OECD average, a much lower proportion of employed single parents in Australia work full time, a much higher proportion work part time, and a higher proportion do not work at all.
- A higher proportion of Australia's employed couple families than the OECD average involves one parent employed full time and the other part time (38 per

¹² The World Values Survey data also show that in 2000 Australian mothers, like mothers in the United Kingdom, have a greater tendency to work part time than Germany, Norway, Sweden and Spain (Baird 2013, p. 6).

cent compared with 24 per cent) and a lower proportion involves both parents employed full time (21 per cent compared with 37 per cent).

Workforce participation differences between Australia and other OECD countries are due to a number of factors including differences in total fertility rates, tax and welfare systems, paid parental leave policies, childcare policies, differences in social norms and attitudes in countries. Population coverage in national labour force surveys also contribute to differences.

Adjusting workforce participation indicators to reflect these differences, therefore, can yield different results. For example, the Australian Institute of Family Studies (AIFS, sub. 391, p. 6) found that after excluding those on all forms of leave (including maternity leave) the rate of Australian mothers with a child aged under 3 years 'in work' was above that for Finland, Austria and Germany, but 'somewhat lower' than the Netherlands, the United Kingdom and France.

Non-standard working hours are common

Several participants noted that non-standard work hours are becoming more common across the economy (for example, the Ai Group, sub. 295).

This is also the case for families with employed parents and dependent children (ABS 2009c, p. 2):

- About half of all couple families where both parents worked, one or both parents worked variable hours or were on call.
- Working at night was also a feature of working life for many parents. In nearly 60 per cent of couple families, one or both parents usually worked some hours between 7 pm and 7 am.
- Among couples with children, putting in extra hours at work was the usual practice for one parent (41 per cent of cases) and both parents (17 per cent of cases).
- Working extra hours was especially common in families where both parents were employed full time. One or both parents usually worked extra hours in 70 per cent of these families. They were mainly working extra hours to get the work done and meet deadlines.
- Working both during the week and on weekends was also very common amongst parents. Half of all couple families where both parents worked and one-third of single parent families where the parent worked usually worked a combination of weekdays and weekends.

Shift work accounted for 13 per cent of work arrangements used by either parent in families to help care for children aged under 13 years (ABS 2012a). This is consistent with the use of shift work across a broader population of employed persons where around 16 per cent usually worked shift work (box 6.2).

Box 6.2 **Shift work in Australia**

According to the ABS 2012 Working Time Arrangements Survey, around 1.5 million employees usually worked shift work in their main job, accounting for 16 per cent of all employees.

Men were more likely to undertake shift work than women (18 per cent compared with 14 per cent of all employees).

The most common type of shift work is a rotating shift (a shift which periodically changes from one time period to another) undertaken by 45 per cent of those who worked shift work. The next most common types of shifts worked were regular shifts (28 per cent) and irregular shifts, split shifts or shifts on call (27 per cent).

Industries with the highest proportion of employees usually working shift are mining (43 per cent); accommodation and food services (38 per cent); and transport, postal and warehousing (31 per cent). For females, the industries with the highest proportion of employees who usually worked shift were accommodation and food services (33 per cent) and healthcare and social assistance (30 per cent), while for men it was mining (47 per cent) and accommodation and food services (44 per cent).

Occupations with the highest proportion of employees usually working shift include community and personal service workers (37 per cent); machinery operators and drivers (31 per cent) and labourers (20 per cent). For females, occupations with the highest proportion of employees who usually worked shift were machinery operators and drivers (31 per cent) and community and personal service workers (29 per cent).

Sources: ABS (2013b, 2013d, p. 33).

Women are becoming more educated

According to data from the Department of Education (2014), the proportion of domestic students completing higher education who were females was 60 per cent in 2012 up by 3 percentage points since 2001.

Using Census data, the AIFS noted that mothers' level of educational attainment increased significantly over the past decade or so (sub. 391, pp. 11–12). It estimated that the percentage of mothers having only incomplete secondary education fell from 43 per cent of mothers in 2001 to 19 per cent in 2011, whereas the percentage with bachelor degrees or higher increased from 17 per cent in 2001 to 30 per cent in 2011.

Although more women than men are completing higher education, they tend to dominate some fields of study (for example, education, health, society and culture and the creative arts) whereas men tend to dominate in others (for example, engineering and related technologies, food hospitality and personal services) (Department of Education 2014).

More women are becoming self-employed or primary 'breadwinners'

Several participants and others (for example, AIFS, sub. 391; Australian Women Chamber of Commerce and Industry (AWCCI), sub. 336; Baird 2013; Bankwest 2013) noted an emerging trend in women and mothers moving into self-employment. AWCCI considered that women were doing so with the aim of 'creating greater flexibility' (sub. 336 p. 11). The trend towards women becoming the primary 'breadwinners' in couple families has also been noted by Baird (2013) and Cassells et al. (2013). Further details about these trends are in appendix D.

DRAFT FINDING 6.1

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

DRAFT FINDING 6.2

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

6.3 What scope is there for increasing the workforce participation of mothers?

As noted above, the workforce participation of mothers is comparatively low in several respects.

- The participation rate of mothers with a child aged under 15 years is well below that of fathers and of women without children.
- More employed mothers with a child aged under 15 years work part time than full time, particularly compared with fathers and women without children.

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- The participation rate and hours worked of mothers with younger children aged 0 to 4 years is below that of mothers with older children aged above 5 years.
 - The participation rate of single mothers is below that of partnered mothers across all child ages.
 - The employment rate of Australian mothers is below the OECD average, particularly where there is a child aged 3 to 5 years.
 - There is a large proportion of mothers caring for their own children who are not in the workforce compared with fathers.

Whether or not there is scope for further increases in these areas — particularly through changes to the ECEC system — depends on addressing the following questions:

- What are the factors determining mothers' workforce participation decisions and, in particular, the relative significance of mothers' preferences for looking after their children, and the affordability and availability of suitable ECEC services as factors?
- What are the tradeoffs in increasing the workforce participation of mothers?

Drivers of the workforce participation of mothers

There are a number of factors affecting mothers workforce participation decisions, of which childcare is but one. Many parties have commented on these factors and the complexity involved in that decision making (box 6.3).

Factors include:

- preferences — of mothers (and their families) for working compared with providing parental-based childcare in the home, undertaking domestic chores and engaging in other non-work activities (for example, recreation)
- mothers' characteristics — age; educational attainment level; workforce attachment prior to having children
- financial — mothers' wages (including the mothers' reservation wage' — the minimum wage and conditions at which mothers are prepared to accept employment or increase their hours of work); out-of-pocket costs, availability, flexibility and quality of childcare; work-related costs such as transport, meals and clothing; partner's wage-related income; the family's non-labour income; tax and welfare treatment of family income; household expenditure (including on non-market activities previously provided by the mother)

Box 6.3 Participants' views on the factors affecting the workforce participation of mothers

... we know that decision-making about employment is complex, with the availability of suitable childcare being part of the story ... Also, mothers' employment decisions will depend upon the availability of suitable employment and the degree to which parents can share the care of children (whether in couple or separated families). Financial considerations are likely to matter to some families, as are the specific needs of individual children. These complexities clearly need to be taken into account when thinking about associations between childcare and maternal employment. (AIFS, sub. 391, p. 44)

Maternal labour force participation rates are affected not only by taxation considerations, but also by educational level, earnings capacity and the need to purchase services to replace those the primary carer would normally provide – particularly childcare and other domestic services. (economic Security4Women, sub. 291, p. 5)

The drivers of women's choices about labour force participation are complex. ... For mothers with dependent children, they may include:

- The income available from paid work, after accounting for tax paid, family benefits lost, and child care costs.
- The availability, affordability and quality of child care.
- The availability of job opportunities that are suited to their skills, appropriately located, and sufficiently flexible to enable them to balance work and family.
- Personal and cultural beliefs and preferences about how children should be raised, and the role of women in the family and society. (Grattan Institute, sub. 445, p. 7)

Beyond the payment system and financial support for childcare, there are numerous other areas of policy impacting on women's participation in the workforce. While traditional models of caring for children through extended family members continue to play an important role in supporting women's participation in the workforce, changing family structures, geographically dispersed extended families, and changing workplace practices all impact on a women's decision to participate. The availability and affordability of childcare is critical to supporting changes in these areas. (Mission Australia, sub. 164, p. 14)

While affordable and accessible childcare is a critical driver of workforce participation, there are other levers that can impact on women's abilities to enter paid work and move up the leadership ladder. The provision of adequate and appropriate paid parental leave is one of these key levers. Research also suggests a range of structural and cultural barriers exist in the workplace that limit women's abilities to stay in paid employment and progress at the same rate as men. These include limitations in workplace flexibility, the persistent gender gap (currently 17.5% nationally), cultural norms that prescribe 'suitable occupations' for women and men, and constraints on the support available for pregnant women and new parents. (Workplace Gender Equality Agency, sub. 89, p. 5)

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- family's characteristics — family type (couple or single parent families); age, number and spacing of children; cultural background; health and disability status of family members; geographical location (whether in rural and remote areas of Australia or in urban areas)
 - availability of family-friendly workplace arrangements for parents — such as flexible work arrangements, paid parental leave and carers leave.

The remainder of this section considers some of these factors.

Mothers' preferences

Mothers' preferences for the care of their children compared with undertaking paid work is probably the single most important factor determining their workforce participation.

Many mothers appear to not want a paid job nor work more hours. Of the mothers with children aged under 15 years who were not in the workforce in 2012-13, only 37 per cent wanted a paid job (table 6.2). Of the mothers who were working part time, only 23 per cent preferred to work more hours. Their preferences for a paid job or more hours are higher when their children are older. (Conversely, when children are older, fathers who were not in the workforce had a higher preference for not working and fathers who worked part time had a higher preference for more hours.)

Similar findings were evident from the 2012 Australian Work Life Index survey of 2800 working Australians undertaken by the University of South Australia Centre for Work + Life (Skinner, Hutchinson and Pocock 2012, pp. 35–36).¹³ According to that survey, single and partnered parents prefer to work fewer hours than they actually do. For example, single and partnered mothers preferred to work, respectively, 1.3 and 4.6 fewer hours. Single and partnered fathers preferred to work, respectively, 4.0 and 6.6 fewer hours. A greater proportion of mothers working full time (42 per cent) would prefer to become part time than would women without children (32 per cent).

¹³ The Australian Work Life Index contains five measures, which assess respondents' perceptions of 'work-life interference' across five domains: 'general interference' — the frequency that work interferes with responsibilities or activities outside work; 'time strain' — the frequency that work restricts time with family or friends; 'work-to-community interference' — the frequency that work affects works' ability to develop or maintain connections and friendships their local community; 'satisfaction with overall work-life balance'; and frequency of 'feeling rushed or pressed for time' There have been five surveys since the first one in 2007.

Table 6.2 **Preferences of parents for a paid job or to work more hours**^{a, b}
Per cent

	<i>Persons not in the labour force</i>		<i>Persons who usually worked part time^c</i>	
	<i>Wanted a paid job</i>	<i>Did not want a paid job^d</i>	<i>Preferred to work more hours</i>	<i>Did not prefer to work more hours^e</i>
Mothers				
With children aged:				
0 to 2	31.9	68.1	20.5	79.5
3 to 4	36.8	63.2	22.1	77.9
5 to 9	40.2	59.8	24.8	75.2
10 to 14	45.8	54.2	23.4	76.6
0 to 14	36.6	63.4	22.8	77.2
Partnered with dependents	36.7	63.3	18.5	81.5
Single parent	32.7	67.3	40.7	59.3
Fathers				
With children aged: ^f				
0 to 2	29.1	70.9	62.7	37.3
3 to 4	69.0	31.0	26.8	73.2
5 to 9	60.4	39.6	22.3	77.7
10 to 14	39.7	60.3	49.5	50.5
0 to 14	47.0	53.0	42.3	57.7
Partnered with dependents	45.9	54.1	13.1	86.9
Single parent	21.7 ^g	78.3	49.1 ^g	50.9 ^g

^a The table refers to 2012-13. ^b Persons aged 18 years or more ^c Worked up to 34 hours a week. ^d Includes people who reported 'maybe/it depends' ^e Include people who reported 'did not know' ^f Commission calculations, which should be used with caution because of the small numbers involved. ^g Estimate has a relative standard error of 25 per cent to 50 per cent and should be used with caution.

Sources: Commission calculations based on ABS (2013a).

An issue is the extent to which these 'preferences' not to get a paid job or more hours reflect a genuine desire by mothers to look after their own children or result from some other factor such as difficulties associated with the affordability or availability of suitable ECEC services.

For those women who said the main reason they were not available to commence work or work more hours was 'caring for children' (around 158 000),¹⁴ the main childcare reason why 41 per cent of them were not available were childcare affordability and availability, with 50 per cent reporting they 'preferred to look after children' or said their children were 'too young or too old for childcare' (table 6.3).¹⁵

¹⁴ This number refers to women not in the workforce and does not include unemployed women.

¹⁵ Similar results were apparent from the ABS Survey of Income and Housing for 2011-12 for parents who were not working or were working part time (appendix E) and from the ABS Not in the Labour Force Survey (September 2012).

Table 6.3 The main childcare reason for not looking for work or more hours^{a, b}

Main childcare reason for not looking for work/more hours	Females		Males ^c		All persons	
	'000	%	'000	%	'000	%
<i>Preference</i>						
Children too young or too old for childcare	21.4 ^c	13.5 ^c	4.2	24.0	25.6	14.6
Preferred to look after children	57.2	36.1	7.7	44.0	64.9	36.9
<i>Childcare issue</i>						
Childcare not available/childcare booked out/no childcare in locality	31.2	19.7	0.0	0.0	31.2	17.7
Cost/too expensive	34.4	21.7	3.4	19.4	37.8	21.5
Other childcare reason	14.2 ^c	8.9 ^c	2.1	12.0	16.3 ^c	9.3 ^d
<i>Total persons for childcare reasons</i>	<i>158.4</i>	<i>100.0</i>	<i>17.5</i>	<i>100.0</i>	<i>175.9</i>	<i>100.0</i>
Total persons not looking for work or more hours	797.6	65.0	430.7	35.0	1 228.3	100.0

^a The table refers to 2012-13. ^b The table refers to persons 18 years and over who were not in the labour force who wanted a job/more hours who were available to start work/more hours who said that the main reason for their not looking for work/more hours was 'caring for children'. ^c The numbers for males are derived from published data for females and all persons. Because of the small numbers involved they are likely to have high relative standard errors and should be used with caution. ^d Estimate has a relative standard error of 25 per cent to 50 per cent and should be used with caution.

Source: ABS (2013a).

The above data relate to mothers with children aged under 15 years. Focusing only on mothers with a child aged under 2 years, preferences to look after their own children appear to be a larger factor keeping these mothers out of the workplace than the affordability and availability of suitable ECEC services. For these women, the main reason for:

- not starting or returning to work after the birth of their child was 'to care for child' (accounting for 91 per cent of responses) followed by 'problems finding suitable childcare arrangements' (9 per cent) (table 6.4)
- permanently leaving a job held during pregnancy was to 'care for child' (accounting for 49 per cent of responses) and not 'problems with child care' (ABS 2012b).¹⁶

¹⁶ 'Problems with childcare' accounted for 1 per cent of responses. However, this should be viewed as unreliable as it is associated with a relative standard error greater than 50 per cent.

Table 6.4 All reasons why mothers with a child under 2 years did not start or return to work since birth^{a, b}

<i>Reason</i>	<i>Number Per cent</i>	
	<i>'000</i>	<i>%</i>
To care for child	247.1	90.9
Problems finding suitable childcare arrangements	23.9	8.8
No longer wanted/needed work	16.3	6.0
On leave/away from work	5.1 ^c	1.9 ^c
Unsatisfactory conditions of employment	3.4 ^c	1.3 ^c
No work available /not enough work	3.0 ^c	1.1 ^c
Part-time hours not available	3.0 ^c	1.1 ^c
Employer went out of business	1.4 ^d	0.5 ^d
Temporary job	1.4 ^d	0.5 ^d
Wanted less responsibility/different duties	1.2 ^d	0.4 ^d
Other reasons	27.5	10.1
Total number of women who did not start or return to work since birth of child	271.7	100.0

^a Table refers to November, 2011 ^b More than one response can be provided so that components do not sum to the total. ^c Estimate has a relative standard error greater than 50 per cent as is considered too unreliable for general use. ^d Estimate has a relative standard error between 25 and 50 per cent and should be used with caution.

Source: ABS (2012b, p. 26).

Similar findings emerge from other surveys (for example, the Baseline Australian Mothers Survey 2010 and the Care4Kids Survey 2014). For example, the Baseline Australian Mothers Survey 2010 of some 2600 mothers (Martin et al. 2012, p. 51) found that, among the reasons why mothers did not return to work before 13 months, 89 per cent said they ‘prefer to be at home looking after children’, 63 per cent said that ‘both parents prefer to look after children and partner earns enough’, whereas 24 per cent said they ‘can’t get suitable childcare’.¹⁷

Mothers’ preferences regarding work can be conditioned by the mothers’ own upbringing, the preferences of their partners, employers’ attitudes, as well as wider community attitudes about gender roles. They can change as their circumstances change over time, particularly as children get older. Some of these factors — particularly relating to unpaid work, attitudes to gender roles, the extent of fathers’ support and work-life balance — are considered later in this chapter.

¹⁷ The Survey covers mothers who had babies in October or November 2009 who would have met the eligibility requirements for the Government’s Paid Parental Leave scheme if it had been in place at the time of the birth.

Affordability and availability of suitable ECEC services

Regardless of the role that mothers' preferences play, the affordability and availability of suitable ECEC services are viewed by many participants (for example, Australian Human Rights Commission, sub. 456; Chief Executive Women, sub. 464; Department of Education, sub. 147; economic Security4Women, sub. 291; Grattan Institute, sub. 445; National Foundation for Australian Women, sub. 59; United Voice, sub. 319) as a critical factor affecting mothers' workforce participation decisions.

Participants who are parents variously pointed out to the Commission how the affordability and availability of suitable ECEC services have:

- discouraged them from joining the workforce or returning to work after the birth of a child
- discouraged them from working full time
- discouraged them from working non-standard working hours
- led to them missing out on career advancement or better employment
- added to the stresses of managing work
- added to their costs of getting to and from work
- discouraged them from remaining in the workforce (box 6.4).

Box 6.4 Participants' views on the impact of ECEC affordability and availability on parents' workforce participation

Discouraged from joining the workforce or returning to work

How am I supposed to rejoin the workforce when I can't find a child care place with 17 months' notice. (comment no. 19, ECEC user)

I have been out of the workforce for four years now with only one child due to the difficulty in obtaining a place for her in childcare that is in our area (Eastern suburbs of Sydney) short of hiring a nanny the only option was to place her on several waitlists and for me to stay at home. (comment no. 43, ECEC user)

Discouraged from working full time

I am ready to return to full time hours, but cannot do so as we cannot secure childcare for our daughter on the days that we need. We have to wait until at least March at this stage for a spot to open up for her. (Westpac employee, Westpac, sub. 327, p. 5)

... the current cap of \$7500 at a centre charging translates to only 3 days/week of subsidised care at my centre (fees are approximately \$95/day). This has heavily influenced my decision to only return to work 3 days/week. (comment no. 68, ECEC user)

(continued next page)

Box 6.4 (continued)**Discouraged from working non-standard hours**

I often lose a whole days work because I am unable to obtain childcare for a measly hour and a half. An example of this is if my shift starts at 9 pm and my husband's doesn't finish until 10 pm. (comment no. 314, ECEC user)

... I stopped taking shifts on weekends because it became ridiculous and a joke. I was taking on shift to cover the childcare fees but at the same time my fees went up because I was earning X amount of money which subsequently reduced my Centrelink contribution because I earned over the threshold. (comment no. 151, ECEC user)

Missed out on career advancement or better employment

When I became a mother at the height of an exciting and demanding career in my 30s I didn't realise that the lack of access to quality childcare would in fact result in my career stalling, possibly never recovering, due to years of part-time work and the associated stigma this creates among my male senior colleagues. (comment no. 147, ECEC user)

... I have found that 7 am – 6 pm day care offering of long day care centres is not flexible enough for women trying to climb the corporate ladder; in my experience, it is less stressful for the women to opt out. (Louise McBride et al., sub. 431, p. 4)

Added to the stresses of managing work

One employee reported that their child was in a centre where children would be expelled if they were picked up late on three occasions. This increases the pressure on employees to make sure they are leaving early enough to travel to childcare and limits their ability to manage any unexpected events eg urgent issues at work. (Westpac, sub. 327, p. 6)

My childcare centre operates from 7.30 am to 6 pm. It takes 45 minutes to commute from Childcare to work. This means that it is difficult to get to work by 8.30, and I need to leave at 5. On preschool days, this is even more stretched. I am constantly stressed and trying to complete my work in these hours and there is the perception that I do not work as hard due to my reduced work hours. (comment no. 90, ECEC user)

Added to the costs of getting to or from work

... I have to say that parking was the worst, especially where I needed a car for transiting the kids, only to find there were no parks left at the office. I have had days were I just go home. (comment no. 162, ECEC user)

I will have to have my daughter in care for nearly 12 hours each day, even though I only work 8 hours, because of transport. (comment no. 237, ECEC user)

Discouraged from remaining in the workforce

I am currently facing resigning from my workplace, if they are unable to give me unpaid leave, as the subsidy for childcare runs out mid-April, and our family cannot afford the \$720 per week that will need to be paid. The capped rebate means that as the secondary earner in the family, it is my job that will have to be sacrificed. (comment, no. 49, ECEC user)

If we did not receive the [childcare] subsidy then the full cost of childcare would outweigh my daily wages therefore it would be cheaper for me not to work (Mission Australia, sub. 164, p. 13, parent responding to survey)

Some participants have undertaken their own surveys to gauge the relevance of affordability and availability of suitable ECEC services to mothers' (or parents') workforce participation decisions (box 6.5).

Box 6.5 Participants' surveys on the relevance of ECEC to workforce participation decisions

The Australian Childcare Alliance (ACA) Parent Survey 2014 of around 2500 parents reported that: 53 per cent said that the cost of childcare had a major or considerable influence on their participation in the workforce; 38 per cent indicated issues associated with childcare that prevented them from participating in the workforce or undertaking further studies of which 83 per cent indicated that the cost of childcare was a barrier to work or study; in response to a 10 per cent increase in childcare fees, 51 per cent would not change their use of childcare but 48 per cent would decrease their childcare use or withdraw their child completely. ACA's What Parents Want Survey 2013 of 1430 parents reported that 60 per cent said that if they found that they could not afford any increased cost in childcare they would leave the paid workforce entirely and 19 per cent reported they needed up to two hours per day of additional care.

Care4Kids.com.au annual survey in 2014 of around 2000 parents (mostly mothers) found that 31 per cent of working mothers said that work is not 'actually financial viable'. Of mothers who are not currently working but were before, the main reason for not returning to work was that: it was 'not financially viable' for 19 per cent; 9 per cent could not 'find suitable childcare', and 19 per cent decided they 'wanted to stay at home with children'.

Daycare Decisions survey of over 700 parents suggests that of the three factors of accessibility, flexibility and affordability of early childhood education and care services, affordability has the most significant effect on whether parents choose to return to work (sub. 91, p. 4). Many parents noted that, due to the high cost of childcare, they were financially better off to remain at home. Accessibility followed by flexibility of childcare were the next relevant factors shaping return to work decisions.

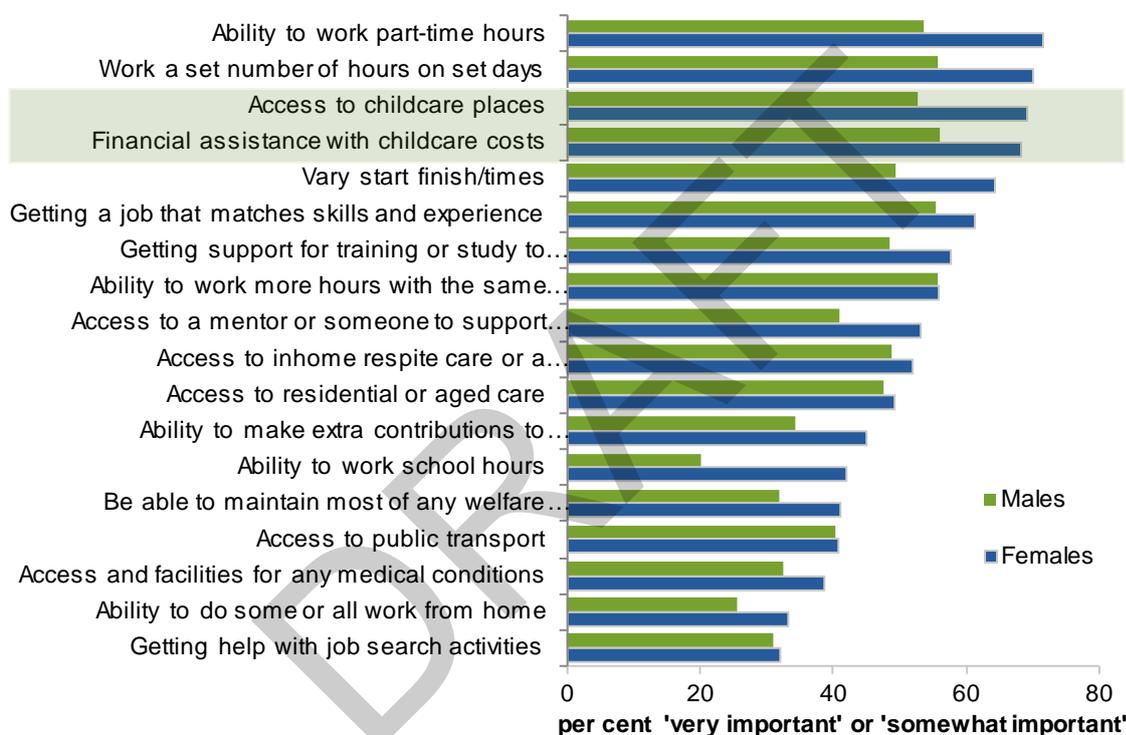
Diversity Council Australia's survey of member employers and their employees found that: 95 per cent of employers indicated that access to and availability of childcare presented difficulties for their employees; 97 per cent of employers reported that access to childcare limited the number of hours their employees were available to work; and close to half of parent employees had problems with access, flexibility, cost or quality of childcare that were preventing them from undertaking work or affecting the number of hours they prefer to work (sub. 356, pp. 13, 18).

Mission Australia's survey of over 600 parents with children enrolled in their childcare centres (sub. 164, p. 12) reported that, if the government subsidy for childcare was reduced, around 37 per cent would reduce their work hours and 23 per cent would stop working altogether. Those in the most disadvantaged quintile were the most likely to say they would stop working if the childcare subsidy was reduced with 33 per cent saying they would do so (sub. 164, p. 7.)

The Parenthood's survey of 1015 parents found that three in four parents reported they would reduce hours (43 per cent) or stop working altogether (33 per cent) if the childcare rebate was reduced or means-tested (sub. 407, pp. 2–3). Half of all parents said they would increase their working hours if the childcare rebate was increased or extended.

The views of these participants are borne out by evidence that around 70 per cent of 1.8 million women with children or caring for children, who were not employed or worked part time, rated ‘access to childcare places’ and ‘financial assistance with childcare costs’ as ‘very important’ or ‘somewhat important’ incentives to join or increase participation in the workforce (figure 6.8). However, these childcare-related incentives appear to rate below other incentives such as ‘ability to work part-time hours’ and ‘work a set number of hours on set days’.

Figure 6.8 **Incentives affecting workforce participation**^{a, b, c}
2012-13



^a Covers persons aged 18 years or more who were not in the labour force, or unemployed, or usually worked less than 35 hours a week. ^b The childcare related incentives were only asked of persons with children or who were caring for children. ^c The caring related incentives of access to residential or aged care or access to in-home respite care or a Community support worker were only asked of persons who were caring for ill/disabled/elderly persons.

Data source: ABS (2013a).

The relative significance of ECEC in mothers’ workforce participation decisions may loom larger where mothers are employed in some industries or occupations (box 6.6). ECEC may also be a more significant matter for particular families such as those who: are on low income; have children with disability; have more than one child; are more vulnerable; have children with disability; or have multiple births (for example, twins) (for example, the Department of Education, sub. 147; AIFS, sub. 391, p. 19; website comments from ECEC users).

Box 6.6 ECEC issues in specific industries and occupations**Mining**

The Australian Women Chamber of Commerce and Industry (sub. 336, p. 18) noted that women represent approximately 18 per cent of the minerals industry workforce (both on-site and corporate offices) compared with the national workforce participation rate of 45 per cent. The 2012 *Attracting and Retaining Women in the Australian Mining Industry* report revealed that women represent just over three per cent of all employees at mine sites. Further, the age profile of women in the industry is concentrated at those aged 34 and under. The report also found that access to childcare, particularly facilities that catered for shift work and long rosters for women in residential mining towns, was almost impossible.

Banking

The Westpac Group, with over 33 000 employees, noted that 59 per cent of its 33 000 employees were women (sub. 327, p. 2), with most earning less than \$100 000 a year. Its Diversity Survey found that 85 per cent of employees expect to have caring responsibilities in 2015.

The Finance Sector Union said that a survey of its members reported that a quarter of finance sector workers find arranging childcare difficult with cost, accessibility and flexibility of childcare affecting their workforce participation (sub. 174, p. 7).

Nursing

The Queensland Nurses Union (sub. 65, pp. 2, 3, 9) noted that the nursing and midwife workforce is dominated by women (around 90 per cent). The workforce requires 'affordable, quality, flexible childcare that is continuously available at the workplace or elsewhere over the 24-hour-a day, 7-day-a-week cycle as the majority of nurses work shifts. A survey of its members found that in 2010 half had 'significant family responsibilities', and between 21 per cent and 38 per cent had a dependent child (depending on whether they were in age care, private or public sectors) (sub. 65, p. 8).

Retail

The Shop, Distributive and Allied Employees Association (sub. 74, p. 1), which represents employees in retail, warehousing and distribution, fast food, petrol stations, pharmacy, beauty and modelling industries, noted that 60 per cent of its members were women. For many of its members, 'extended trading hours, decreasing permanency of employment and increasing financial pressures mean they often have limited choice about working arrangements, particularly in regard to evening and weekend work' (sub. 74, p. 7).

Policing

The Police Federation of Australia noted the unpredictable nature of policing work and the difficulties it poses for police who are parents. It said that policing requires 'complete commitment' 24 hours a day, 7 days a week, for 365 days of every year. The round-the-clock demands of policing mean that police need childcare outside the standard 9-5 hours and away from centre based childcare. It noted the participation of women in the police force and the proportion of those who work part time is low compared with what occurs nationally. The Police at Work Report found that a large proportion of female officers do not seek promotion because of conflicts with domestic commitments and that 90 per cent of members work part time because childcare options are unavailable (sub. 94, pp. 1, 2).

Some participants also drew the Commission's attention to high maternal participation rates in countries with generous ECEC systems such as in Canada (particularly Quebec — box 6.7), France and Nordic countries such as Denmark (for example, AWCCI, sub. 336; BPW Australia, sub. 85; Cleveland, sub. 234; Grattan Institute, sub. 445; Pascal, sub. 83).

Box 6.7 **Quebec: a policy case study**

At the provincial level, Quebec stands out for its 'unique' universal childcare program. In 1997, Quebec introduced a very low fee (at the time C\$5 dollars a day) for day care for children aged 4 years. Over time, the age requirement progressively decreased and the number of subsidised places increased. By 2000, the low fee policy applied to all children aged 0 to 5 years. In 2004, the fee increased to C\$7 a day (approximately A\$7) and has remained at that level.

The program was accompanied by a large increase in the number of Quebec women in the workforce from 1996 to 2008. The participation rate of mothers with a child under 6 years increased from 63 per cent to 74 per cent, that of mothers with a child aged from 6 to 15 years increased from 73 per cent to 87 per cent, and that for women without children increased from 61 per cent to 71 per cent. Though the participation rates of these groups of women increased in Ontario and Canada as a whole, the increases in Quebec were much more substantial.

Fortin et al. (2011) estimated that, in 2008, Quebec's childcare program induced 69 700 more mothers to hold jobs than would have been the case without it. This was equivalent to a 4 per cent increase of the total employment of women in Quebec. They also reported evidence that:

- the program had a large impact on the employment rate of mothers with a university degree as early as 2000 but for mothers with a lower education attainment, the impact was smaller but eventually managed to reach the same level as for higher educated mothers after 2004
- mothers' employment rate was raised not only during the early period of a child's life, but later, when the child entered school. They said that the program's impact thus had a 'dynamic extension' and 'would persist over the long term'.

Despite the positive effects on the workforce participation of mothers, the early learning and child development outcomes of Quebec's program appear to be very poor has been noted by Baker et al. (2005). The authors found evidence that children were worse off in a variety of behavioural and health dimensions and that it led to more 'hostile, less consistent parenting, worse parental health, and lower quality parental relationships'.

The mix of ECEC may also particularly affect single parents' workforce participation. Brady and Perales (sub. 309, pp. 4–5) using data from the Household, Income and Labour Dynamics in Australia Survey found that single mothers who used a mix of formal and informal childcare worked on average 4 more hours

compared with those who used either formal or informal care. In contrast, they found that the hours worked of partnered mothers who used a mix of formal and informal childcare were no different from those who used either formal or informal care. Brady and Perales (sub. 309, pp. 5–6) considered that the flexibility of a mix of informal and childcare is particularly important for single mothers who do not have partners to assist with childcare.

How many parents are prevented from working more because of ECEC issues?

‘Unmet demand’ for ECEC services, in principle, reflects parents’ inability to find suitable ECEC services to enable them to work when they prefer to. It can provide a guide as to the scope for increasing the workforce participation of parents (appendix E).

According to the ABS Survey of Income and Housing for 2011-12, an estimated 444 000 of parents (mostly mothers) of children aged under 13 years who were not working or were working part time — accounting for 24 per cent of all parents with children aged under 13 years — reported that a lack of suitable ECEC prevented them from increasing their workforce participation. Unmet demand for ECEC was most prevalent for low income households, single parents and parents of children aged under 5 years.

However, the estimate of 444 000 parents is an overestimate of the extent to which workforce participation could be increased. It masks a wide distribution of preferred working hours by these parents: from under 9 hours to 35 hours or more. Also, a large proportion of these parents (38 per cent) stated that the main childcare reason stopping them from working (or working more) was that they preferred to look after their own child or the child was too young/too old. Other reasons stopping parents from working or working more were cost (36 per cent) and access (26 per cent).

Taking into account the hours that individual parents who reported unmet demand and wanted to work, there could have been an estimated 242 000 additional parents (mostly mothers), on a full-time equivalent basis (38 hours per week), in the workforce in 2011-12, had suitable ECEC been available. Excluding the 38 per cent of parents who expressed a preference to care for their own child or that their child was too young/old, this would further reduce the potential increase in workforce participation to 156 000 additional parents who could have been in the workforce in 2011-12. Based on more recent estimates of the population of parents for April 2014, this suggests that workforce participation could increase by roughly 165 000 parents on a full-time equivalent basis if unmet demand could be addressed for parents with difficulties with the affordability and accessibility of suitable ECEC services.

DRAFT FINDING 6.3

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

Responsiveness of workforce participation of mothers to childcare prices

Australian studies indicate a broad range of estimates for the responsiveness of workforce participation of mothers to changes in childcare prices ('elasticities') (table 6.5 and appendix F).

Using the most recently published estimates of Gong and Breunig (2012b), the elasticities mean, for example, that a 10 per cent increase in net childcare prices or out-of-pocket costs (around \$5 to \$6 per week) could decrease the employment rate of partnered mothers of young children by 0.6 per cent (from 54.8 to 54.5 per cent, which is equivalent to a reduction of 3100 partnered mothers in the workforce) and decrease the hours worked by 1 per cent (across all mothers this means a decrease of an average of 144 200 hours a week or 3800 partnered mothers working on a full-time equivalent basis of 38 hours a week).¹⁸

While it is difficult to compare the estimates of the different studies or to draw firm conclusions about the magnitude of mothers' workforce participation responsiveness to changes in childcare prices, the most recent studies confirm that there is a negative and statistically significant relationship between the workforce participation of mothers and childcare prices (both the charged prices and out-of-pocket costs).

¹⁸ As the elasticity relates to mothers with a child under 5 years, data were used that reflected the same population of children and mothers as covered by the elasticity estimates. Department of Education administrative data (2011–12) suggest that the median hours of childcare per week in long day care centres, which caters for children aged under 5 years, is 23.75 hours. This is assumed to be a proxy for the hours worked by mothers. The net median fee charged or out-of-pocket cost is \$2.28 per hour. The most recent ABS data on the workforce participation of parents are for 2011-12. These show that the number of partnered mothers of children aged under 5 years who were employed in 2011-12 was 521 000 out of a population of 951 000 (ABS 2013c). The full-time equivalent of 38 hours a week is the maximum weekly hours of work per week as per the National Employment Standards.

Table 6.5 Australian estimates of maternal workforce participation elasticities

Author	Child population (age in years)	Labour supply population (sample size)	Elasticities – impact of a one per cent increase in childcare price on maternal workforce participation		
			Gross or net price elasticity ^a	Participation (participation rate or employment rate)	Hours worked
Doiron and Kalb (2005)	0 to 12	All adults (5 305 couples, 1 116 single parents)	Net	Single ^b -0.04 ppt Partnered -0.01 ppt	Single ^b -0.02% Partnered -0.03%
			Gross	Single ^b -0.02 ppt Partnered -0.01 ppt	Single ^b -0.05% Partnered -0.02%
Rammohan and Whelan (2007)	Under 15	Partnered women (1 138 mothers)	Gross	Partnered (part-time) ^c -0.07% Partnered (full-time) ^c -0.21%	ne
Kalb and Lee (2008)	0 to 12	All adults (3 404 couples, 731 single parents)	Net	Single ^b -0.07 ppt Partnered -0.01 ppt	Single ^b -0.01% Partnered -0.03%
			Gross	Single ^b -0.09 ppt Partnered 0.00 ppt	Single ^b -0.02% Partnered 0.00%
Apps et al. (2012)	0 to 12	Partnered women (1 456 mothers)	Net	ne	Partnered -0.08%
Gong and Breunig (2012a)	0 to 5	Partnered women (1 015 mothers)	Net	Partnered -0.06%	Partnered -0.10%
			Gross	Partnered -0.09%	Partnered -0.14%
Breunig, Gong and King (2012) ^e	0 to 13	Partnered women (4 184 mothers)	Gross	Partnered -0.29%	Partnered -0.65%
Gong and Breunig (2012b)	0 to 5	Partnered women (978 mothers)	Net	Partnered -0.06%	Partnered -0.10%
			Gross	Partnered -0.07%	Partnered -0.11%
Lee (2013) ^d	0 to 12	Single parents (738 mothers)	Net	Single -0.03%	Single -0.08%
			Gross	Single -0.04%	Single -0.10%

ppt – percentage points ne – not estimated

^a Gross price elasticity is the elasticity with respect to the price charged by the childcare provider. Net price elasticity is the elasticity with respect to the price charged by the childcare provider less any government assistance (or out-of-pocket costs). ^b Mothers and fathers combined. ^c The authors found that the predicted cost of childcare had no statistically significant influence on maternal employment status. ^d Unpublished manuscript. ^e Breunig, Gong and King (2012, p. 52) noted that their estimate of the participation elasticity for partnered mothers of children aged under 14 years of -0.29 was near the mean of what was found in other OECD countries.

The nature of the relationship between the workforce participation of mothers and childcare prices in these Australian studies is confirmed by two OECD panel data studies by Jaumotte (2003) and Thevenon (2013), which included data on Australia. Both studies found that public spending on childcare services for young children appeared to stimulate full-time workforce participation of women aged 25 to 54 years (box 6.8).

Box 6.8 OECD panel data studies

Two OECD panel data studies by Jaumotte (2003) and Thevenon (2013), which included data on Australia, found that public spending on childcare services for young children appeared to stimulate full-time workforce participation of women aged 25 to 54 years.

The earlier Jaumotte study, which covered 17 OECD countries over the period 1985 to 1999 also found that public spending on childcare (formal day care and pre-primary school) appeared to stimulate the full-time participation rate of women aged 25 to 54 years (with a positive coefficient of 0.05) (2003, pp. 17,19, 26, 34). The study concluded that inadequate childcare is more a constraint for full-time than part-time work.

The more recent study by Thevenon, covering 18 countries for the period 1980 to 2007, found that the full-time employment rate was unambiguously stimulated by public spending on childcare services for children aged under 3 years (with positive 'elasticity' coefficients of between 0.0125 and 0.0163) (2013, pp. 26, 27, 39). However, in some model specifications, public spending on childcare services was found to have a negative influence on part-time work (with negative 'elasticity' coefficients of between -0.0958 and -0.0882). The study concluded that increased public spending on childcare does not necessarily lead to more part-time employment, but may facilitate moves into full-time work or improve the quality of childcare without affecting hours worked per week.

A number of the Australian studies find that the workforce participation of certain groups of mothers are more responsive than that of other groups. For example, Gong and Breunig (2012a) found larger elasticities for partnered mothers of children aged under 5 years:

- in lower income households than in higher income households
- who did not have a tertiary education compared with those who did
- with more than one child compared with those with only one child.

Lee (2013) reached similar preliminary findings in his study of single mothers of children aged under 13 years. Earlier studies by Doiron and Kalb (2005) and Kalb

and Lee (2008) found larger elasticities for single parents than for partnered mothers.

While elasticity estimates appear to be small ('inelastic'), they relate to a 1 per cent change in childcare prices. Larger changes in childcare prices may have a material impact on their workforce participation. However, considerable caution is required in estimating the impact on workforce participation of large changes in childcare prices.¹⁹

Another way of thinking about the responsiveness of mothers to changes in net childcare prices is in terms of their reservation wage. Zero out-of-pocket costs will increase the likelihood of their workforce participation (whether entering employment or increasing their hours of work). However, many mothers are likely to increase their workforce participation even if they have to pay out-of-pocket costs as long as their net wage (wage after tax, any loss in welfare benefits, out-of-pocket childcare costs) exceeds their reservation wage. The reservation wage is likely to be lower if they enjoy work, expect their work experience to have a positive effect on their future wages, and view their workforce participation and ECEC services as having positive effects on their children.

Flexible work and other family-friendly arrangements

The availability by employers of flexible work and other family-friendly arrangements is another important factor relevant to mothers' workforce participation decisions. These arrangements cover:

- changing the hours of work (for example, working part time or changing start or finish times)
- changing patterns of work (for example, working split shifts, or job sharing)
- changing the place of work (for example, working from home)
- using leave arrangements including paid parental leave
- adopting specific occupational health and safety measures (for example, for pregnant employees)
- applying specific employer supports such as for ECEC (for example, employers providing onsite childcare or reserving places in a childcare centre).

¹⁹ This is partly because of the standard errors associated with the initial estimates, but also the fact that elasticities measure average changes for a population whereas workforce participation responsiveness to price changes can vary widely across a population.

For women who are not in the workforce or who work part time, the ability to ‘work part time hours’, ‘vary start finish/times’ and ‘work school hours’ are ‘very important’ or ‘somewhat important’ incentives to join or increase participation in the workforce, particularly when compared with men (figure 6.8). Indeed, some of these incentives rate above childcare-related incentives.

Table 6.6 Use of work arrangements by mothers to assist with the care of children
2011

	<i>Mothers with a child aged under 2 years</i>		<i>Mothers with a child aged under 13 years</i>	
	<i>Number</i>	<i>Per cent</i>	<i>Number</i>	<i>Per cent</i>
	<i>'000</i>	<i>%</i>	<i>'000</i>	<i>%</i>
Part-time work	134.1	76.0	532.6	56.5
Flexible working hours	71.3	40.4	533.1	56.6
Work from home	53.3	30.2	226.1	24.0
Shift work	18.9	10.7	86.8	9.2
Job sharing	13.1	7.4	27.6	2.9
Any other work arrangements ^a	10.5	5.9	21.9	2.3
All work arrangements used to assist with care of child^b	176.5		942.5	

^a Includes women who used leave arrangements. ^b Individual components do not sum to all work arrangements as more than one working arrangement might be used.

Sources: ABS (2012a, 2012b, p. 26).

Most mothers used some type of flexible work or other family-friendly arrangements (table 6.6). Around 74 per cent of mothers with a child aged under 13 years (around 1.3 million) and around 86 per cent of mothers with a child aged under 2 years who started or returned to work after the birth of their child (205 500) used some sort of work arrangement to assist with the care of their child. The most common working arrangements used were part-time work, flexible work hours and working from home. However, 7 per cent (over 14 000) of these mothers reported that flexible working arrangements were not available to use.

The findings of other surveys — for example, Australian Institute of Management Survey 2008 of executives; Baseline Australian Mothers Survey 2010; CareforKids.com.au Survey 2014 of parents; and Finance Sector Union survey of its members (sub. 174, p. 4) — also reinforce the importance to parents of the availability of flexible work and parent-supporting arrangements. For example, the Baseline Australian Mothers Survey (Martin et al. 2012, pp. 50–51) of some 2600 mothers found that in 2010, many mothers who returned to work after the birth of their child made use of flexible work and other parenting supporting arrangements — 57 per cent used flexible hours, 54 per cent went permanent part time, 39 per

cent used shorter hours and 33 per cent worked from home. Also, 70 per cent of mothers who changed jobs on or following return to work did so because they wanted shorter or more flexible hours. A reason for 18 per cent of mothers not returning to work before 13 months was 'couldn't negotiate suitable work conditions'.

There are differences between mothers and fathers in their use of flexible work and other family-friendly arrangements. For example, ABS data indicate that mothers are more likely than fathers to use paid and unpaid leave to provide care, whereas fathers are more likely to use flexible working hours, rostered days off, or work from home to provide care (table 6.7). Although the subsequent introduction of the Australian Government's Paid Parental Leave scheme is likely to have an impact on the uptake of parental leave since the survey was done, the numbers relating to other employment arrangements continues to be relevant.

Table 6.7 **Parents' use of working arrangements to provide care^a**
2007

<i>Working arrangement</i>	<i>Mothers</i>	<i>Fathers</i>	<i>All parents</i>
	%	%	%
Paid leave			
Carers/family leave	10.6	11.0	10.8
Parental/maternity/paternity leave	5.0 ^b	2.9 ^b	4.1
Flex leave	4.6 ^b	5.6 ^b	5.0
Annual, holiday or recreation leave	13.2	11.7	12.6
Other	6.7	5.3 ^b	6.1
Unpaid leave or other arrangement			16.2
Unpaid leave	20.8	10.5	16.2
Flexible working hours	31.0	37.6	34.0
Rostered day off	6.3	10.4	8.1
Working from home	11.5	10.6	11.1
Informal arrangement with employer	14.5	12.4	13.6
Took children to work	11.8 ^b	8.6	10.4
Total ^c	100.0	100.0	100.0

^a Parents with a child aged under 15 years. ^b Estimate has a relative standard error of 25 per cent of 50 per cent and should be used with caution. ^c Components may add up to more than the total as persons may have more than one type of working arrangement to provide care.

Source: ABS (2009c).

Tax-welfare system

Many participants noted that the interaction of relevant tax and welfare benefits reduced financial incentives for parents, particularly for second income earners, to enter the workforce or to work full time (for example, Australian Human Rights Commission, sub. 456; Goodstart Early Learning, sub. 395; Grattan Institute, sub. 445; MacMillan Shakespeare Group, sub. 439; Mission Australia, sub. 164; Workplace Gender Equality Agency, sub. 89). Many (for example, Finance Sector Union, sub. 174) also noted the reduced financial incentive of parents to work more than three days created by the current childcare rebate cap — this issue is considered in chapter 12.) Others such as the National Foundation for Australian Women (sub. 59, pp. 2–3) downplayed the relative significance of the welfare-tax system on women’s workforce participation compared with the affordability and availability of childcare.

The effective marginal tax rate (EMTR) is a measure of the combined effect on a person’s earnings of income tax and the withdrawal of welfare benefits. It addresses the question of how much money a person would retain from earning an extra dollar after income tax and the loss of welfare benefits.

Several recent reports have estimated relatively high effective marginal tax rates for families with children, which include the out-of-pocket cost of childcare — for example, AMP-NATSEM (Phillips 2014), Grattan Institute (sub. 445) and PriceWaterhouseCoopers (MacMillan Shakespeare Group, sub. 439). For example, the AMP-NATSEM report estimated that partnered mothers from low income families with two children — one in long day care and one in out-of-school hours care — would lose between 69 per cent (for 20 hours work) and 75 per cent (for 40 hours work) of her pay to income tax, loss of Government benefits, and childcare costs (Phillips 2014).

The Commission has undertaken its own analysis of EMTRs focusing on the cumulative effects of four components of the tax and welfare system on three cameo of families (appendix G). The tax and welfare system components are: childcare assistance in the form the Child Care Benefit and the Child Care Rebate; income tax; Family Tax Benefits (Parts A and B); and the Parenting Payment. The three cameo families are:

- a single parent family with two children aged under 5 years with the parent earning \$31.50 an hour (cameo family 1)
- a couple family with three children — two aged under 5 years and one aged over 5 years — with the mother earning \$85 an hour and the partner earning \$110 000 a year (cameo family 2)

-
- a couple family with two children — one child aged under 5 years and one child aged over 5 years — with the mother earning \$21 an hour and the partner earning \$78 000 a year (cameo family 3)

The analysis shows that there is a significant cumulative impact of the four different tax and welfare system components on incentives to work for all cameo families (figure 6.9). Notably, the single parent cameo family could potentially face an EMTR of 111 per cent if the parent worked four days, largely due to the withdrawal of the parenting payment. The other two cameo families faced an EMTR of at least 70 per cent if the second income earner worked four days (cameo family 2) or three days (cameo family 3).

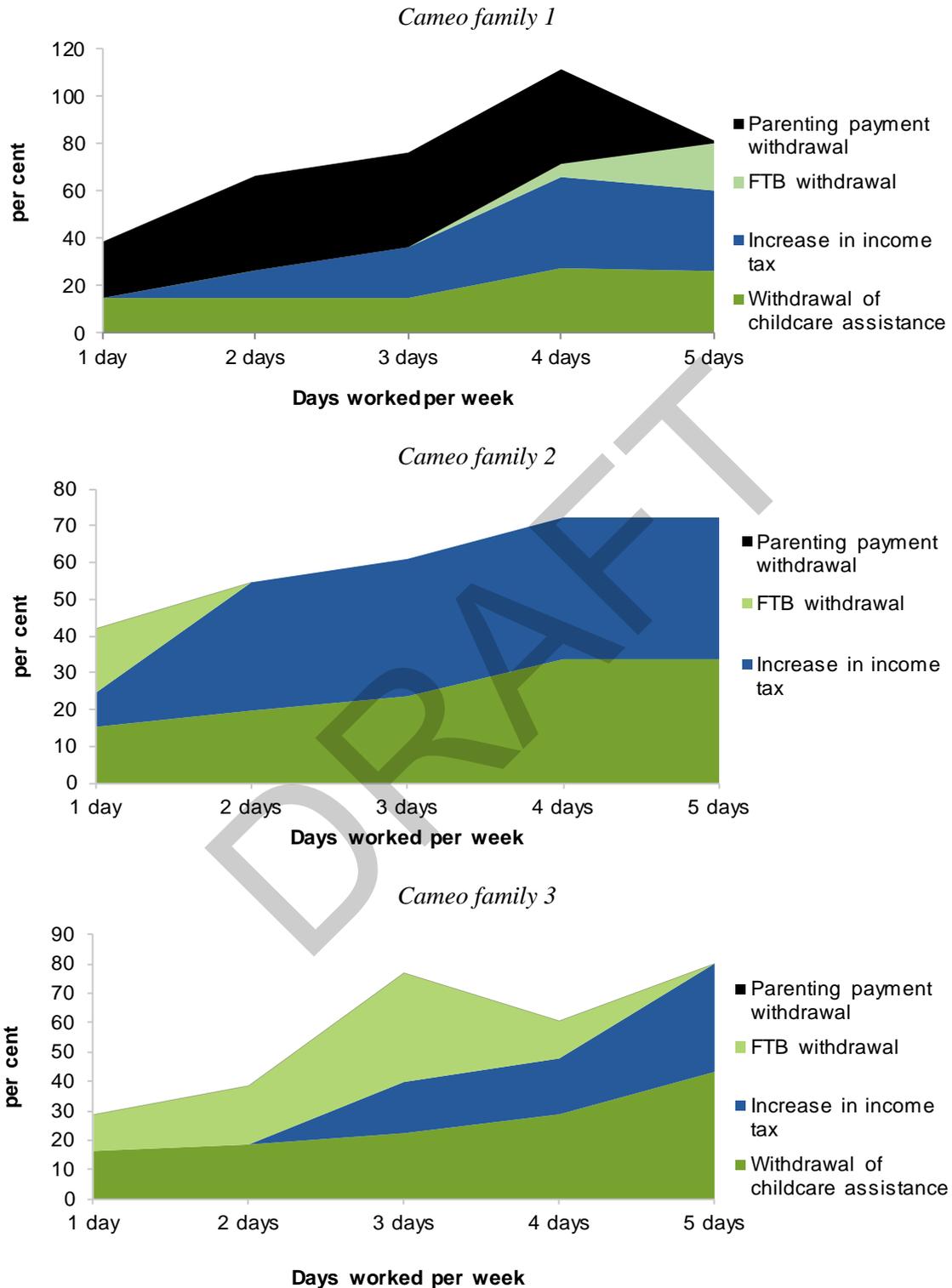
The EMTRs facing families will vary according to the circumstances of each family. However, the high EMTRs for the cameo families suggest that, in general, there are likely to be significant disincentives for second income earners in couple families and single parent families with children under school age (particularly those attending long day care) to increasing their workforce participation.

DRAFT FINDING 6.4

Secondary income earners in couple families and single parent families with children under school age could potentially face a significant disincentive to work between 3 to 5 days a week due to high effective marginal tax rates from the cumulative impact of income tax and the withdrawal of childcare assistance, Family Tax Benefits and the Parenting Payment.

In its interim report, the Reference Group on Welfare Reform (RGWR 2014) set out ‘future directions’ for Australia’s welfare system, which may have implications for EMTRs. The Reference Group’s interim proposals, among other things, are intended to provide incentives to work for those who are able to work and that adequately supports those who are genuinely not able to work. They involve a simpler architecture, a ‘fair rate structure’, a common approach to adjusting payments, support for families with children and young people, effective rent assistance and rewards for work and targeting assistance to need. Two specific proposals of relevance to families with dependent children are: a new child payment that could combine payments for dependent children and young people including the Family Tax Benefit, Youth Allowance and ABSTUDY; and a single working age payment that could combine existing payments targeted at working age people such as the Newstart Allowance, the Parenting Payment and Austudy Payment. A final report is expected in the second half of 2014.

Figure 6.9 Effective marginal tax rates for 3 cameo families



Data source: Appendix G.

Discrimination

A factor raised by participants as affecting the workforce participation of mothers is workplace discrimination (for example, ACTU, sub. 167; Diversity Council Australia, sub. 356; Shop Distributive Allied Employees Association, sub. 74).

The *Sex Discrimination Act 1984* aims to ensure that women and men are treated equally and have the same opportunities (Australian Human Rights Commission 2012). The Act protects against discrimination in many areas including in employment such as getting a job, the terms and conditions of a job, training, promotion and dismissal. It makes it illegal to treat persons unfairly because of their: sex, marital status, family responsibilities, pregnancy (or possible pregnancy); or breastfeeding. Persons who experience discrimination may deal with the situation themselves or by making a complaint to the Australian Human Rights Commission, which then investigates the complaint and tries to resolve it by conciliation. If the complaint is not resolved a person can take the matter to the Federal Court of Australia or the Federal Circuit Court of Australia.

Despite the Act, workplace discrimination such as in relation to gender, pregnancy and family responsibilities have been noted in several reports in recent (for example, ABS 2012b; Australian Human Rights Commission 2013; Coleman and Hodgson 2011, p. 36). For example, the Australian Human Rights Commission (AHRC 2013, p. 1) reported a significant proportion of complaints that it and the Fair Work Commission received between 2011 and 2012 (over 20 per cent respectively) related to discrimination against pregnant employees and against parents returning to work after taking parental leave.

In response to the complaints it received, the AHRC commenced a national review in 2013 to identify the prevalence, nature and consequences of discrimination in relation to pregnancy, which included a survey of 2000 mothers and 1000 fathers. Among other things, the survey (AHRC 2013) reported the following:

- Around 49 per cent of mothers reporting that they experienced discrimination in the workplace at some point during pregnancy, parental leave or on return to work. Despite taking very short periods of parental leave, 27 per cent of fathers (and same sex partners) reported that they experienced discrimination during parental leave or when they returned to work (pp. 4, 13).
- The main type of discrimination experienced by mothers and fathers (and same sex partners) was negative attitudes from colleagues or managers/employers (63 per cent of mothers and 49 per cent of fathers (and same sex partners)). Other types of discrimination experienced were in relation to flexible work (50 per cent of mothers and 35 per cent of fathers (and same sex partners)) and to pay,

conditions and duties (38 per cent of mothers and 46 per cent of fathers (and same sex partners) (pp. 5, 14).

- Nearly a third of women and 23 per cent of fathers (and same sex partners) who said they experienced discrimination looked for another job or resigned (pp. 11, 16).

The AHRC is expected to issue its final report in 2014.

Cultural barriers

Several participants considered that ingrained attitudes towards gender roles and other ‘cultural barriers’ were limiting the ability of women and parents to participate in the workforce (for example, ACCI, sub. 324; ACTU, sub. 167; Chief Executive Women, sub. 464; Department of Education, sub. 147; Workplace Gender Equality Agency, sub. 89). For example, Chief Executive Women considered that:

[T]he vast majority of women perceived a different barrier stalling their progression: a preferences within the organisation for a different “leadership style”. ... While gender bias and subtle (and not so subtle) cultural norms continue to exist without challenge, Australia will continue to pay a substantial opportunity cost in the form of lost or reduced participation and productivity. (sub. 464, p. 5)

There are signs of changes in attitudes about appropriate gender roles and the capability of women. In its report on paid parental leave, the Commission (PC 2009, p. 6.13) noted that younger men tend to believe more in gender equality — and its implications for fathers’ role in caring and in domestic duties — than older men, which also suggests changing societal norms. Cornish (2013) reported a shift in attitudes whereby more fathers are taking up part-time work and other forms of flexible work arrangements to be with their children. The AIFS (sub. 391, pp. 24–6) reported responses from fathers and mothers in the Housing, Income and Labour Dynamics in Australia survey (wave 11) showing positive attitudes towards mothers’ workforce participation. The CareforKids.com.au survey of 2000 parents in 2014 found that, although 56 per cent of respondents said that mothers takes most of the responsibility for childcare issues in families such as pick up and drop off, doctors’ appointments and sick days, 34 per cent said that there was an equal share amongst parents.

However, given the survey findings associated with the Australian Human Rights Commission’s national review of discrimination and other evidence provided by participants, there appears to be scope for progressing such attitudinal changes further as the trend in the increasing workforce participation of mothers continues. The option of doing so under the Fair Work Act is considered later.

Tradeoffs in increasing the workforce participation of mothers

Although lifting workforce participation of mothers could generate benefits to mothers and their families, as well as to the wider community, there are possible tradeoffs relating to: reductions in time spent on other activities performed by mothers such as unpaid work, and recreation and leisure; reductions in the workforce participation of fathers in couple families and extended family members; and the stresses on mothers and their families of managing a work-life balance.

Some of these factors are also crucial to influencing mothers' workforce decisions and shaping their preferences between work and care giving.

Impacts on unpaid work and other activities undertaken by mothers

Several participants (for example, Australian Human Rights Commission, sub. 456; Grattan Institute, sub. 445; Louise McBride et al., sub. 431) noted that women and mothers perform more unpaid work than men and fathers. Others (for example, Australian Family Association, sub. 448; Awesome Mothers Association, sub. 303) expressed concerns about the impacts that increasing maternal workforce participation would have on unpaid work, or the lack of recognition given to its value.

The ABS put the total value of unpaid work — defined as household work (domestic work, childcare and shopping) and volunteer and community work undertaken without pay — at between 42 per cent to 59 per cent of GDP in 2006, ranging from \$416 billion to \$586 billion (depending on the estimation method used), with women performing around 65 per cent of it (ABS 2014d). Assuming these proportions continue to hold, based on the value of GDP in 2012-13, the Commission estimates the value of unpaid work to be between \$639 billion and \$897 billion.²⁰

Mothers with a child aged under 15 years spent up to twice as much time undertaking unpaid work (as a primary activity) as fathers (table 6.8).²¹ The tendency of mothers to do more unpaid work than fathers occurs regardless of the

²⁰ Based on GDP in current prices in 2012-13 of \$1.521 trillion.

²¹ Several participants report data from the ABS Time Use Survey (2009a, 2014a) that relate to unpaid work as the primary or secondary activity. Including secondary activities in unpaid work (such as passive child minding while undertaking shopping as a primary activity) can overstate the time genuinely devoted to unpaid work. Some participants also report time spent by all males and females. This population can include persons without children and, thus, not align with parents. Accordingly, only data relating to parents and primary activities are reported in this sub-section.

type of activity and their workforce status. However, mothers do less paid work than fathers. Considering total workload — unpaid and paid work together — the time spent by mothers exceeds that of fathers at all levels of workforce participation.

As mothers' workforce participation increases, the time they spend on unpaid work and other activities decreases (table 6.8).²² However, their total workload (consisting of paid and unpaid work) increases. The increase in total workload comes at the expense of time spent on other activities, such as recreation and leisure.

Table 6.8 How parents spend their time, by workforce status, 2006^a
Hours and minutes per day

<i>Primary activity^b</i>	<i>Mothers</i>			<i>Fathers</i>		
	<i>Employed full time</i>	<i>Employed part time</i>	<i>Not employed</i>	<i>Employed full time</i>	<i>Employed part time</i>	<i>Not employed</i>
Paid work	4:50	2:45	0:05	7:28	3:33	0:54
Unpaid work ^c	5:57	7:19	9:11	3:04	4:43	5:43
Other activities ^d	10:46	11:04	11:28	10:32	11:24	12:16
Paid and unpaid work	10:47	10:04	9:16	10:32	8:16	6:37
All activities	24:00	24:00	24:00	24:00	24:00	24:00

^a Parents of children aged under 15 years. ^b Not all primary activities are included in this table. Hence, individual components do not add to 24 hours. ^c Unpaid work includes domestic activities, childcare, purchasing goods and services, and voluntary work and care. ^d Other activities include personal care, education, social and community interaction, and recreation and leisure.

Sources: Commission calculations based on ABS (2008).

A similar picture emerges for mothers in couple families with a child aged under 15 years and the father works full time (table 6.9). As the workforce participation of mothers increases, the time they spend on household work decreases, but their total paid and household work increases. Moreover, for couple families where both parents work full time, the time spent by mothers on paid and household work exceeds that of fathers by 1 hour a week.

In relation to childcare, mothers spend more time on childcare activities than fathers, and mothers of younger children spend more time on childcare activities than mothers of older children (table 6.10).

²² This finding is also supported by data from the Longitudinal Study of Australian Children for 2006-2008. These show that, in couple families with a child aged under 5 years, as mothers move from no employment to paid full-time work, the time they spend on unpaid work reduces from about 10.2 hours per day on childcare and housework to 6 hours per day (full-time employment) (Baxter 2013).

Impacts on the workforce participation of partnered fathers

In couple families, fathers can respond to the increased workforce participation of their partners in a number of ways by increasing, maintaining, reducing, or otherwise changing their current participation. For example, fathers could reduce their participation by taking up part-time work. Fathers may also change the amount of time they spend on unpaid work.

Table 6.9 Couple families with children aged under 15 years — time spent on paid work and household work, 2006^a

Hours and minutes per week

	<i>Per cent of couple families</i>	<i>Mothers</i>			<i>Fathers</i>		
		<i>Paid work</i>	<i>Household work</i>	<i>Total work</i>	<i>Paid work</i>	<i>Household work</i>	<i>Total work</i>
<i>Male partner employed full time</i>							
Female partner not employed	24.4	0:29 ^b	65:13	65:41	52:30	19:57	72:27
Female partner employed part time	41.5	19:29	50:24	69:53	51:27	21:21	72:48
Female partner employed full time	21.3	32:26	41:32	73:58	52:23	20:32	72:55

^a Primary activities only. ^b Estimate has relative standard error of 25 per cent to 50 per cent and should be used with caution. ^c Household work covers domestic activities, childcare and purchasing goods and services.

Source: ABS (2009a, p. 23).

Table 6.10 Time spent by parents in childcare activity^a, by age of youngest child, 2006

Hours and minutes per day

<i>Age of youngest child in years</i>	<i>Mothers</i>	<i>Fathers</i>
0 to 4	4:21	1:35
5 to 11	2:03	0:54
12 to 14	0:54	0:27
All ages under 15	3:04	1:11

^a Only childcare activities that are the primary activity are included. Childcare activities include the physical and emotional care of children, teaching/helping/reprimanding children, playing/reading/talking with child, minding child, visiting childcare establishment/school, and associated travel.

Sources: Commission calculations based on (2008).

ABS data suggest that, for fathers, the increasing workforce participation of mothers in couple families is associated with slightly reduced time spent at paid work and slightly increased time spent on unpaid work. Table 6.9 above shows that the time fathers spend on paid work can fall by between 7 minutes a week to 1 hour and 3 minutes a week depending on the initial workforce status of their partners. Fathers' unpaid household work can increase by between 35 minutes a week to 1 hour and 24 minutes a week. The aggregate impact on fathers' total workload, both paid and unpaid, is small — ranging from between 7 minutes a week to 28 minutes

a week and still outweighed by the time spent by their partners on paid and unpaid work.²³

As noted earlier, the attitudes of men and fathers towards gender roles are changing, suggesting that a more substantial response by partnered fathers than evident in table 6.9, which relate to 2006, may occur in future. Nonetheless, evidence suggests that the uptake by men of flexible work arrangements for the purpose of caring for children is low (section 6.5).

Impacts on the workforce participation of grandparents

As noted in chapter 3, 26 per cent of children under the age of 13 are cared for by their grandparents. Some participants noted the role that informal childcare by grandparents and other older family members can have in supporting maternal workforce participation, which can, in turn, affect the workforce participation of older workers (for example, the Australian Federation of Graduate Women, sub. 417; BPW Australia, sub. 85; Council of the Ageing, sub. 412). For example, the Australian Federation of Graduate Women noted:

The use of grandparents raises another issue: older Australians, usually women are leaving the workforce or reducing their working hours to care for children. Productivity is still lost in this scenario although different groups of women are affected. Other issues remain unresolved: older women are less likely to have adequate savings or superannuation to provide for their retirement, yet they are excluding themselves from the workforce to care for children and will necessarily come to rely on the aged pension as a consequence. Moreover caring for children may place an unacceptable burden on the health of their older carers leading to increased strain on the health budget. (sub. 417, p. 2)

The workforce decisions of mothers and that of grandparents (like parents within couple families) can be closely inter-linked. Moreover, the same kind of factors determining maternal workforce participation are also relevant to that of grandparents. For the latter, additional factors include retirement income levels, preferences for recreation and leisure, and health status.

Although several recent Australian studies have examined the wider impacts that providing informal childcare has had on grandparents (for example, Brennan et

²³ This finding is also supported by data from the Longitudinal Study of Australian Children for 2006–2008. These data show that, for couple families with a child aged under 5 years, regardless of the mothers' workforce status, most fathers in these couples were in full-time employment and their paid work hours remained relatively high. When mothers moved from not being in paid employment to working full-time hours, employed fathers undertook an hour per week less paid work and seven hours per week more childcare and housework (Baxter 2013).

al. 2013; Horsfall and Dempsey 2013; Jenkins 2010), there appears to be limited research focusing on the workforce participation impacts. Whelan (2012) examined the impact of childcare on employment of working age grandparents using the Housing, Income and Labour Dynamics in Australia Survey and found that a limited amount of caring did not detract from their employment. Indeed, he found that low levels of care are positively correlated with their engagement in the labour market. However, he found that those grandparents spending high levels of time on childcare (more than 12 hours a week) spent less time on paid employment.

Increasing maternal workforce participation can, in principle, potentially prevent grandparents from accessing the same kinds of private benefits as identified in box 6.1 if they sacrifice their paid work in order to provide informal childcare. However, what limited evidence exists suggest that this appears to be unlikely to be the case for most grandparents who currently provide informal childcare for a limited number of hours (up to 10 hours a week) (ABS 2012a and chapter 3).

Stresses from maintaining a work-life balance

Achieving the right balance between work and personal life is a key component of a person's wellbeing. As the OECD noted:

too little work may prevent people from earning enough to attain the desired standard of living but too much work may have a negative impact on their well-being if their health or personal lives suffer as a consequence. Work-life balance is not only important for the well-being of the person but also for that of the whole family, in particular children's well-being is strongly affected by the capacity of parents to both work and nurture them. A balanced allocation of time between work and personal life is also important at a society-wide level as it ensures that people have sufficient time to socialise and participate in the life of the community.(2013a, p. 50)

Many participants noted the importance to parents of balancing their work and family life (which can involve undertaking unpaid work as well as recreation and leisure).

According to ABS data, parents with children aged under 15 years are more likely to feel rushed or pressed for time than persons without children. In 2007, 82 per cent of couple families with a child aged under 15 years where both parents were employed, one or both parents always or often felt rushed or pressed for time. This compared with 67 per cent of couple families where both partners were working and there were no children aged under 15 years. In employed single parent families with a child aged under 15 years, around two-thirds of parents always or often felt rushed or pressed for time, while just over half (53 per cent) of single parents without dependent children (aged under 15 years) felt rushed. Mothers in

couple families tend to feel rushed or pressed for time more often than fathers, regardless of their, or their partners' employment status (ABS 2009b, p. 6). Trying to achieve a balance between work and family is one of the main reasons given by working parents feeling rushed or pressed for time.

The 2012 Australian Work Life Index survey of 2800 working Australians undertaken by the University of South Australia Centre for Work + Life (Skinner, Hutchinson and Pocock 2012) reports perceptions about 'work-life interference'.²⁴ Among its findings are the following:

- Women's work-life outcomes are worse than men's when differences in work hours are taken into account. For example, more women working full time than men working full time report that: work frequently interferes with activities outside work (33 per cent compared with 28 per cent); and they are dissatisfied with their work life balance (28 per cent compared with 18 per cent) (pp. 23–9).
- Parents have worse work-life outcomes than persons without children, whether single or partnered (p. 41).
- Mothers have worse work-life outcomes than fathers, whether single or partnered (p. 41).

There are also international studies that indicate that increases in workforce participation of mothers has added stress to parents and contributed to a deterioration in family life (for example, Baker et al. 2005 in relation to Quebec in box 6.7).

How extensive are the work-life balance impacts of mothers' increased workforce participation will depend on individual families, their circumstances and preferences. Some families may bring or buy in extra support to manage (for example, from extended family or paid help). In other families, the partner may adjust their workforce participation (for example, through working part time or adjusting their working hours) in response to the mother increasing her workforce participation. And yet in other families, the mother or partner may simply reduce their recreation and leisure activities.

²⁴ The Australian Work Life Index contains five measures, which assess respondents' perceptions of 'work-life interference' across five domains: 'general interference' — the frequency that work interferes with responsibilities or activities outside work; 'time strain' — the frequency that work restricts time with family or friends; 'work-to-community interference' — the frequency that work affects works' ability to develop or maintain connections and friendships their local community; 'satisfaction with overall work-life balance'; and frequency of 'feeling rushed or pressed for time' There have been five surveys since the first one in 2007.

DRAFT FINDING 6.5

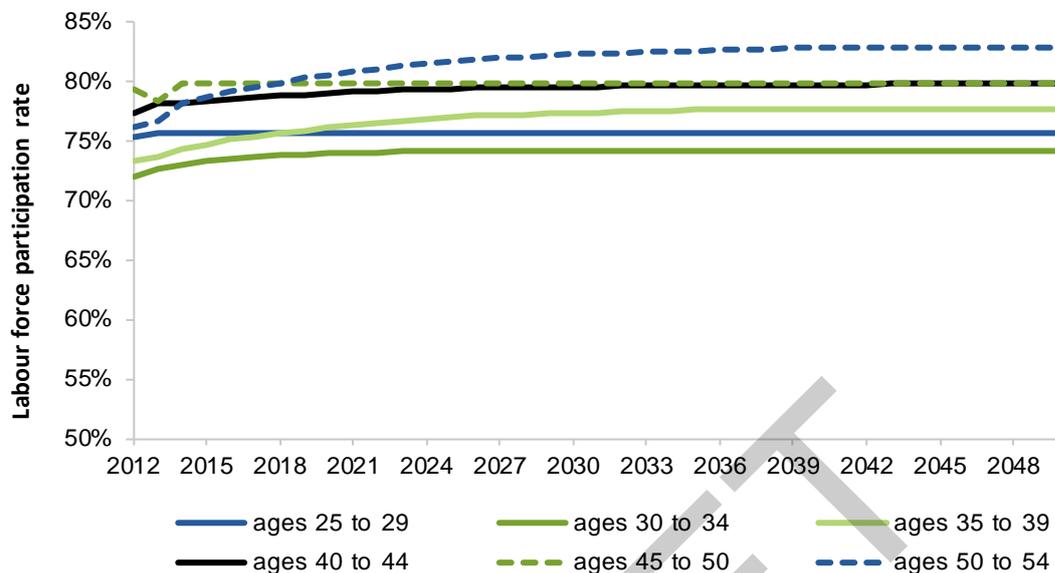
The workforce participation of mothers of children aged under 15 years is affected by the costs and availability of suitable childcare. It is also affected by the preferences of parents to look after their own (particularly very young) children, which in turn can be affected by such factors as the stresses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

6.4 Workforce participation and future childcare needs

Future childcare needs depends on a range of broad aggregate factors such as trends in child populations (chapter 3); trends in fertility rates particularly towards older mothers and mothers having fewer children; trends in workforce participation; and social trends, particularly in the sharing of parental care and unpaid work between mothers and fathers, and workplace arrangements. Most importantly for this inquiry, future workforce participation is also likely to be affected by the Government's settings for ECEC assistance to families and providers.

For its ageing update report, the Commission (PC 2013) undertook projections of the workforce participation rates of women (and men) of different age cohorts assuming given policy settings (including in relation to ECEC services) at the time. This showed that, over a fifty year period, the participation rate of women aged 25 to 54 years is projected to remain unchanged over the period (after an initial change) at between 74 per cent (women aged 30 to 35 years) and 83 per cent (women aged 50 to 54 years) (figure 6.10).

Figure 6.10 Projections of female labour force participation rates, in the absence of a change to ECEC policies^a



^a According to Commission estimates for 2012, fertility rates are highest for women aged 27 to 34 inclusive. Therefore, labour force participation rates are given for these ages as well as the 20 to 24 year age group and 35 to 39 year age group.

Data source: (PC 2013).

These projections mask deeper trends in the workforce participation of parents and in their driving factors, which have ramifications for future childcare demand — both for formal and informal ECEC services.

- The participation rates of partnered and single mothers, and single fathers, of children in all age groups, particularly in older age groups have been increasing and are likely to increase further. There is, thus, likely to be more demand for all forms of childcare, particularly for out of school hours care and vacation care.
- Non-standard working hours are common among families with a dependent child. This is likely to continue and suggests ongoing pressure for more flexible childcare hours.
- The trend towards self-employed mothers highlighted by some participants is also likely to continue in future, particularly if seen as a means of bypassing problems with the affordability and availability of suitable childcare. Although this trend is symptomatic of unmet demand for childcare it has the scope to alleviate pressure to provide childcare places in future.
- The availability in workplaces of flexible work and other family-friendly arrangements, and their uptake is important. It can alleviate pressure for full-time childcare as parents are more able to adjust work hours to care for their children, but there is likely to be a greater need for part-time childcare.

6.5 Options to support the workforce participation of parents

The affordability and availability of suitable ECEC services play an important role in supporting the workforce participation of parents. Chapter 12 considers funding options available to government to address childcare affordability, including Fringe Benefit Taxation exemptions for employer support for childcare. Chapter 8 considers options to improve the availability of ECEC services.

However, as there are many factors that affect workforce participation it is necessary to consider a broader range of options that address those factors. Indeed, many participants supported this view with some considering that a holistic approach to promoting the workforce participation of mothers was required.²⁵

This section focuses on options relating to flexible work and other family-friendly arrangements.

Flexible work and other family-friendly arrangements

Flexible work and other family-friendly arrangements can benefit both parents and employers. They enable parents to better manage or balance their work and family responsibilities. They also enable employers to attract skilled staff, reduce staff turnover, reduce recruitment and training costs, improve staff absenteeism and improve productivity.

There is a range of government regulations and schemes that seek to promote flexible work and family friendly arrangements in workplaces including the following:

- The Australian Government's *Fair Work Act 2009* and National Employment Standards contain minimum entitlements that employers must provide to employees to achieve better work and family balance. Entitlements include the right to request flexible working arrangements, carers leave, a safe work environment and protection from discrimination. There are also provisions enabling employers and employees to negotiate individual flexibility arrangements.
- Australian, state and territory government sex discrimination laws operate to ensure that employees are not discriminated against where they have certain

²⁵ For example, ACCI, sub. 324; ACTU, sub. 167; BPW Australia, sub. 85; Chief Executive Women, sub. 464; Economic Security 4 Women, sub. 291; Institute of Chartered Accountants, sub. 369; Mission Australia, sub. 164.

family or carer responsibilities. Some of this legislation also includes a right to request flexible working arrangements.

- The Australian Government's Paid Parental Leave scheme provides financial support for working parents of newborn or recently adopted children.
- The Australian Government's Fringe Benefits Taxation exemptions for employer support for childcare.

Many employers already provide family-friendly arrangements, with some exceeding that required or set by government (for example, box 6.9; Chief Executive Women, sub.464; Diversity Council of Australia, sub.356). These arrangements extend to maternity or parental leave, carers' leave, childcare support such as through purchasing priority places in childcare services or providing on-site childcare services under fringe benefit tax exemptions, and flexibility in working hours and location. Surveys indicate that many employers are already aware of the importance and benefits of offering such arrangements (for example, The Korn/Ferry Institute 2013).

Some participants considered that there is scope for employers to do more, with some suggesting specific measures (box 6.10). On the other hand, other participants drew attention to the difficulties and costs for some employers in providing family-friendly arrangements (box 6.11). And yet others parties (for example, Phillips 2014) suggest that fundamental cultural change is required in attitudes towards the way women balance working and caring roles as well towards men having a greater role in caring for children in their home.

This section considers two areas of Australian Government regulation covering family friendly arrangements:

- requirements under the Fair Work Act and the National Employment Standards relating to the right to request flexible work arrangements and to enable employers and employees to negotiate individual flexibility arrangements
- the Paid Parental Leave scheme.

Box 6.9 Examples of family-friendly arrangements

ANZ offers working arrangements to help their employees 'balance their life priorities with their career'. These include offering the ability of employees to: work contracted hours in a flexible way (for example, by compressed work weeks); have flexible start/finish times; work at flexible locations (including working from home); have access to flexible scheduling for rostered staff; job share; work part time; take leave from work. ANZ found that 27 per cent of its employees who indicated they have some type of flexible work arrangement reported they were almost 6 per cent more engaged than those who did not. With regard to leave, ANZ offers parental leave in addition to that required under the government-funded Paid Parental Leave scheme, 'lifestyle leave' as well as leave without pay. ANZ also has childcare allowance for all employees who return to work full or part time after a period of parental leave. Its childcare allowance was found to have increased its female retention rate post parental leave from 67 per cent in 2009 to 88 per cent in 2013.

Telstra promotes 'inclusion, diversity and flexibility'. It notes that everyone has different needs — children, ageing parents, sport or cultural commitments, study or a community interest. It includes flexibility provisions in all new advertised positions from March 2014. To enable flexible work, Telstra offers part-time work, job sharing, working outside the office, or variable start and finish times, and leave options that include parental leave, cultural leave, and career breaks. Telstra also enables, where possible, for people to work in locations other than their main office and also has quiet rooms and breastfeeding facilities in some of its workplaces. Telstra also encourages its managers to proactively reach out to their teams, to understand their needs for flexibility. During a 3 month *All Roles Flex* trial, the number of women applying for flexible roles increased from 28 per cent to 37 per cent and female representation rose from 28 to 32 per cent. Of the applicants, 30 per cent said they were attracted by the flexibility.

Sources: ANZ (sub. 125); Diversity Council of Australia (sub. 356); Telstra (2014).

Box 6.10 Participants' views on the need for employers to do more to support working parents

Most [parents] are seeking a balance of formal [child] care with a family friendly work environment that recognises their need to spend time with their children (and their children with them). This is the area in which the least advancement has been made and is a glaringly inadequate part of the support structure working families need. (ACTU, sub. 167, p. 8)

More could be done to incentivise employers who advocate and support flexible work options, thus improving the perception of flexible work so that it becomes a norm rather than an exception. (BPW Australia, sub. 85, p. 3)

We recommend the implementation of a simple and cost effective framework that would enable employers to participate in the provision and/or cost contribution of child care services. This could be a valuable new source of funding to assist with the provision of child care services. Educating more employers about the importance of supporting employees with child care and incentivising them to do so would drive significant improvements to workforce participation. (CareforKids.com.au, sub. 49, p. 2)

[Diversity Council Australia's] recent research projects ... showed that while many people have access to 'basic' flexible work options, meaningful flexible work and careers are still not common practice in Australian workplaces. This is despite mainstreaming flexible work and careers having been found to be a business imperative ... (Diversity Council Australia, sub. 356, p. 9)

[We recommend] Universal access to paid lactation breaks to women, so that they can combine work and breastfeeding and meet World Health Organisation maternal and child health goals. For example, the Queensland Public Service offers this benefit. Norway has a national right of two hours of paid lactation breaks for their workers. (economic Security4Women, sub. 291, p. 5)

While many employers in the finance sector have exemplary policies to support work/life balance, the FSU [Finance Sector Union] Survey, FSU Case notes, and the FSU/NAB Report 2012 revealed that there is a policy practice gap with 11.4 % of respondents to the question, *If you didn't achieve your preference [for working arrangements] why was this?* in the FSU Survey, answering *Manager said this was not possible and wouldn't negotiate*. (Finance Sector Union, sub. 174, p. 5)

Box 6.11 Participants' views on the difficulties employers face providing family-friendly arrangements

Employers make adjustments to accommodate worker needs and fit these with operational needs. While the legislated requirements assume organisations can viably absorb the costs of worker family/carer responsibilities, in many instances such adjustments are costly and difficult to manage. This is particularly the case for small employers who employ around half the workforce. Organisations report difficulty in managing staff costs and coverage to get the job done, plus additional administrative work. This can be particularly pronounced in workforces which are predominantly female. Such workplaces report difficulties in accommodating requests for changes to work hours and shifts and in having sufficient staff available to cover staff absent on various forms of leave for caring purposes. Recruiting additional staff can be extremely difficult in markets where there is a shortage of appropriately skilled and qualified staff and, across the board, hiring additional staff incurs additional wages, on-costs and administration for the organisation. Larger well resourced employers may provide benefits and programs to assist parents with childcare responsibilities where it is in their interest and suits their business objectives. However, such measures are not feasible within the cost and operational constraints of most employers. (Australian Federation of Employers and Industries, sub. 338, p. 8)

... the capacity of [small to medium businesses] to provide childcare for employees is severely limited. While some larger employers provide either in-house child care, or subsidise the cost of child care for employees as part of employment packages, this is at the discretion of that employer and forms part of their particular employment strategy. (Chamber of Commerce and Industry Queensland, sub. 245, pp. 2–3)

Requirements relating to flexible work arrangements under the Fair Work Act

The National Employment Standards under the Fair Work Act provide employees, who are parents or have responsibility for the care of a child of school age or under the age of 18 with a disability, with a right to request flexible working arrangements from their employer. Flexible working arrangements include changing hours of work, patterns of work or the place of work.

The employee (including a long-term casual employee) is not entitled to make the request unless they have completed at least 12 months of continuous services with the employer immediately before making the request.

Requests must be in writing and set out details of the changes in the working arrangements sought and the reasons for the changes. Employers must give a written response within 21 days, stating whether the request is granted or refused. If refused, the employer then must provide written reasons. An employer may refuse a request 'on reasonable business grounds'.

The Fair Work Act also provides that all modern awards and enterprise agreements must include a flexibility term enabling an employee and their employer to agree on arrangements (an individual flexibility arrangement) varying the effect of the award or enterprise agreement in relation to the employee and employer. The Act ensures these arrangements do not undermine minimum employee entitlements by requiring the employer to ensure the employee is better off overall on the individual flexibility arrangement compared with the modern award or enterprise agreement the individual flexibility arrangement varies (known as the ‘better off overall test’).

Some participants expressed concerns about the Fair Work Act’s provisions relating to flexible work arrangements (box 6.12).

Box 6.12 Participants’ concerns about flexible work provisions under the Fair Work Act

The existing legal right for parents to request flexible work arrangements to assist them balance their work and family responsibilities is weak. Employers do not have to make efforts to reasonably accommodate an employee’s request and employees have no right to appeal an employer’s unreasonable refusal of a request. Consequently, employees face numerous challenges in balancing work, formal childcare and their own parenting needs. Men are increasingly sharing caring roles for children, but also experience discrimination and intolerance when they seek workplace flexibility. (ACTU, sub. 167, p. 8)

Currently, the Fair Work system provides only for employee flexibility – that is, giving parents a right to request flexible working hours from their employers, with minimal consideration of whether employers have, at that point in time, the operational capacity to provide those flexible working hours. The Fair Work system does not give employers and employees real opportunities to negotiate a sensible solution that provides flexibility for both employers and employees. While Individual Flexibility Arrangements (IFAs) technically allow employers to negotiate individual arrangements with employees with respect to a number of issues, including hours of work, penalty rates and overtime, IFAs have several important restrictions on them that render them of little use in providing meaningful flexibility. (Chamber of Commerce and Industry Queensland, sub. 245, p. 6)

... despite subsequent amendments to the [Fair Work Act] to extend the right to request flexibility to a broader group of employees, there remains no meaningful review of employer refusals to grant requests which might assist in changing the culture around flexible working. (Diversity Council of Australia, sub. 356, p. 9)

In two reports on the right to request flexible work arrangements and on individual flexibility arrangements, the then Fair Work Australia (now the Fair Work Commission) reported the results of a survey of some 2650 employers and 4500 employees (O’Neill 2012a, 2012b).

- In relation to the right to request, the survey reported moderate awareness among employers (66 per cent) and employees (51 per cent).

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- The exercise of the right was very low (6 per cent of employees), was mainly by women (76 per cent of those exercising the right), and was mainly for the purpose of caring for a child at home (61 per cent of those exercising the right).
 - Of those who wanted to change their arrangements but did not exercise a right to request (19 per cent of employees), many (34 per cent) were concerned about the negative implications on employment, their relationship with the employer, or the workplace.
 - In relation to individual flexibility arrangements, the survey reported lower awareness than that of the right to request (54 per cent of employers and 35 per cent of employees). There was also lower use of the arrangements by both employers (15 per cent) and employees (7 per cent).
 - The main sources of awareness for employers and employees of the right to request and individual flexibility arrangements were employer and employee associations, the Fair Work Ombudsman/(the then) Fair Work Australia, and media.

The Fair Work Ombudsman, which has a role in educating people about their workplace rights and obligations, has undertaken several measures to improve awareness amongst employers and employees about the flexible work requirements under the Fair Work Act. For example, through its website, it provides information on flexible work requirements under the Act as well as a ‘workplace online learning centre’ that offers courses for employees and employers such as on ‘difficult conversations in the workplace’.

Although better information by the Fair Work Ombudsman, and by employer and employees associations, may help address low awareness and usage of flexible work requirements and entitlements, a more intractable problem is the attitudes held by employers and employees, particularly male employees, towards flexible work.

As noted earlier, the Australian Human Rights Commission (AHRC 2013) survey of 2000 mothers and 1000 fathers reported the main type of discrimination experienced by fathers (and same sex partners) was negative attitudes from colleagues or managers/employers. (pp. 4, 13). Other types of discrimination experienced related to flexible work. Also, the CareforKids.com.au annual survey of some 2000 parents reported that, when asked how employers colleagues treated working fathers, 35 per cent said they were pretty flexible and treated fathers and mothers the same, 42 per cent said that employers and colleagues were ‘less flexible with dads than mums’, and 6 per cent said colleagues were ‘less understanding than employers’.

Addressing attitudes to flexible work requires more than providing information to relevant parties. An innovative approach is required.

DRAFT RECOMMENDATION 6.1

The Fair Work Ombudsman, and employer and employee associations should trial innovative approaches to:

- ***increase awareness about the ‘right to request flexible work arrangements’ and individual flexibility arrangements under the Fair Work Act 2009 and National Employment Standards***
- ***promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements.***

However, it may well be that, as one participant put it, addressing attitudes among employers and employees to flexible work requires a ‘multi-layered national conversation’ extending beyond what the Fair Work Ombudsman, and employer and employee associations are able to do.

Information request 6.1

The Commission seeks participants’ views on impediments to employers providing flexible work arrangements for parents

Another option that has been raised by participants is to reverse the legal onus on employers with respect to the right to request flexible work arrangements. In its submission to the Human Rights Commission current review on supporting working parents, the ACTU recommended changing the Act to include an obligation on employers to reasonably accommodate an employee’s request for flexible work arrangements (as in the Victorian Equal Opportunity Act), outlining the considerations that must be given in determining whether a request is reasonable to refuse and allow employees to appeal an unreasonable refusal (ACTU 2014, p. 8, sub. 167).

As noted earlier, there are benefits to employers in providing flexible work arrangements to their employees. It is unclear whether such a legislative solution would significantly improve the provision and uptake of flexible work arrangements by parents. It may also impose significant compliance costs on some employers.

The Paid Parental Leave scheme

The existing Paid Parental Leave scheme introduced in January 2011 provides eligible employees government-funded Parental Leave Pay at the national minimum wage for a maximum period of 18 weeks. There is an income test to access the scheme of \$150 000 a year. ‘Dad and (same sex) Partner Pay’ introduced in January 2013 provides eligible working fathers and partners up to 2 weeks government-funded pay at the national minimum wage on a use it or lose it basis.

The Australian Government completed a review of the enabling legislation for the scheme (DSS 2014). The main findings of the legislative review, which also incorporate an evaluation of the scheme,²⁶ were that the scheme:

- had delayed mothers’ return to work up to about 6 months after the birth of their baby, and then slightly increased their probability of returning to work before the baby’s first birthday
- had a particularly strong impact on mothers on lower incomes, with lower formal education, who had been employed on casual contracts before the birth of their child, and who were self-employed before the birth of their child.

The Australian Government has proposed changes to the Paid Parental Leave scheme (DSS 2013a). It is proposing from 1 July 2015 to give eligible working parents access to 26 weeks of parental leave pay at a rate based on their wage (subject to a \$100 000 cap) or the national minimum wage, whichever is the greater. The quarantining of 2 weeks paid parental leave to fathers and (same sex) partners is removed. The scheme will also provide for superannuation contributions

Some participants opposed elements of both the old and new schemes. For example, the Chamber of Commerce and Industry Queensland (sub. 245, p. 5) opposed the outsourcing of paymaster obligations to employers under the existing scheme and the imposition of a levy on employers under the new scheme.

In its 2009 report on paid parental leave, the Commission (PC 2009) supported a statutory paid parental leave scheme, which was taxpayer funded with the following features:

²⁶ As well as a legislative review of the scheme, the Department of Social Services commissioned an evaluation of the scheme to be conducted across four phases to assess the outcomes of the scheme. The results of the first two phases of the evaluation have been published (Martin et al. 2012, 2013). They involve the provision of baseline data of work and family life before the introduction of the scheme and an examination of the implementation of the scheme and the scheme’s early impacts on parents and employers. Reports on the third and four phases of the evaluation are expected to be completed in 2014.

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- It provided paid leave of up to 18 weeks that can be shared by eligible parents, with an additional two weeks of paternity leave reserved for the father (or same sex partner) who shares in the daily primary care of the child.
 - It provided the adult federal minimum wage for each week of leave for those eligible with benefits subject to normal taxation.
 - All those employed with a reasonable degree of labour force attachment should be eligible including the self-employed, contractors and casual employees.
 - An employment test.
 - A broad range of family types should be eligible.
 - Employers participate in the scheme by acting as paymasters with the government prepaying employers and by providing superannuation contributions for longer term eligible employees (to be deferred for at least three years).

It considered such a scheme would meet a range of commonly agreed objectives including:

- generating child and maternal health and welfare benefits by increasing the time parents take away from work
- promoting some important, publicly supported social goals, and in particular, that having a child and taking time out for family reasons is viewed by the community as part of the usual course of work and life for parents in the paid workforce.

The major objective of a paid parental leave scheme is to support the welfare of the infant and mother after birth, by enabling the temporary withdrawal of working mothers, while maintaining their link to the workforce. The main benefits of a scheme are most likely to be experienced by less well-educated and lower skilled women than more educated higher paid women: the former group is more responsive to higher effective wages than the latter group of women; low income women and their families have less recourse to savings and cannot necessarily support themselves on a low single income, thus hastening mothers' return to work; and low income women and their families face the greatest barriers to work given the incentives created by the welfare system.

The Commission considers that it is unclear that the proposed changes to the Paid Parental Leave scheme — which is more generous than the existing scheme — would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. There may be a case, therefore, for diverting some funding from the proposed new scheme to another area of government funding where more significant benefits, including family and workforce participation benefits, are likely.

7 Regulation of ECEC providers

Key points

- Governments regulate ECEC to ensure minimum standards and assist parents in evaluating quality. The cumulative impact of ECEC regulation is considerable.
- The National Quality Framework (NQF) has established a minimum national standard for ECEC which is acknowledged as improving the quality of care provided.
 - It has reduced some regulatory burdens for providers, but the overall burden could be further reduced without detrimentally affecting the quality of care provided. This could be achieved by:
 - ... allowing services greater flexibility in the way staffing requirements are met
 - ... tailoring requirements that are currently in excess of those needed to ensure acceptable quality, so they are more appropriate to the nature of the care provided (such as for outside of school hours care services)
 - ... adopting the national requirements in jurisdictions that currently mandate staff ratios and qualification requirements that are stricter than those prescribed under the NQF.
- The scope of the NQF should be extended to include all services that receive Australian Government subsidies as soon as practicable, with suitable tailoring of requirements. Dedicated preschools should be removed from the scope of the NQF and regulated by the states and territories.
- National staff ratios and qualification requirements should be reviewed as evidence emerges on their appropriateness. Nationally consistent requirements should be developed for school age children.
- Quality assessment and ratings processes need to be urgently revised
 - changes should be made to how a service's overall rating is determined to ensure it more accurately reflects service quality
 - the pace of assessments must be increased.
- There is scope to reduce the burden of federal and state based regulations by: removing operational criteria for services approved to receive Australian Government assistance; harmonising working with children checks across jurisdictions; and streamlining food safety requirements.
- Local government planning regulations (such as limitations on service size and parking requirements) can reduce the viability of ECEC services. Planning requirements should specifically allow for convenient siting of future ECEC services, such as close to schools or other community facilities. Local governments should not regulate building interiors or children's outdoor areas within the property.

7.1 Rationales for regulating ECEC

There are two key rationales for the core national regulations affecting ECEC:

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

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

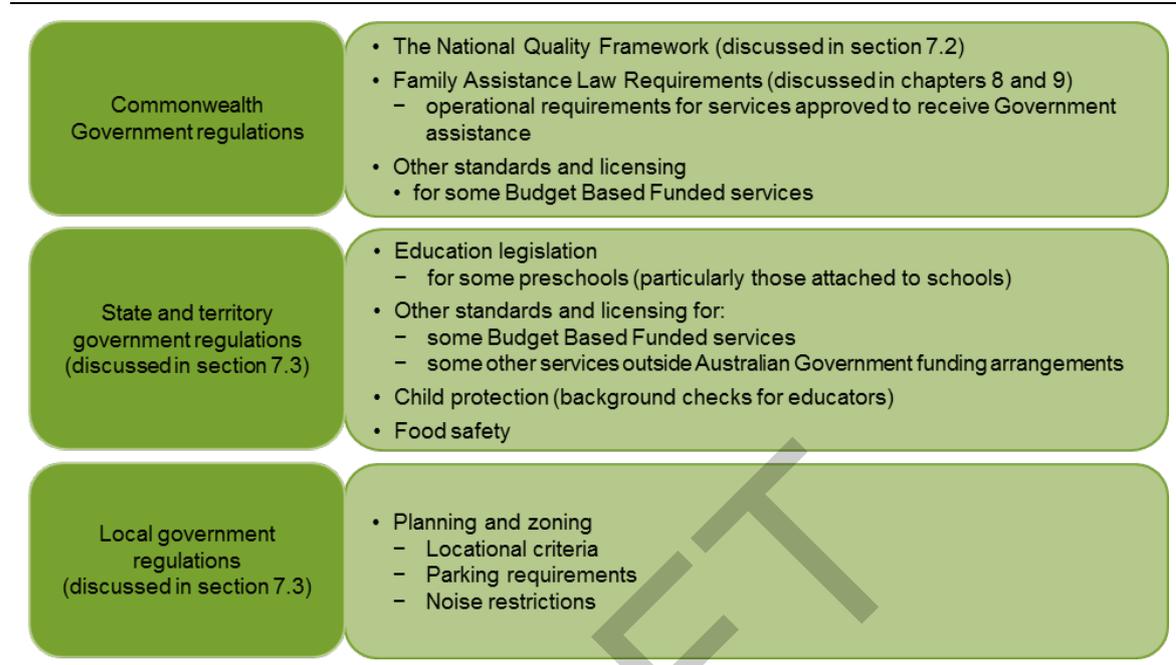
The role of governments should be, most importantly, to determine minimum standards for the sector before considering other aspects of regulation such as information provision. Minimum standards should include requirements that are essential to operating an ECEC service, such as required outcomes of educational programs, and standards that are likely to alleviate substantial risks for children, such as those relating to health and safety and the physical environment.

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

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

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

Figure 7.1 Broad types of regulations affecting ECEC services



7.2 The National Quality Framework

The National Quality Framework (NQF) — further details in appendix H — is the most significant suite of regulations affecting the ECEC sector. It sets the minimum standards and establishes a ratings system for most long day care (LDC), family day care (FDC), preschool and outside school hours care (OSHC) services in Australia. The NQF has been in operation since 2012 and most aspects have been positively received by most stakeholders in the ECEC sector (for example, Guardian Early Learning Group, sub. 274; UnitingCare Children’s Services, sub. 326; Early Childhood Australia, sub. 383; Helen Dalgleish, sub. 56; Denise Harden, sub. 105).

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

Although the NQF was developed over a number of years by the Council of Australian Governments (COAG) and a regulatory impact analysis was conducted

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

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

Given the substantial costs of the NQF (box 7.1) and the difficulty of reliably quantifying benefits, it is important to examine claims of undue regulatory burden in the sector and determine the potential to reduce this burden in a manner that does not significantly impact on the quality of education and care provided.

Box 7.1 Quantifying the net benefits of the NQF

Benefits

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

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

Costs

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

Source: COAG (2009b).

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

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

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

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

The 2014 Review of the NQF

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

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

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

ACECQA’s streamlining process

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

The National Quality Standard

The National Quality Standard (NQS, box 7.3) establishes a quality ratings system for ECEC services that fall under the NQF (detail in appendix H). There appears to be widespread recognition that the regulatory burden on services could be further reduced by streamlining the NQS (as noted in ACECQA 2013d) (box 7.4).

The evidence suggests to the Commission that there is scope to remove or alter individual elements of the NQS that are unnecessarily burdensome. This section also explores ways to tailor the NQS to different service types, where doing so will not reduce regulatory effectiveness or net benefits for the community. Adopting the changes proposed in this section, and those relating to staff ratios and qualification requirements in the next section, will reduce unnecessary red tape for services and make assessment an easier process for both services and regulators.

Box 7.3 The National Quality Standard

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

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

Simplifying the NQS while maintaining net benefits to the community

The Commission understands that the 2014 review of the NQF, informed by ACECQA analysis, will be exploring specific ways to simplify the NQS (such as removing or altering some elements). The Commission has sought in this report to identify an appropriate framework and underlying principles for simplifying the NQS that can inform the review process and guide reforms. The Commission's final report may contain further details, specific reform options and comments on the findings of the NQF review if it has been completed.

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

Simplifying the NQS would have a direct measurable benefit to providers, educators and the state and territory governments in reduced paperwork, compliance costs and administration overheads.

... ACECQA contends that NQS simplification must and can maintain the benefit to children, and the NQF's focus on improving service quality while reducing paperwork.

... Feedback from regulatory authorities is that some features of the NQS could be removed or modified without compromising the instrument's benefit to children and families. (2013d, p. 11)

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

Box 7.4 Potential benefits of simplifying the NQS

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

Source: Adapted from ACECQA (2013c).

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

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

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

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

Box 7.5 Sustainability elements in Standard 3.3

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

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

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

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

The following view reflects such concerns:

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

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

Tailoring elements of the NQS to different service types

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

This view is supported by research conducted by ACECQA (2013c, p. 18, appendix D), which indicates that many educators in the OSHC sector perceive themselves as primarily offering ‘care’ rather than ‘education’. ACECQA notes that:

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

The Commission considers that requirements relating to educational programming should not apply to OSHC (or vacation care) services in the same way as services for children under school age. These include all elements of, and regulations associated with, QA1 (educational program and practice) and some elements of QA6 (collaborative partnerships with families and communities) (box 7.6). Since educational programming represents the largest ongoing administrative cost related to the NQF (ACECQA 2013c), removing or modifying these requirements should significantly reduce the regulatory burden on OSHC services. This does not mean that OSHC services should not strive to deliver outcomes associated with these elements; simply that governments should not require them to do so.

In addition to tailoring the NQS to suit OSHC services, policy makers should appropriately tailor requirements for any new services that might be brought under the scope of the NQF (discussed later in the chapter).

DRAFT RECOMMENDATION 7.1

To simplify the National Quality Standard, governments and ACECQA should:

- ***identify elements and standards of the National Quality Standard that can be removed or altered while maintaining outcomes for children***
- ***tailor the National Quality Standard to suit different service types — for example, by removing educational and child-based reporting requirements for outside school hours care services.***

Box 7.6 NQS elements that should not apply to OSHC services**QA1**

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

QA6

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

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

Staff ratios and qualification requirements

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

... the optimal standard for these variables [qualification levels and staff ratios] and the quantitative difference in educational outcomes associated with different levels is unclear.

... It is worth highlighting that the research on the effect of child care quality on children's educational outcomes does not distinguish between different starting points for the improved ratios. That is, it says nothing about the relative benefits of an improvement in staff-to-child ratios from 1:5 to 1:4 versus a subsequent move from 1:4 to 1:3. (COAG 2009b, p. 98)

Warren and Haisken-DeNew (2013) — in a study that provides direct comparisons of the effect of the type of qualification held by pre-school teachers on later

cognitive outcomes — found that average NAPLAN scores were highest among children whose preschool teacher had a diploma level qualification; and the difference between these scores and those of children whose teacher held a degree level qualification were not statistically significant. They also noted that:

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

These general concerns also extend to determining staff ratios and qualification requirements for specific aspects of ECEC, such as for different age groups (chapter 5) or service types. For example, the NSW Family Day Care Association noted that, while they accept the basis for changes to centre based staff ratios, there has been limited research to justify tightening these ratios for family day care services:

There is no research that states what the optimal ratios of children to educators are in our settings. In the absence of this research ... [research findings for centre based care settings] have been extrapolated and imposed on Family Day Care services, without the evidence of whether these are required or are optimal. ...

... This change seems hard to justify in the absence of research and when many Family Day Care services are already exceeding the NQS with current child numbers. (sub. 253, pp. 6, 9)

The inability to distinguish the benefits of variations in staff ratios and qualifications is of significant concern, since the vast majority of the additional costs attributable to the NQF are as a result of changes to these requirements (labour costs, discussed in chapter 10 and appendix J, represent around 60 per cent of services' operating costs). Some providers have suggested (see for example, Bankstown Family Day Care Co-op. Ltd., sub. 150; City of Sydney, sub. 196; Australian Childcare Alliance, sub. 310; Merindah Children's Centre, sub. 370) that these costs may cause some services to change their structures, in particular by reducing the number of places available for children aged birth to two — potentially reducing the availability of ECEC places for this age group in some areas.

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

they wish to incur the additional costs associated with exceeding minimum standards in order to position themselves as a ‘high quality’ provider.

Qualification requirements for children aged birth to 36 months

The Commission has found little compelling evidence that requiring a proportion of those caring for children aged birth to 36 months to hold certain higher level education qualifications is necessary. Both Australian and international research (chapter 5) indicate that the impacts of attending ECEC services on the development and early learning outcomes for children aged birth to 36 months are not as consistently positive as the impacts for children aged three years and older (some studies have found negative or no significant impacts).

On balance, given the research in this area, the Commission considers that ECEC for children aged birth to three should focus on quality care and not be required to include a significant educational component. In terms of the required qualifications of ECEC workers for this group, this means LDC services should be able to provide care for children under 36 months without the oversight of a teacher and these children should not be included in the count towards the requirement to hire an early childhood teacher (ECT). This would allow ECTs to focus on children aged 36 months and over. The Commission also considers that all LDC workers caring for children aged under 36 months should be required to hold or be actively working towards a certificate III or equivalent (the same qualification expected of family day care educators), rather than half of these educators being required to hold or be working towards a diploma level qualification.

Adopting these changes should result in lower costs for services and reduce workforce shortages (chapter 11) for diploma qualified educators and ECTs, while maintaining quality outcomes for children. Those services that wish to retain ECTs for children under 36 months would be able to do so and differentially price their services accordingly.

Inconsistencies in ratios and qualification requirements between jurisdictions

A number of jurisdictions have chosen to maintain higher standards for centre based services than those prescribed in the NQF. These include stricter staff ratios and additional requirements relating to the employment of an ECT (box 7.7).

A nationally consistent system should not leave scope for some jurisdictions to enforce requirements that exceed those taken to be acceptable in other jurisdictions, particularly given that the resulting costs to services are likely to be substantial.

Box 7.7 Jurisdiction-based standards higher than those in the NQF**Staff ratios**

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

Early childhood teachers

- A second teacher for services in New South Wales caring for more than 40 children, with an additional teacher for every 20 children thereafter (up to four teachers).
 - Before 2020, the NQS specifies at most one teacher is required for services caring for 25 or more children. From 2020, up to two teachers are required for services caring for more than 80 children (detail in appendix H).
- LDC and preschool services in Victoria caring for less than 25 children must have a teacher for 50 per cent of the time or 20 hours per week.
 - The NQS requires services caring for less than 25 children must ensure a teacher is in attendance for at least 20 per cent of operating hours.
- Western Australia requires one teacher for every 30 children in a 'pre-kindergarten programme or kindergarten programme provided by a school'.
- In South Australian preschools, the requirement for half of educators to have at least diploma qualification and half to have at least a certificate III (regulation 126) has been replaced with the requirement that:
 - the first and second educators required to meet the staff ratio for preschool aged children in a government preschool (other than a 'prescribed preschool') must be early childhood teachers
 - the first and third educators required to meet the staff ratio for preschool aged children in a 'prescribed preschool' must be early childhood teachers
 - ... where a 'prescribed preschool' is a preschool provided by a school or on the site of a school, or in a rural area, or with fewer than 16 children.

The stricter requirements for ECTs in New South Wales are of particular concern, given that they appear to be linked to the severe shortages of teachers in that state (ECTs are not classified as being in shortage in any other jurisdiction) (DEEWR 2013a, 2013b). Staffing arrangements in NSW also mean that services are not allowed the same flexibility in hiring practices as is permitted in other jurisdictions in transitioning to the NQF. In particular, in New South Wales, regulation 242 of the National Regulations — which permits a service to count a person as an ECT if that person is actively working towards an approved early childhood teacher qualification, has completed 50 per cent of the course and already

holds an approved diploma-level qualification — only applies at centre-based services with fewer than 30 children in attendance. Not allowing this concession in New South Wales centres with over 30 children may have unnecessarily exacerbated challenges for services in New South Wales in recruiting sufficient numbers of suitably qualified staff.

Staffing requirements for school age children should be harmonised

There are no national staff ratios or qualification requirements for educators caring for school age children (i.e. in OSHC). Instead, the national regulations contain jurisdiction-specific provisions for this age group that vary considerably (table 7.1).

Table 7.1 Staff ratios and qualifications for school age care

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

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

Source: Education and Care Services National Regulations (2011).

All jurisdictions except New South Wales and Tasmania have both minimum staff ratios and qualification requirements for school age children, whereas Tasmania has only staff ratios and New South Wales has no requirements. Qualification arrangements are particularly convoluted, requiring ACECQA to maintain a list of

approved qualifications for educating children over preschool age for each jurisdiction. In contrast, most qualifications approved for educating children under preschool age are approved for all jurisdictions (with some exceptions for qualifications approved before the NQF). Given that national requirements exist for children of preschool age and under, the Commission sees no reason why national minimum requirements relating to school age children could not similarly be prescribed for OSHC and vacation care to provide consistency across jurisdictions.

The need to determine reasonable and consistent requirements has been identified in submissions to the inquiry from those in the sector providing care to school age children (box 7.8).

Box 7.8 Support for national requirements for school age children

Australian Primary Principals Association:

The student to teacher ratios before, during and after school should be the same. A primary school leader reported her frustration with the fact one set of regulations allowed a specialist physical education teacher to supervise a class of twenty students in the school pool at five minutes to three in the afternoon while another set of regulations applying at five minutes past three the same afternoon allowed the same teacher with the same children in the same pool to supervise only five students.

... The differences in regulations between the National Quality Framework that regulates Out of School hours Care and the State or Territory Government documentation that regulates schooling contexts creates significant inconsistencies that substantially limit the quality of programs in the Out of School Hours setting. (sub. 438, pp. 2-3)

Network of Community Activities:

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

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

The Commission considers that the current ACT staff ratio of 1:11 for school age children is excessive, given that this is the same ratio required for children aged 36 months to preschool age under the NQF and most other jurisdictions require a ratio of 1:15. In contrast, the lack of any prescribed minimum ratio in New South Wales may be detrimental to the quality of care provided. Minimum staff ratios for school age children should reflect a balance between these two extremes and account for the fact that there are, as noted by the Australian Primary Principals Association in box 7.8, reasonably high acceptable staff ratios for these children during school hours.

Similarly, minimum qualification requirements in Victoria — which are the same as those under the NQF for educators caring for children of preschool age and under — seem excessive for children in this age group. This view is supported by OSHC associations in all other jurisdictions:

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

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

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

Only a proportion of OSHC staff (one option could be a third of staff, as is the case in the ACT) should be required to hold an approved qualification and this qualification should be appropriate to the age group. The manager of the OSHC service should hold a suitable higher level qualification.

The qualifications approval process could be improved

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

identified two main areas of concern regarding ACECQA's processes for approving qualifications.

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

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

ACECQA should reevaluate these prescriptive ECT requirements and consider ways to make the approval process more outcomes based, particularly when it comes to qualifications for preschool teachers.

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

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

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

These concerns exist despite the application process allowing ACECQA to exercise some flexibility in accepting alternative forms of evidence for certain requirements. The issues identified indicate that ACECQA's current processes for approving international qualifications may be too complex and prescriptive and that they are potentially preventing experienced educators from working in Australia. While the

processes for ensuring overseas qualifications are acceptable must be rigorous, ACECQA should make the requirements for their approval simpler and more outcomes based where appropriate. For example, criteria could be modified to make it a simpler process to account for differences in international training procedures or administrative arrangements.

Other issues with staffing arrangements

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

Flexibility in staffing arrangements — The National Regulations require a service's staff ratios to be strictly maintained at all times. The only exception to this requirement is an allowance for each educator to take up to 30 minutes per day off the floor without their position being filled.

This inflexibility exacerbates the general workforce issues in the sector (chapter 11), since services are likely to have to incur additional costs by maintaining staff levels in excess of the minimum ratios and/or (where they are able to do so) hiring casual relief staff to avoid breaching the regulations as a result of short-term staff absences. Some providers have experienced difficulties in recruiting such staff. The Community Child Care Co-operative (sub. 333), for example, stated that their members have been unable to recruit casual teachers to enable permanent teachers to be released from their role to undertake professional development, take personal leave and attend meetings. This concern was also reflected in some of the online comments received by the Commission, for example:

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

The Commission considers that further flexibility in staffing arrangements should be permitted under the NQF, in particular to allow educators to undertake activities such as professional development. This could be achieved by allowing all ECEC workers to be replaced by a less qualified staff member for short absences, as is the case with teachers; or by allowing services to maintain staff ratios on average, say over a day or week. However, increased flexibility should not create an undue burden for services (such as by requiring excessive paperwork or approvals to temporarily operate below staff ratios).

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

DRAFT RECOMMENDATION 7.2

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

- ***all educators working with children aged birth to 36 months are only required to hold at least a certificate III, or equivalent***
- ***the number of children for which an early childhood teacher must be employed is assessed on the basis of the number of children in a service aged over 36 months.***

Information request 7.1

The Commission seeks participants’ views on the expected impacts on the development of children under 36 months of focusing required teachers in centre-based care on children over 36 months.

DRAFT RECOMMENDATION 7.3

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

DRAFT RECOMMENDATION 7.4

Governments should develop and incorporate into the National Quality Framework a nationally consistent set of staff ratios and qualifications for those caring for school age children in outside school hours and vacation care services. These requirements should take into consideration ratios that are currently acceptable for children during school hours, the uncertainty surrounding the additional benefits of more staff and higher qualifications, and the valuable contribution that can be made to outside school hours care services by less qualified older workers and university/TAFE students.

DRAFT RECOMMENDATION 7.5

To provide services with greater flexibility to meet staffing requirements, ACECQA should:

- *remove the requirement that persons with early childhood teacher qualifications must have practical experience for children aged birth to twenty four months*
- *explore ways to make the requirements for approving international qualifications simpler and less prescriptive in order to reduce obstacles to attracting appropriately qualified educators from overseas.*

All governments should allow services to temporarily operate with staffing levels below required ratios, such as by maintaining staffing levels on average (over a day or week), rather than at all times.

The New South Wales and South Australian Governments should allow a three month probationary hiring period in which unqualified staff may be included in staff ratios before beginning a qualification, as was recently adopted in all other jurisdictions.

Assessment and rating processes

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

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

Addressing inconsistency in assessments by improving governance

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

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

- services, particularly sole operators, may find it difficult to fully understand their obligations (as noted by ACECQA, sub. 260) — as a result, they may inadvertently not comply with all aspects of a regulation or, conversely, spend more time and resources than necessary on compliance
- regulatory authorities and the authorised officers undertaking assessments may find it difficult to determine whether a service is compliant with such regulations (ACECQA 2013d) — particularly if they are poorly trained or if an authorised officer has been accustomed to enforcing prescriptive requirements.

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

Box 7.9 Concerns raised about assessment and rating inconsistency**Goodstart Early Learning:**

To a large extent Goodstart still has to contend with multiple regulatory bodies, each with different approaches and interpretations. Goodstart would like to see much greater consistency between the states and territories on the implementation of the NQF. While some jurisdictions have adopted a practical, risk-based approach to regulation that seeks to build partnerships with providers, others have adopted a rigid, 'letter of the law' approach that adds to costs and to uncertainty as decisions are often pending. (sub. 395, p. 42)

Centre Support Pty Ltd.:

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

Minister's Education and Care Advisory Council, Tasmania:

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

Australian Childcare Alliance:

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

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

In practice, anecdotal evidence received in consultations with the sector suggests that services are much more likely to seek advice from ACECQA or Professional Support Coordinators (who deliver support to services under the Australian Government's Inclusion and Professional Support Program). The Commission considers that regulators should always maintain an educative function and the reportedly limited role being played by regulatory authorities in educating the sector is of particular concern. This is because, as the primary regulator of services (that is,

authorised officers that conduct assessments are employees of regulatory authorities, not ACECQA), regulatory authorities are best placed to provide advice.

Box 7.10 Regulatory authorities provide limited support to services

Child Care NSW:

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

Australian Childcare Alliance:

In the transition to the National law, services indicate support "resources" that previously assisted services with quality improvement have been redirected to the role of assessor, report and compliance officers are no longer available to support the sector. (sub. 310, p. 15)

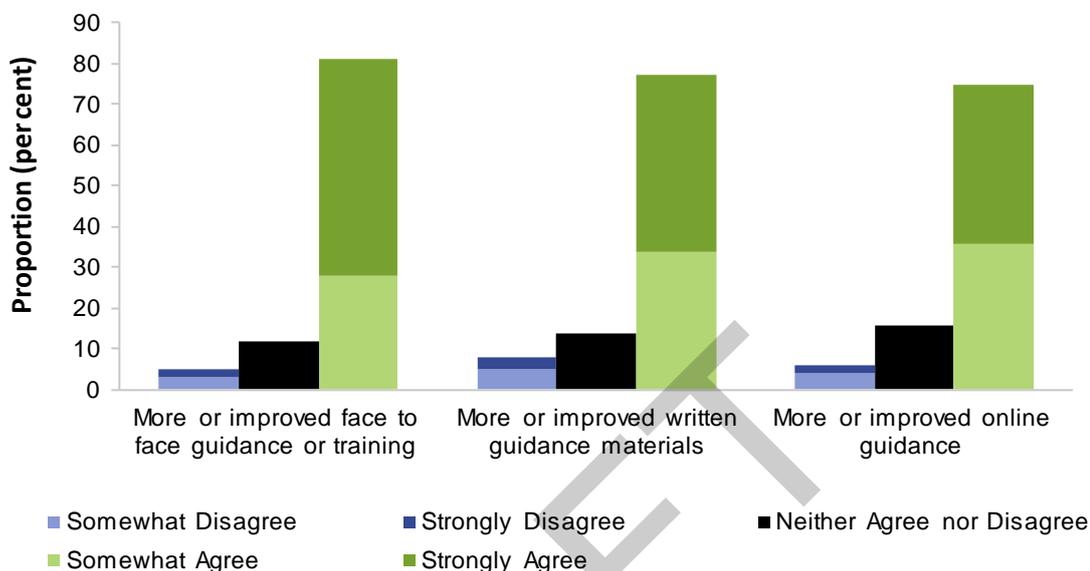
The structure of the system creates confusion as to who is able to give advice, state or ACECQA, and in many instances both authorities devolve the responsibility to the other resulting in services being no further informed. (sub. 310, appendix 11.2, p. 1)

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

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

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

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



Data source: ACECQA (2013c, p. 111).

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

- ACECQA resources more useful, on average, than those provided by regulatory authorities; particularly in relation to customer service hotlines and, to a lesser extent, information provided on websites
- regulatory authority social media presence and stakeholder forums to be 'very useful' (more than 50 per cent selected this answer for stakeholder forums and around 80 per cent for social media)
 - regulatory authority websites and newsletters (in their current state) to be much less useful than social media communication and stakeholder forums (more than a third did not find these useful)
- authorised officers (frontline staff) to be of mixed usefulness.

In its study into *Regulator Engagement with Small Business*, the Commission (PC 2013) explored the challenges of education by regulators, particularly in relation to outcomes based regulations. Many of the recommendations in that report

are of relevance in the ECEC context, including in relation to the regulation of large providers. In particular, to help reduce inconsistency, regulatory authorities should:

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

The pace of assessments is a cause for concern

Another key concern, raised by both the sector and government, is the pace of assessments across all jurisdictions. While assessments began in mid-2012 in most jurisdictions, only one-third of approved services have been assessed (table 7.2). Although the pace of assessments seems to be increasing, it appears a certainty that regulatory authorities will not be able to assess all services at least once by mid-2015 as planned, or that services will be reassessed at the frequency expected (every one to three years, depending on the quality rating received).

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

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

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

Table 7.2 **The progress of quality assessments and ratings**

As at 31 March 2014

<i>Jurisdiction</i>	<i>Number of services with a quality rating</i>	<i>Number of services</i>	<i>Proportion of services with a quality rating</i>
			%
ACT	125	317	39
NSW	2 035	4 864	42
NT	107	215	50
QLD	890	2 693	33
SA ^a	216	1 131	19
TAS	79	224	35
VIC	1 479	3 898	38
WA ^a	154	1 016	15
Total	5 085	14 358	35

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

Source: ACECQA (2014b, p. 9).

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

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

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

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

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

In April 2014, COAG agreed to changes that introduced:

- more flexible timeframes that reduce the amount of time a service has to wait between the start of the assessment process and finding out their quality rating

-
- a new, nationally consistent assessment and rating report template that will help regulatory authorities produce reports more quickly.

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

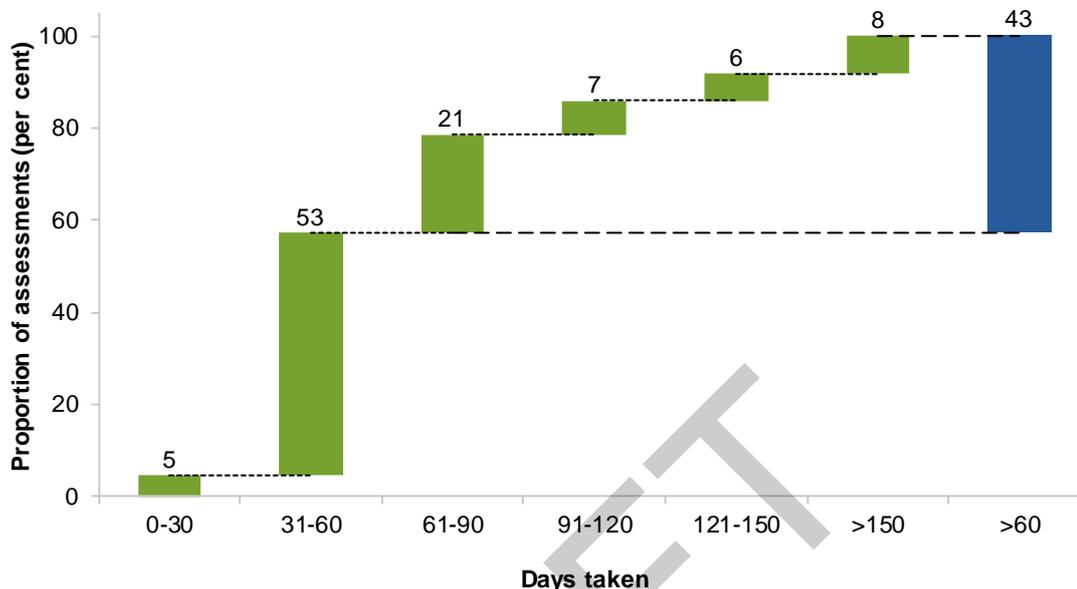
However, it appears unlikely that this streamlining of the assessment process alone will result in an adequate pace of assessments and longer term strategies may be required. ACECQA administrative data (as at 20 January 2013) shows that, in over 40 per cent of cases, regulatory authorities were unable to provide services with written notice of the outcome of their rating assessment within 60 days of the assessment and rating visit, as required under the National Law (figure 7.3). The proportion of assessments taking more than 60 days across jurisdictions varied from around 5 per cent (ACT and Northern Territory) to more than 75 per cent (South Australia and Tasmania). In addition to South Australia and Tasmania, the majority of assessments in both New South Wales and Western Australia also took more than 60 days — suggesting there exists significant scope for improvement in some jurisdictions.²⁷

To address the sector's concerns, governments and ACECQA should address the structural problems contributing to the slow pace of assessments. In particular, they should consider ways to simplify the NQS (draft recommendation 7.1) and continue efforts to streamline the assessment process. Increasing the resources provided to regulatory authorities should not be considered as a first step, because doing so would generate a potentially significant ongoing cost to governments and reduce incentives to streamline the assessment process.

Expanding the NQF to include additional service types (draft recommendation 7.8 below) would create additional challenges by increasing the time taken to complete an assessment cycle across all services — reinforcing the need to address inefficiencies in the assessment process.

²⁷ South Australia and Western Australia commenced inspections later than other jurisdictions, which may have partly influenced the time taken to complete assessments.

Figure 7.3 Time taken to complete assessments
Days between assessment and rating visit and written notice being sent



Data source: Commission calculations using ACECQA administrative data (20 January 2014).

The rating system should be made more reflective of quality

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

- the way a service's overall rating is determined
- the designation of the 'Working Towards NQS' rating
- the appropriateness of the 'Excellent' rating.²⁸

Many participants were especially concerned about the way in which a single unmet NQS element can bring a service's overall rating down to Working Towards NQS (all 58 elements must be met to receive a 'Meeting NQS' rating). This system means that if a service misunderstands a subjective element or an authorised officer takes an inconsistent approach during an assessment, it can have a substantial effect on a service's quality rating. As such, the rating cannot always be considered to be an accurate reflection of overall service quality (and therefore to be providing useful information to families). As noted by KCL Family Day Care:

... this [reform] process is not going to help sustain Educators and coordination units in the future unless the accreditation process shows a true picture of a services intentions and strengths. ... The entire average of a scheme shouldn't be brought down

²⁸ Appendix H contains further detail on the criteria for the Excellent rating.

simply because of one working towards, as this then gives the overall perception that your service is only rated as working towards. (sub. 398, p. 2)

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

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

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

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

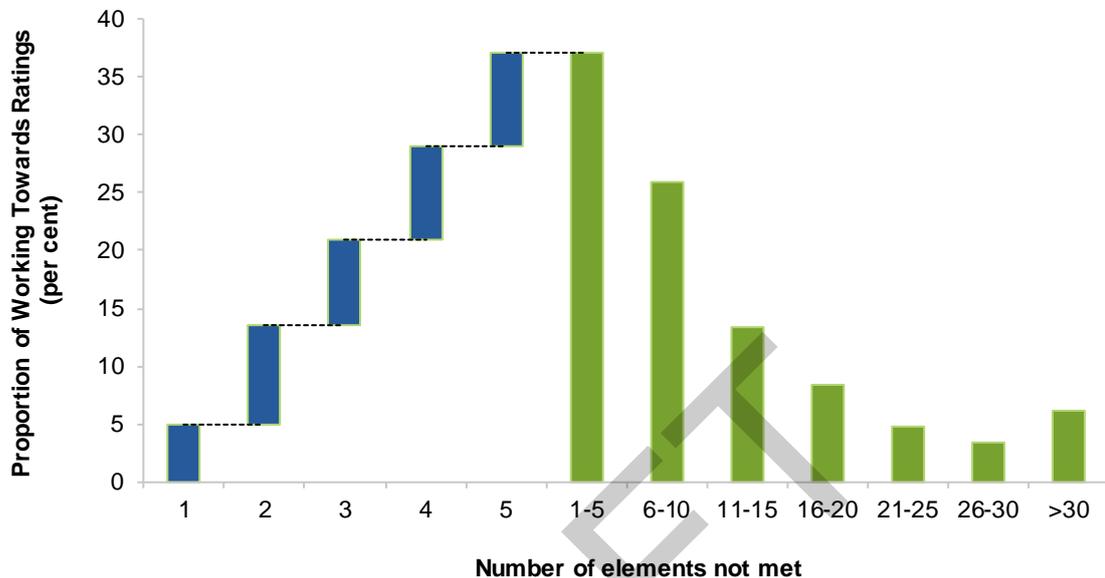
- removing the overall rating in favour of retaining only separate ratings for each quality area
- placing 'weighted' scores on each element or standard based on their 'importance' to quality, then determining ratings based on the total score achieved
- determining ratings based on the proportion of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

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

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

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

As a proportion of Working Towards ratings. n = 2011



Data source: Commission calculations using ACECQA administrative data (20 January 2014).

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

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

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

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

Whilst the Excellent rating and process appears to be the current focus of ACECQA, it is important to note that up to 70% of the sector is struggling with their Working towards rating. ACA believes that this disparity must be addressed as the priority. It is admirable if educators in a service wish to apply for an “Excellent” rating, however ACA does question whether this is of primary importance to families as their main concern is for their children to be safe, happy and well cared for by passionate educators. (Australian Childcare Alliance, sub. 310, p. 112)

ACCS believes there are problems with the Excellent rating and that it is inequitable that services can apply for this rating before all services have been through the assessment and ratings process. (Australian Community Children’s Services, sub. 183, p. 13)

The Commission does not believe it is appropriate for ACECQA to expend resources on assessing applications for the Excellent rating, given the low volume of services awarded the rating (as at 31 March 2014, 11 out of 5085 assessed services, ACECQA 2014b) and the limited value of the rating in providing useful information to parents (given the existence of the ‘Exceeding’ rating). This rating should be abolished.

DRAFT RECOMMENDATION 7.6

Governments and ACECQA should:

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

Administrative requirements

Research by ACECQA (2013c) suggests that, overall, the administrative requirements associated with the NQF have increased costs for the sector. The research identified over 350 information obligation requirements associated with the NQF. Although, individually, these requirements may take a very small amount of time to comply with and, in many cases, are necessary to obtaining desired quality outcomes, they can amount to a substantial burden in aggregate (box 7.11) and have a negative impact on job satisfaction for educators (chapter 11). In fact, almost 80 per cent of providers and nominated supervisors surveyed by ACECQA perceived administrative requirements to be ‘quite’ or ‘very’ burdensome. This finding is reflected in comments and submissions received (box 7.12).

Box 7.11 **Administrative burden under the NQF — case studies**

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

75 place LDC service

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

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

30-45 place OSHC service

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

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

650 place, 55 educator FDC service

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

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

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

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

Box 7.12 Administrative burden — comments and submissions**ECEC Workers:**

... I cannot survive with the phenomenal work load that the current regulations and standards create. I have to cut corners somewhere or I will have to resign ... Most weeks I do a minimum of ten hours unpaid overtime, and many weeks I do twenty or more hours unpaid in addition to my paid hours. The children should come first, not the paperwork ... (comment no. 65)

One of the main reasons I believe the cost of child care has gone up so much in the last few years, is because of the enormous increase in red tape, paperwork and time spent trying to comply with all the new rules and regulations ... I'd say I spend somewhere between 15 to 20 hours a week (at least) outside of caring for children trying to comply with paperwork and other regulations. And even though my fees have had to go up, I still am earning less per hour than what I used to before because I have to work so many more hours trying to comply. (comment no. 111)

The paperwork and red tape required [for OSHC services] at the moment only prevents the children from having quality time with the adults in charge of them in place of their parents. (comment no. 104)

Child Care NSW:

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

Family Day Care Australia

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

Network of Community Activities:

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

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

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

New services incur high administrative set up costs

ACECQA (2013c) research indicates that providers may be unclear on what is required when initially establishing NQF compliant policies and procedures and that services can incur significant (and in some cases what seem to be excessive) costs in doing so. While the costs associated with initially complying with the NQF are one-off and have already been incurred by current providers, they can be significant. Moves to address concerns in this area would save new providers (and existing providers outside the NQF that may be brought under its scope) significant amounts of time and reduce costs.

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

Administrative set-up costs incurred by providers (both FDC and centre based), and the detail and scope of policies developed, varies dramatically. For example, the cost of establishing a set of NQF compliant policies and procedures was found to be as low as \$1600 per service for some providers and up to \$9000 for others; while some providers had 20 policies developed and some had as many as 60 (ACECQA 2013c, pp. 14–15, appendix D). Although these figures relate to a sample of providers and should not be extrapolated to the sector as a whole, they suggest that the administrative burden for new services may be excessive in some cases.

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

Quality Improvement Plans and documenting children's learning

Despite the high level of support within the sector for Quality Improvement Plans (QIPs) and documenting children's learning, and their role as a cornerstone of the

quality improvement objectives of the NQF, these aspects have been identified by providers as among the most burdensome ongoing administrative requirements of the NQF (figure 7.5). The key contributing factors for this burden were found to be (in order) that: staff attention is diverted from other activities, they consume staff time and staff have difficulty understanding the requirements (ACECQA 2013c, p. 12, appendix E). A lack of precise guidance on the flexibility that services have in completing QIPs has been identified as a key cause of this burden (ACECQA 2013c). Services have discretion to decide:

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

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

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

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

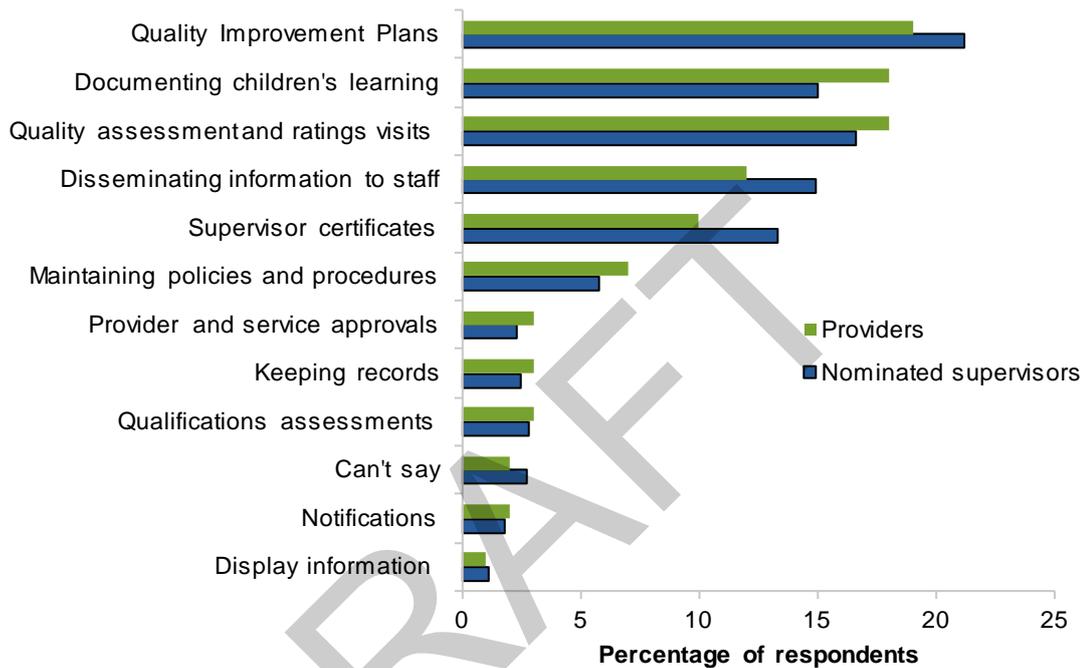
- teachers and lead educators spent around 150 hours documenting and designing their initial educational program, at an average one-off cost of close to \$4000 per service
- educators spent 22 hours per child per annum on documenting assessments of children’s learning, at a cost of around \$700 per child per annum
- services spent almost 130 hours designing and documenting their initial QIP, at a one-off cost of around \$3500
- services spent just over 180 hours per annum reviewing, revising and continually developing their QIP, at a cost of over \$4800 per annum.

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

with these requirements is detracting from time with children (ACECQA 2013c, p. 18, appendix D).

Figure 7.5 Which ongoing administrative requirements are the most burdensome

Sample of 1641 providers and 1842 nominated supervisors



Data source: ACECQA (2013c, p. 97).

Reducing the regulatory burden associated with these requirements should be attempted wherever this can be done without impeding the achievement of regulatory objectives. In particular, simplifying the NQS (as discussed earlier) and the process of linking the QIP and educational documentation to the NQS should assist; as would informing providers of the flexibility that services have under the NQF and the possible approaches that they can take to meet their obligations.

Certified supervisor certificates should be abolished

Under the requirements of the NQF, all services must have a 'Nominated Supervisor' who is responsible for the day-to-day management of that service. Before 1 June 2014, for an educator to become a Nominated Supervisor, the service had to apply for a 'supervisor certificate' from their regulatory authority. However, recent reforms to the NQF (in response to concerns raised by the sector) mean that from 1 June 2014, all services will be issued with a supervisor certificate that can

apply to any person working in a service who is responsible for the day-to-day management of the service, has supervisory or leadership responsibilities, or is a FDC coordinator.²⁹ Services will still have to apply for a separate certificate for other staff who wish to become Nominated Supervisors. Governments should give further consideration as to whether any objective is being achieved by even this reduced requirement — including questioning the purpose of issuing the ‘service wide’ certificates discussed above. As noted by UnitingCare Children’s Services (before the June 2014 changes):

UCCS sees limited added value in having staff go through this process as the role of Certified Supervisor does not carry any legal responsibility and under the NQS services are bound to meet the regulations regardless of who is on the premises. (sub. 326, p. 36)

Given the questionable value of supervisor certificates, the Commission suggests that recent reforms do not go far enough. While there remains value from services having nominated supervisors available at any point in time, the requirement to obtain supervisor certificates should be removed completely.

Waivers

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

State-based regulatory authorities have different requirements and expectations in relation to applying for and providing supporting documentation for staffing waivers, which can be burdensome and add significantly to administrative costs.

There is currently a 60-day-plus processing time on [service] waivers, which can impact on the scheduling and commencement of upgrades/[capital] works. Inconsistent requirements for information and delays in decisions by regulators often result in delays in commencing of work, which is an inconvenience for the contractors and centres. (sub. 395, p. 106)

Child Care NSW (sub. 333) noted feedback from their members expressing frustration that waivers for ECTs were specific to the interim teacher hired, rather

²⁹ Except in Western Australia, which must first amend the separate NQF legislation in that state.

than the service itself. That is, if a service receives a waiver for an ECT (to hire an interim teacher) and that educator leaves the service, the service is required to apply for a new waiver when hiring another interim teacher. The Commission understands this issue is unique to New South Wales.

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

Areas of duplication with non-NQF requirements

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

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

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

OSHC service approvals — In order to receive approval to operate a service, service operators are required to provide the Regulatory Authority with architectural plans for the proposed service location. While the approvals process as a whole was generally perceived by services to be straightforward, some found the requirement for architectural plans to be costly and time consuming. In particular, OSHC services operating on school grounds noted that older schools often did not have ready access to such plans, forcing services to go through the costly exercise of obtaining new documentation. Since these school sites are already used for educating children — and state governments have their own processes to ensuring these areas are safe for children — this requirement appears to duplicate state processes. Governments and ACECQA should question the added value and necessity of this requirement and consider its abolition.

Victorian Kindergarten Cluster Management (KCM) arrangements — Services operating under KCM arrangements are centrally managed and required to comply with the KCM policy framework, under which they must complete an annual KCM Service Improvement Plan (SIP). These plans ‘document strategies to guide service improvement’ (Victorian Department of Education and Early Childhood

Development 2009) and clearly overlap with the NQF's requirements for QIPs. Given that the NQF creates a nationally consistent and agreed framework for improving quality, if kindergartens remain under the NQF then the onus should be on the Victorian Government to remove the overlaps of the KCM arrangements with the NQF — in essence, the NQF's QIP should be a sufficient requirement to replace the KCM's SIP.

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

... interaction between three levels of government has led to a tendency for some overlap or duplication between the levels and regulatory burdens for providers, who often have to respond to requirements from all three levels and across local/state/territory boundaries.

Opportunities to reduce duplication through better coordination include:

- ... reduce burden on services reporting same or similar information to different levels of government (including the need/capacity to share information better)
- address the complexities of a multiple tier system — some services are regulated under the NQF, some are Australian Government approved but not NQF, some are state approved but not NQF, and some are not approved
- integrate/further enhance information systems (between all levels of government, service providers and, where possible and practical, families). (sub. 147, p. 23)

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

DRAFT RECOMMENDATION 7.7

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

- ***abolish the requirement for certified supervisor certificates***
- ***provide more detailed and targeted guidance to providers on requirements associated with Quality Improvement Plans, educational programming, establishing compliant policies and procedures and applying for waivers***
- ***explore potential overlaps between the National Quality Framework and state and local government requirements as part of the ongoing review of the Framework, and ensure any identified overlaps are eliminated***

-
- *review:*
 - *ways that services with higher ratings ('Exceeding National Quality Standard') could be relieved of some paperwork requirements, where these are less important to ensuring quality given the service's compliance history*
 - *removing the requirement for outside school hours care services operating on school facilities to provide site plans as a condition of service approval.*

Changing which services are included in the scope of the NQF

Many service types are excluded from the scope of the NQF by the National Law and the National Regulations (more detail in appendix H). Only a limited number of services are excluded by the National Law and these services are unlikely to be brought into the NQF in the near future due to the difficulties in amending the Law. Services excluded by the National Regulations can more easily be brought under the scope of the NQF by amending the National Regulations.

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

Expanding the scope of the NQF to include some service types not currently in scope would ensure the vast majority of Australian ECEC services satisfy the same quality standards. As such, governments should work towards including all services that receive Commonwealth subsidies in the NQF as soon as possible. Although this may increase some costs for such services, several key bodies for service types currently receiving Commonwealth assistance have expressed a desire for this to occur (box 7.13).

When including these services, governments should consider ways to appropriately tailor the NQF to their circumstances, in a similar manner to that proposed above for OSHC services, and minimise the burden imposed on services. For example some physical environment requirements may not be appropriate for mobile care services. Adoption of NQF requirements should occur over an appropriate transition timeline, such as for services in Indigenous communities which may find it challenging to adapt to these requirements. For example, the new requirement for Budget Based Funded services to self-assess and submit a QIP — following previous encouragement to voluntarily develop QIPs — is an appropriate step towards bringing these services within the scope of the NQF.

In addition to services currently receiving assistance, the NQF is also sufficiently flexible to be adapted to extend to other service types (ACECQA, sub. 260) that the

government may consider providing subsidies to (such as approved nannies, discussed in chapter 8).

Expanding the scope of the NQF has the potential to exacerbate issues regarding the pace of assessments and ratings identified above, thus reinforcing the need to address these issues. However, removing some service types from the NQF (as proposed below) should assist in alleviating this concern.

Box 7.13 **Support for expanding the scope of the NQF**

Occasional care

We believe that out of scope services including occasional care (OC) services should be brought into the NQF as soon as possible. Most OC services implement the Early Years Learning Framework (EYLF) and use the National Quality Standards (NQS) to guide the curriculum and practices for children, families and the wider community.

... The inclusion of out of scope services in the NQF would replace the 'red tape' of the various levels of government. Having one system would also support and reduce the administration costs to organisations who have various service types under the auspice. (Occasional Child Care Australia, sub. 200, pp. 1-2)

In-Home Care

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

Budget Based Funded care

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

Mobile care

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

Some preschools should be removed from the NQF and regulated by the states and territories

There is a divide (in terms of the type of service provided) between ECEC provision to children below preschool age and formal preschool programs. This divide is particularly pronounced where preschool is provided as part of a jurisdiction's school system or in other standalone preschools (that is, dedicated preschools not

delivered within a LDC service). This is because dedicated preschool programs are tailored to children of preschool age and are therefore delivered in an environment and timeframe that is somewhat different to that in a LDC service (Dowling and O'Malley 2009).

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

The Commission considers that similar models should be replicated across other jurisdictions — with all dedicated preschools being removed from the NQF at a minimum and regulated under the relevant state education legislation. This would remove approximately half of Australian preschools from the NQF, representing a majority of preschools in all jurisdictions except New South Wales and Queensland (chapter 2). Such a model could reduce the regulatory burden for dedicated preschools, which, as noted by the Northern Territory Government (sub. 461) and Queensland Catholic Education Commission (sub. 364), may face duplicated requirements when regulated by both jurisdiction-based education legislation and the NQF.

Jurisdictions adopting this model should maintain staff ratios and qualification requirements that are consistent with the NQF, and these standards should be harmonised to remove existing inconsistencies discussed earlier in the chapter. Where preschool programs are delivered in a LDC setting, these services — including the preschool program — should remain wholly within the NQF, to minimise the regulatory interactions required of LDC services.

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

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

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

However, the Tasmanian Government aims to:

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

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

Western Australia

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

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

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

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

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

DRAFT RECOMMENDATION 7.8

Governments should extend the scope of the National Quality Framework to include all centre and home based services that receive Australian Government assistance. National Quality Framework requirements should be tailored towards each care type, as far as is feasible, and minimise the burden imposed on services.

DRAFT RECOMMENDATION 7.9

Dedicated preschools should be removed from the scope of the National Quality Framework and regulated by state and territory governments under the relevant education legislation. The quality standards in state and territory education legislation should broadly align with those in the National Quality Framework. Long day care services that deliver preschool programs should remain within the National Quality Framework.

7.3 Other regulations affecting ECEC

In addition to the NQF, ECEC services are affected by a range of federal, state and local government regulations. Some of these regulations appear to be imposing unnecessary restrictions and costs on services. Some Australian Government regulations (in particular, operational requirements under Family Assistance Law) are examined in chapter 8. This section examines a selection of state and local government regulations that the Commission considers should be reformed or abolished, including:

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

State and territory regulations

Background checks for educators should be harmonised or made national

A large number of submissions raised concerns regarding background checks for educators, particularly relating to inconsistent approaches between jurisdictions and the inability to transfer these checks between jurisdictions (for example, Goodstart Early Learning, sub. 395). All jurisdictions specify certain legal requirements mandating that people working with children undergo a background check

(Tasmania will introduce such checks on 1 October 2014). Each state and territory has a different body responsible for undertaking background checks. These include units within government departments, police departments and other institutions such as the New South Wales Commission for Children and Young People.

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

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

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

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

In addition to these significantly different approaches, some jurisdictions have minor variations in their child protection legislation. For example, adult residents of family day care services (other than the primary carer) must undergo background checks in New South Wales and Queensland, but not in any other jurisdiction. It is unclear whether there have been cases where such differences have placed children

at risk — however Family Day Care WA (sub. 39) has, for instance, argued that background checks for residents of family day care services should be implemented (in Western Australia) because they are an essential safety measure.

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

Food safety requirements overlap and should be streamlined

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

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

Such duplication creates an additional cost for ECEC services. All food safety requirements should be covered completely by either the NQF (and services under the NQF exempted from jurisdiction-based requirements) or by jurisdiction-based requirements (and removed from the NQF). Given that jurisdiction-based requirements are long standing and more detailed than those under the NQF, the latter option appears more sensible.

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

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

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

Immunisation requirements in New South Wales

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

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

DRAFT RECOMMENDATION 7.10

State and territory governments should, as a matter of priority, harmonise background checks for ECEC staff and volunteers by either:

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

DRAFT RECOMMENDATION 7.11

Governments should remove those food safety requirements in the National Regulations that overlap with existing state and territory requirements.

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

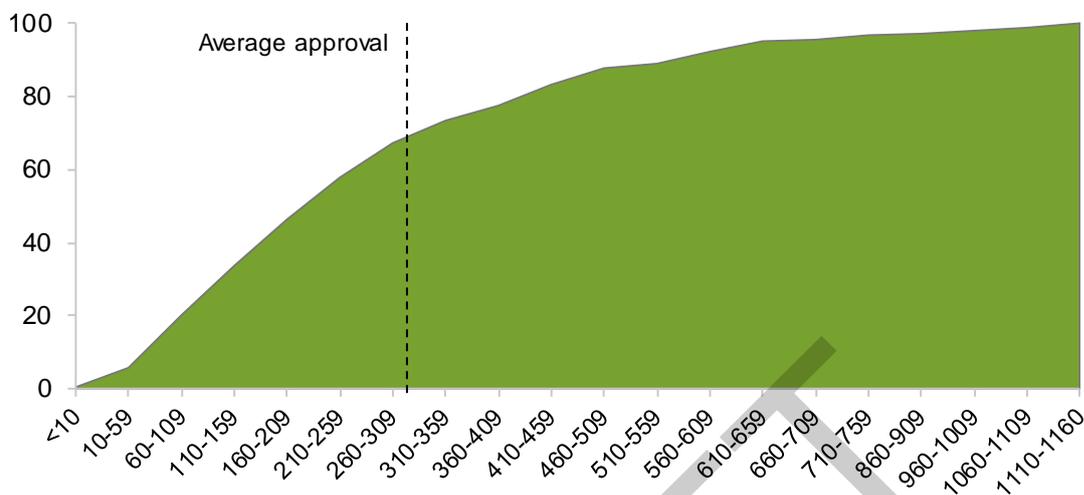
Local government planning regulations

The nature of local governments means that the planning and zoning regulations they impose on ECEC providers vary considerably. In many cases, councils impose restrictive or unnecessary requirements and have processes that inhibit ECEC provision and create uncertainty for providers. In some cases, this may be contributing to the long waiting times experienced by providers seeking development approvals for ECEC services (figure 7.6). This chapter draws together information from past analyses of Australian local government planning regulations, and supplements these by further examining planning regulations in a number of specific local councils.³⁰ The Commission received few submissions or detailed comments that focused on local planning regulations, possibly due to only limited numbers of stakeholders having experience with developing new ECEC services.

³⁰ Local governments examined: Brisbane City Council (2014a, 2014b); City of Canada Bay (2013); City of Canterbury (2012); City of Casey (2014); City of Gold Coast (2011); City of Joondalup (2008); City of Sydney (2005, 2012); City of Whittlesea (2014); Holroyd City Council (2013); Ku-ring-gai Council (2013); Lake Macquarie City Council (2014); Mackay Regional Council (2014); Mount Barker Council (2013); Redlands City Council (2013); Sutherland Shire Council (2013); The Hills Shire Council (2013).

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

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



Data source: Cordell Information (unpublished).

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

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

Planning regulations for ECEC services should not:

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

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

Common planning restrictions and requirements

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

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

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

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

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

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

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

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

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

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

- the lodgement of a location analysis with a map that includes all services within 750 metres
- the lodgment of a demand analysis of the need for the services in the proposed location

-
- that the developer demonstrate a need for the service, supported by demographic and statistical analysis
 - that the service cannot be located within 400 metres of existing services.

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

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

Similarly, most councils interviewed in a study conducted for the Department of Education (unpublished) expressed concerns about the 'correctness' of councils taking on a role that involves them influencing supply.

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

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

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

Some councils allow for flexibility in parking requirements if it can be demonstrated that alternatives (for example, nearby parking or public transport) are available. However, such flexibility appears rare (in fact, the Brisbane City Council recently removed such flexibility in its new City Plan). Inflexibility in parking requirements has been noted as a concern when planning for ECEC services:

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

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

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

Local government regulations that exceed these requirements are of particular concern, since they directly conflict with nationally accepted standards and restrict the ability of services to innovate. It appears that most local governments have at least some (and in many cases, an abundance of) requirements that the Commission considers overreach their responsibilities by prescribing the interior features of ECEC services (table 7.3). The Commission found council requirements relating to: minimum indoor and outdoor space per child; the use of energy efficient appliances; the depth of sandpits; noise levels inside the service's buildings; the layout and type of plants used; the design of outdoor play areas (such as requiring separate areas for 'active', 'open' and 'quiet' play); the amount of sunlight indoors; designs that allow staff to supervise children; and the use of transition areas (such as a patio between the indoor and outdoor play space). Such regulations appear less commonplace in Victoria, possibly due to the use of state-wide standards by local governments in that state (discussed further below).

Table 7.3 Requirements relating to design within ECEC services

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

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

Minimum site sizes were found to vary from 800m² (City of Canada Bay) up to 2000m² (Brisbane City Council). In some cases, these requirements varied by the number of children in care. Where councils gave rationales for these regulations, they related to ensuring that services were able to accommodate activity needs and meet minimum space and parking requirements. However, since services must already meet minimum indoor and outdoor space requirements prescribed in the National Regulations and parking requirements set by councils, there is no need to set minimum site sizes. Such requirements, rather than helping services meet design

criteria, may in fact restrict their ability to innovate by locating in smaller spaces within schools, workplaces or high density commercial areas (Brisbane City Council and the City of Gold Coast, for example, may waive minimum size requirements in such areas).

Several councils were found to limit the size of services by imposing conditions on the number of children for whom care can be provided. For example, the City of Canterbury limits services to caring for 40 children in residential areas. Such restrictions have the capacity to reduce ECEC availability by reducing the viability of services, as noted in a report for the Department of Education:

‘It is not possible to run a viable centre which is smaller than 50 places without affecting quality and the ability to attract a suitably qualified teacher.’ (Child care providers, NSW) (unpublished)

The City of Sydney, in an attempt to increase the availability of places for younger children, requires at least one third of places to be for children aged under 2 years. However, rather than increasing availability, this kind of requirement can also limit availability by reducing the viability of ECEC services, since this is the most costly age group to provide care for (chapter 10). Both types of restrictions (on the number or age proportions of children) are counterproductive — the total size of services should be considered by councils based solely on an assessment of how its size is appropriate for its location; councils should not interfere with market provision by stipulating the age distribution of places offered.

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

Operating hours — A number of councils were found to impose restrictions on services’ operating hours, generally in residential areas, to reduce adverse impacts on surrounding areas (table 7.4). These restrictions reduce the ability of services to provide flexible care, where such care might be in demand. Given that councils have the capacity to separately regulate aspects of ECEC services that may result in

adverse impacts on surrounding areas (for example, noise levels), restrictions on operating hours seem unnecessary.

Table 7.4 Restrictions on operating hours

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

What would leading practice look like?

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

- not regulating areas outside of core council responsibilities and allowing flexibility, particularly in relation to the areas discussed above
- improving consistency
- providing information and support to providers.

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

each criterion, or by demonstrating how an alternative solution is appropriate, affording providers significant flexibility.

Second, there is substantial scope to adopt more consistent approaches across local governments. To achieve consistency across all areas of planning regulations affecting ECEC, it may be necessary for state government to provide detailed guidance to, and exercise some central control over, local governments. Such an approach is used in Victoria, where the Victoria Planning Provisions document (a statewide template) is a comprehensive set of standard planning provisions that ensures consistency for various matters across all Victorian local governments and provides a standard format for planning schemes. Local governments must seek ministerial approval for regulations that differ from the standard planning provisions in the Victoria Planning Provisions. The Commission (PC 2012) has previously identified this kind of approach as leading practice — as a way to guard against potentially costly requirements being imposed by local governments when regulating building and construction.

Third, research conducted for the Department of Education (unpublished), previous work by the Commission (PC 2012) and the examination of selected councils for this report indicate that councils should provide clear information for ECEC developers on planning processes, including by providing checklist documents and guidelines on development assessment processes specific to the ECEC sector (sector-specific guidance has previously been identified as leading practice by the Commission). Research for the Department of Education (unpublished) indicates that while providers desire such information and believe it would save them considerable time, most councils do not provide written guidelines beyond the information available in their ECEC planning policy or code. Guidelines (and other planning policies) should be updated regularly to ensure consistency with statewide and regional planning schemes and strategies and other relevant regulations (currently many local planning schemes refer to outdated jurisdiction-based quality regulations that have been superseded by the NQF).

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

In addition to providing written guidance, councils should actively engage with providers as part of the development process, in particular by meeting with prospective developers before they lodge a development application. Further

adoption of these pre-lodgement meetings has previously been identified as leading practice by the Commission (PC 2012). Research for the Department of Education suggests that, although providers regard pre-lodgement meeting as important, they are not offered by some councils.

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

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

DRAFT RECOMMENDATION 7.12

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

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

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

DRAFT

8 Accessibility and flexibility

Key points

- For the majority of families, ECEC services are accessible. However, some families experience difficulties accessing ECEC. In particular, the Commission has heard that:
 - it is harder to access care for children aged 0-2 years
 - there is insufficient provision of outside school hours care for children of school and preschool age
 - accessibility of ECEC is variable in regional and remote locations
 - in some locations in major cities some families may experience difficulty in accessing ECEC.
- Families would be better able to plan their work and organise their ECEC requirements if basic information on waiting lists, including the number of families on the list was published.
- While most families find the operating hours of ECEC services sufficiently flexible to meet their needs, parents who have irregular or unpredictable work patterns may not be well serviced by the current system.
 - innovations trialled under the Childcare Flexibility Trials do not appear to have high take up rates
- There are a number of ways that ECEC can be made more accessible for families:
 - the onus for organising outside school hours care should be placed onto schools and regulations that restrict the ability of outside school hours care providers to include preschool aged children should be abolished
 - regulations that mandate minimum operating hours for services to be CCB approved should be abolished
 - existing caps on the number of occasional care places should be removed
 - nannies who meet minimum qualifications and appropriately tailored NQF requirements should be able to apply for approved provider status, thereby making families who use these nannies eligible for childcare assistance.
- Existing programs that deliver assistance to providers in order to make ECEC more accessible for children with additional needs can be better targeted:
 - not all services funded under the Budget Based Funded Programme have an ECEC focus and there is a lack of transition pathways for services to be bought into mainstream funding arrangements when they become viable
 - the Inclusion and Professional Support program requires additional resourcing in order to better meet objectives.

8.1 How accessible are current arrangements?

A motivation for this inquiry and a key issue highlighted by many inquiry participants is that childcare is not as accessible as it needs to be. For ECEC services to be considered accessible, appropriate vacancies in ECEC services should be available within a reasonable distance of the homes or workplaces of families at times that they are needed. This section explores the evidence base on how extensive access difficulties are.

There are a number of ways in which ECEC services may not be as accessible as families require, including that:

- too few ECEC places are available
- places for a specific age group are not available
- places are not available for the times of year, week, or day or hours that parents need (or are only available by using a combination of ECEC services)
- places are not available in services that can cater to the specific needs of children with additional needs
- ECEC places are available, but not in a service that families consider of acceptable quality
- there are insufficient places in a service to accommodate all siblings or
- parents are not aware of all the available ECEC services near to them and it is costly to access this information.

Many submissions and around 35 per cent (or nearly 250) of the personal comments that the Commission has received have highlighted problems with accessing ECEC services (box 8.1).

Problems reported by participants to this inquiry included:

- long wait times to get ECEC places
- compromises being made in convenience or the type of service in order to have a place in any type of care
- taking up/retaining a place simply because it is available, in order to have the flexibility to work as required in the future
- altering work arrangements to fit in around care that is available.

Box 8.1 Participant views on accessibility

Amber Moncrieff said:

... access to quality childcare was a significant challenge. Most centres in inner Newcastle have very long wait lists for children under 2 and it is now at the point that unless you register before the birth of a child that you don't have a chance. From talking to the management of our current centre, it is clear I would have been unable to secure a spot for my twins had their older brother not already been going due to the sibling priority as now the centre has been operating for a couple of years the demand and waitlists far outstrip supply.

I don't believe it is right that luck effectively determines a woman's ability to return to her chosen profession. (sub. 57, p. 2)

Billabong Childcare Centre commented:

Availability of high-quality childcare and after school care places is a significant issue in some suburbs, with parents often needing to put their children on waitlists before birth in order to secure positions. (sub. 28, p. 2)

A submitter whose name was withheld said:

I put my son's name down on 12 centre lists when I was 3 months pregnant. When he was 13 months old I finally got 1 day per week (I was after 4 days p/w), and only because I ended up calling weekly to harass them. For my second son I was told we would be priority at our current childcare centre and so only put his name down there. I finally managed to get him 2 days pw when he was 16 months old (I wanted more days, but they had to be the same days as my eldest, which made it more difficult to find a spot). (sub. 108 p. 1)

Melissa Jones commented:

My baby is currently 8 months old and I returned to work on a full-time basis in January 2014 (when my baby was 7 months old). During the early stages of my pregnancy, I put my name down (and paid the obligatory "non-refundable application fees") for various long day cares in my area.

None of the childcare centres contacted me until about November 2013 when I received emails informing me that I had been unsuccessful in obtaining a position for my baby (not even one day). I contacted a few centres before receiving this email to check the progress of my application and was informed the centres would be determining spots in about November 2013. (sub. 335, pp. 1–2)

Giovana Arrarte said:

... I had no option but to enrol my son in 3 different places of care each week (2 long day care centres and 1 family day care) in order to satisfy work commitments. On that occasion we spent 2 very distressing months as this particular "solution" was not suitable to my child or me. Luckily after two months we finally found a place in one of the long day care centres. (sub. 269, p. 1)

(continued next page)

Box 8.1 (continued)

Noel Leung commented:

Access to child care has become a bit of a joke and there is a need for a more transparent and speedy process to access care. It is not acceptable to be on a waiting list for 2-3 years before getting a place. The system also doesn't properly assess the need for childcare and has become so competitive that many families now try to get on as many waitlists as possible just to try to maximise the chances of getting a place, meaning that waiting lists just keep getting longer. (sub. 202, p. 1)

Nina Olle said:

In my experience, and those of the majority of mothers that I know, accessibility is the biggest issue facing families seeking education and care services for their child. It is difficult to know the extent of the issue, as like so many others, my husband and I have been forced to put our son on at least 10 different waiting lists in our area, and pay an administration fee with each application. Like all parents, I would like to be able to make choices based on the quality of the service, as per the objectives of the National Quality Framework and its quality assessment and rating process, rather than feel pressured to take whatever place is available. (sub. 178, p. 1)

The NSW Government submitted that:

Ensuring supply aligns with demand is important to achieving universal access to early childhood education programs in the year prior to school and developing strategies to support workforce participation by better meeting the needs of families.

Anecdotal evidence suggests that some locations face childcare shortages, and this affects the ability of parents and carers to participate in the workforce in their preferred way. This evidence is often based on the experiences of parents in areas of localised shortage (the inner west of Sydney for example) and is often focused on the length of waiting lists for places.

At the same time as some communities are experiencing shortages, the Department of Education and Communities has identified that in other areas there is an oversupply of places. (sub. 435, p. 12)

James McFarlane said:

Our family has found itself in the current scenario in 2014.

- One child needs to commence kindergarten in 2015
- Schools in the local area have been contacted, but they have been unable to guarantee a place in before and after school care, which is a necessity if either of the parents cannot be available at school drop-off and pick-up times.
- One option for the family is for one of the parents to exit the fulltime workforce. This is both a drain on the family budget, as well as detrimental to the NSW economy.
- A second option is to move to another area, but this family has experienced difficulty in finding suitable guaranteed places in before/after school care. It is difficult to plan major decisions such as buying a house and moving suburbs without certainty at least 12 months in advance. (sub. 155, p. 1)

While the anecdotal information from parents cannot indicate the scale of accessibility problems or if access issues are more pronounced in some locations, analysis of administrative data and surveys can provide some evidence of the scope and location of accessibility issues.

Accessibility issues are reported to be the third most prominent reason why childcare may inhibit workforce participation, behind cost and a preference to look after their own child, respectively (appendix E). Additionally, information from the HILDA survey suggests that about 30 per cent of parents who use childcare for work related reasons experienced difficulty with availability in 2010 (more than with cost or quality) and that 40 per cent of these respondents continued to report an availability difficulty in 2012, suggesting that some availability problems may be persistent.

The widespread use of both formal and informal care this indicates that for the majority of families, ECEC services are accessible. In addition, the number of children using formal care has been steadily increasing (both numbers and as a per cent of children), which provides an indication that formal services are becoming more accessible.

Despite this, there are accessibility issues in some locations, relating to some service types, for some age groups and for children with specific needs. For others, the current delivery of ECEC services may be inconsistent with their needs or wants — just getting a place in a centre with which they are happy on the days and for the hours they wish. This seems to be especially true for those parents working changing shifts, those who work at night or on weekends and those who need to work extended hours on an ad hoc basis.

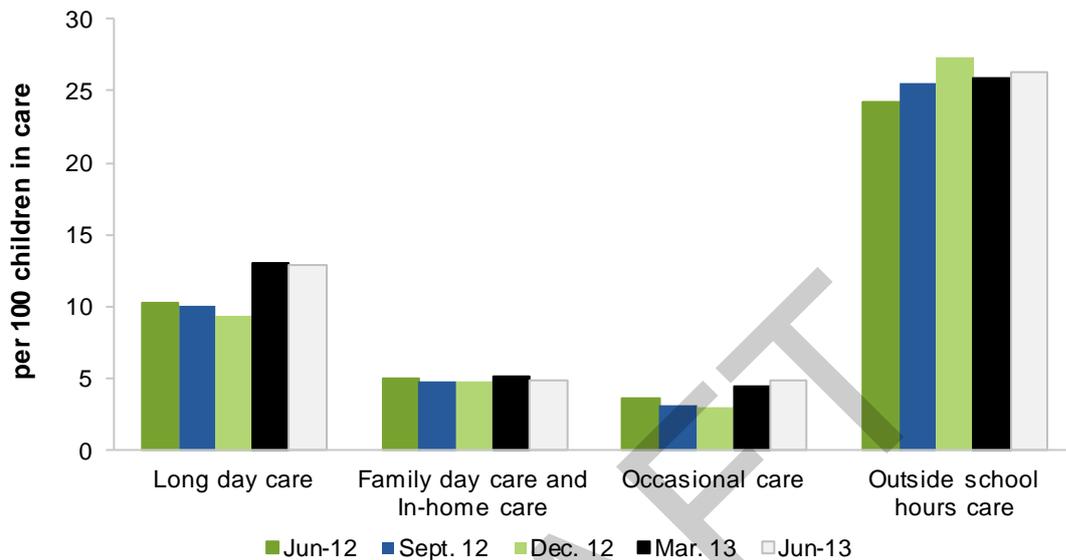
Evidence of shortages and vacancies by type of ECEC service

There is a requirement for ECEC services approved for child care benefit to regularly report the expected number of vacancies for their service. That information suggests that across Australia, vacancies in ECEC services are reasonably common.

The reported number of vacancies by service type is sizable when compared with the number of children using each type of ECEC services (figure 8.1). As not all services have notified if they had expected vacancies, the number of notified vacancies is likely to be an underestimate (with the underestimate likely to be largest for ECEC services with the lowest rate of reporting — notably family day care and occasional care). While vacancies appear particularly high in OSHC, this is

one of the least substitutable types of care — vacancies in care at one school are rarely accessible to children from other schools who need OSHC.

Figure 8.1 **Reported vacancies by form of ECEC^a**



a A very small proportion of services (particularly occasional care and vacation care) reported having no vacancies. Significantly more services failed to report vacancies – for example, around 50 per cent of approved FDC and OCC services did not provide vacancy information.

Data source: Department of Education (2014a).

Accessibility for different child age groups

While there is evidence of vacancies in ECEC services, the Commission was also advised that accessibility issues are particularly common for some age groups.

Evidence of accessibility issues for very young children

The ABS Survey of Income and Housing highlights that 15 per cent of parents whose youngest child is aged 4 or under are prevented from working due to unmet need for childcare. A recurring theme in submissions and parent comments was the difficulty in accessing suitable care for very young children, and babies in particular:

In order to access care, I had to have my unborn baby's name on waiting lists and cross my fingers and hope we were blessed with a spot. I wasn't offered a spot in childcare until our daughter was 15 months old, almost two years since I had listed our names (comment no. 148, ECEC user)

My baby was born in June last year and I am still trying to get her into full time childcare (Amanda Clarke, sub, 34, p. 1).

Childcare services were almost impossible to access in the first year I returned to work despite my baby's details being on a multitude of wait lists for over a year and a half. (comment no. 341, a user of ECEC services)

In this area, there is a high demand for baby and toddler places in long day care (LDC) and an undersupply. In the services managed by the PCCSC, in the last financial year, available places for 0-3 year olds were fully utilised with some families on the waitlist being unable to be accommodated (Penrith City Council, sub. 403, p. 6).

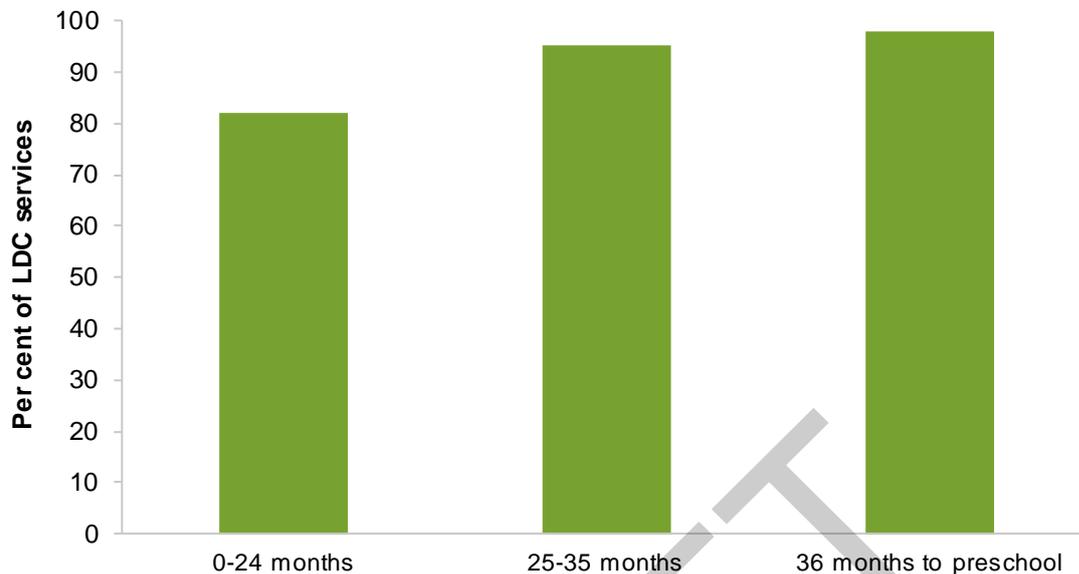
It was hard to find childcare in my area, even though I put my name down at various centres while I was pregnant, no vacancies were available a year after I put my name down. (comment no. 244, ECEC user)

A survey undertaken by the Australian Childcare Alliance (ACA) also indicates evidence of accessibility problems for families with younger children:

Responses to the ACA Member Survey 2014 indicated that 25 per cent of ACA Members do not provide care for babies. These members attribute this to the space/structural limitations in the current service (65 per cent), the higher cost of providing care to babies (57 per cent) and the staffing costs associated with educators-child ratios for the age group (sub. 310, p. 25). More broadly however, the ACA suggested that an undersupply of places for 0-2 year olds was not necessarily widespread, but depended on local factors (such as the demographic profile of families in the area).

ACECQA administration data confirms that a lower proportion of LDC centres offer places to children aged between 0 and 24 months than to older children (figure 8.2). Evidence was not available for the Commission to analyse the actual number of places supplied for 0-2 year olds, as licensed places are not issued based on the age of the child in care.

Figure 8.2 Proportion of services offering places by age



Data source: ACECQA administrative data (20 January 2014).

Evidence of accessibility issues for preschool age children

The number of Australian families accessing preschool services for their children is large and the enrolment rate in preschool programs is high — in 2013, over 90 per cent of children of preschool age attended a preschool program in their year before formal school. This high attendance rate is underpinned by universal access to preschool delivered under the National Partnership Agreement on Universal Access to Early Childhood Education (box 8.2).

Chapter 5 reviewed the evidence of developmental benefits associated with preschool and improved transition to school and considered the case for maintaining universal access to preschool in the year before formal schooling. On this basis, the Commission supported the access arrangements.

Box 8.2 **National Partnership Agreement on Universal Access to Early Childhood Education**

In February 2009, under the auspices of the Council of Australian Governments, the National Partnership Agreement on Early Childhood Education came into effect. This agreement pursued the outputs of:

- children having universal access to a preschool program for 15 hours per week, 40 weeks a year
- universal access to a preschool program being delivered across a range of settings at a cost which is not a barrier to access
- disadvantaged children having universal access to a preschool program
- Indigenous children — including those in remote Indigenous communities — being enrolled in and attending a preschool program.

This agreement expired in June 2013, and was superseded by the National Partnership Agreement on Universal Access to Early Childhood Education. The objectives and outputs of this agreement are consistent with the 2009 National Partnership although Commonwealth Government funding to support universal access to preschool is due to expire in late 2014.

Within the requirements under the Partnership, state and territory governments have considerable discretion about the direction of funding and the models of preschool they support in their jurisdiction. This has resulted in some jurisdictions — Queensland, Victoria and South Australia — providing funding under the NPA to preschool programs undertaken in LDC settings, while other jurisdictions — New South Wales, Western Australia, Tasmania, the Northern Territory and the Australian Capital Territory — do not.

Source: COAG (2008, 2013).

However, inconsistency with how funding under the National Partnership Agreement is implemented across jurisdictions has meant that the accessibility of different preschool options (specifically, programs in LDCs or in dedicated preschools) varies significantly between jurisdictions.

Several submissions to the Commission conveyed frustration at this variation. Goodstart submitted:

Despite benefits for working families and children, New South Wales, Tasmania, Western Australia, and the Australian Capital Territory do not fund UA [universal access]-preschool programs in long day care settings. Western Australia, the Australian Capital Territory and Tasmania deliver a UA-preschool service as part of the school system, and New South Wales delivers preschool through an existing network of stand-alone preschool providers. This reduces options for working families, results in some children missing out on the high-quality UA-preschool service that is delivered elsewhere, and their parents are facing higher out-of-pocket expenses. (sub. 395, p. 76)

This issue was also borne out by the Australian Childcare Alliance:

Despite clear requirements of the NP ECE, more than one State and Territory government (NSW, ACT, NT, WA and Tasmania) have chosen to exclude funding under the National Partnership on Early Childhood Education (otherwise known as Universal Access) from long day care services.

Given the requirements of the NP ECE a significant number of children attending long day care have been excluded with jurisdictions failing to meet the needs of parents in a diversity of settings (sub. 310, p. 57).

While Child Care New South Wales commented:

Child Care New South Wales remains extremely frustrated and deeply disappointed by the NSW Government's continued failure to provide Universal Access funding to private long day care services in NSW (sub. 333, p. 16).

The Commission is of the view that the access benefits of the National Partnership are greatest when preschool programs are supported regardless of their setting. For many families, a preschool program delivered by a LDC service represents the most suitable environment for children to undertake preschool. This might be when, for example, care is required outside of preschool hours, or when siblings who are not yet of preschool age are being cared for in the same centre.

The Commission is recommending a revision to preschool funding arrangements to better support programs delivered in LDCs. These revisions are outlined in chapter 12.

The Commission also heard about difficulties in obtaining appropriate before and after preschool care (box 8.3). ACECQA administration data suggests that OSHC for preschool is not widely accessible — only a very small number of preschools indicated they offer care services outside school hours, and only about 13 per cent of dedicated OSHC services offer places to children aged between 36 months and preschool age.

Box 8.3 **What the Commission heard about outside school hours care for preschool age children**

Comment no. 65, ECEC user:

It seems that there is a gap in childcare for this (preschool) age group as most schools don't offer before/after school or vacation care until kindergarten age. As a result, I have had to reduce my work hours this year and will use all my rec leave to cover the holidays.

Comment no. 162, ECEC user:

Pre-school was the most disorganised for childcare. There were no options for childcare that extended care on the pre-school days. In two stages I had one child in pre-school and the other in before pre-school or primary school. So care for one, but the other meant a short day. Different locations just meant a bit of time driving around and the short day for pre-school meant it was out of kilter with the childcare and primary school care.

Comment no. 183, ECEC user:

Also the hours of preschools do not fit with a lot of working parents as there is no before or after preschool care or during school holidays because they are too young. This then prohibits working parents from sending their kids to preschool and benefiting from this program as a transition to school.

Comment no. 203, ECEC user:

For those of us using the public school system to send our 4 year olds to preschool, after school care is a problem. Our 4 year olds are not yet of school age therefore do not qualify for/cannot be catered for by school-based after school care programs.

Preschool hours, which are often sessional on a part-day basis for a few days a week do not facilitate the workforce participation of families, and problems accessing suitable care before and after preschool exacerbate this problem. Current regulations under family assistance law restrict the extent to which outside school hours care services can include preschool children into their services. In particular:

- approved OSHC services must ensure most of the children to be provided with care are attending school
- as a general rule, when an OSHC service fills vacant places, it must give school children priority over children that have not yet started school.

A long term policy response to improve accessibility of OSHC for preschool aged children is to integrate and co-locate preschools with the wider school system, allowing parents of preschool aged children to utilise the OSHC services present within these schools. In the shorter term, the Commission is recommending the removal of the requirement that services operating OSHC must have most of their children in care of school age. This will allow services to operate an OSHC service for preschools when they perceive there is sufficient demand for a service to be viable.

DRAFT RECOMMENDATION 8.1

The Australian Government should ensure that the requirement (currently contained within the Child Care Benefit (Eligibility of Child Care Services for Approval and Continued Approval) Determination 2000) for most children attending an outside school hours care service to be of school age, is removed and not carried over into any new legislation.

Evidence of accessibility issues for school age children

For older children, the Commission heard about accessibility problems with OSHC that were either related to no provision of OSHC at their school or in the local area, or insufficient places, given the number of children at the school needing care:

The lack of before and after school care puts strain on families, affects the way they can provide for them and their contribution to the economy. (comment no. 197, ECEC user)

My children went to school and I was stunned and felt shunned. There was no before or after school care available, public or private. The principal told me to get a nanny which we could not afford. (comment no. 1, ECEC user)

The lack of before and after school care is a serious problem when it comes to workforce participation rates ... (comment no. 2, ECEC user)

The way school hours are structured (typically with six hour school days and at least 12 weeks of school holidays per year) does not facilitate parents participating in paid work. As such, for many parents with school aged children, access to an appropriate OSHC service (including vacation care) is critical if they are to undertake employment. Standard school hours are not conducive to full-time employment, may also be restrictive for parents who undertake part-time or shift work.

OHSC, including vacation care services, are ideally integrated with schools. Schools are generally well set up to accommodate OSHC — most schools have halls, libraries, playgrounds and age-appropriate facilities which are safe and suitable environments for children to undertake supervised play and recreation. Additionally, OSHC located on school grounds results in the least disruption for children — they do not need to be transported to a new location — and is typically in locations convenient for parents. Given this, the Commission considers that school grounds represent the most efficient location for OSHC services to be provided.

Many providers already operate OSHC in school premises, but the support provided by schools for these services appears to vary widely. Some school are very supportive, promoting the availability of the service and integrating it with other

school activities such as fund raising and school sports. Other schools see the OSHC service as unrelated to the school and/or are required to leave it to the state government to allocate contracts for the use of school facilities. State and territory governments were unable to provide information on the proportion of their primary schools which have OSHC for their students. In consultations undertaken during the course of this inquiry, the Commission heard that some school leaders have an aversion to allowing OSHC to operate within schools. It is also an issue that has been presented in comments to this inquiry:

The lack of out of school hours care is a seriously overlooked problem ... It would also make a massive difference if NSW Public School principals were directed/encouraged to support OOSH [outside school hours care] at their sites (using school halls and libraries etc.) There are clear policies on this at Dept level but the individual principals have complete discretion and often refuse OOSH because it is 'too hard' 'inconvenient' 'not suitable' etc. (comment no. 3, ECEC user)

The Commission believes that the onus to organise outside school hours care should fall on schools, subject to demand being large enough for the service to be viable. This does not mean a school should necessarily run an OSHC service, but rather arrange for an outside provider to make use of school facilities in providing the service or, as a second-best options, facilitate the transport of children to another suitable facility for OSHC.

DRAFT RECOMMENDATION 8.2

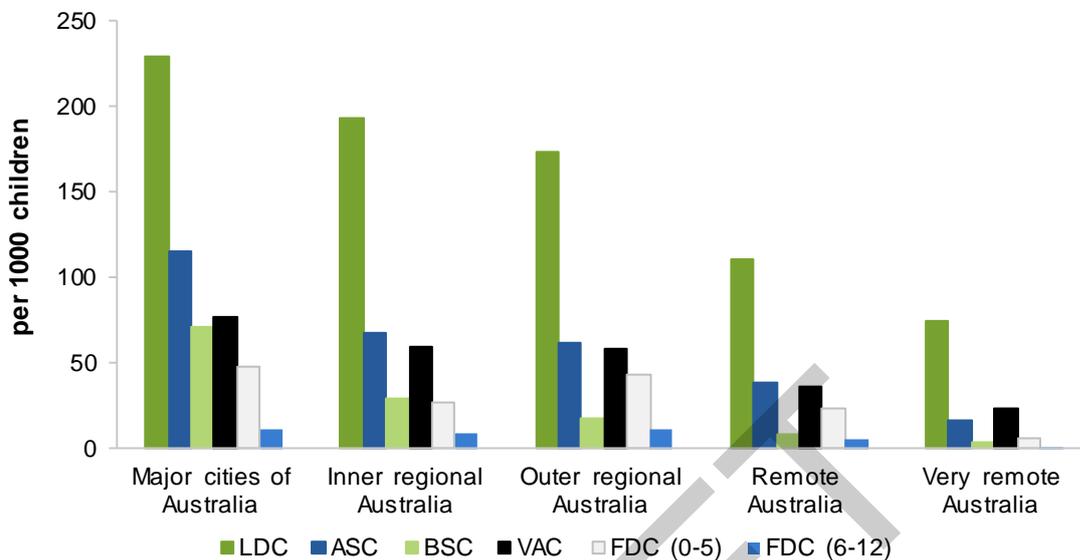
State and territory governments should direct all schools to take responsibility for organising the provision of an outside school hours care service for their students (including students in attached preschools), where demand is sufficiently large for a service to be viable.

Geographic characteristics of access issues

A comparison of the number of places in ECEC services with usage reveals substantial variations in accessibility across different parts of Australia. When compared to the relevant population of children³¹, not surprisingly it is apparent that on a per child basis, fewer ECEC services are available in remote and very remote locations than urban centres (figure 8.3). A number of participants have highlighted access issues that are related to the geographic nature of their area (box 8.4).

³¹ LDC places have been compared against the population of children aged 0 to 4 while services more typically associated with school age children (before and after school care and vacation care) have been compared with the population of children aged 5 to 12. It should be noted that some children older than 4 use LDC and a small number of children use care services well beyond the age of 12.

Figure 8.3 ECEC places per 1000 children, by ARIA
Places by type of ECEC service per 1000 children living in ARIA category^{a,b}



^a The ratios are calculated using children aged 0-4 for long day care (LDC) and for children aged 5 to 12 for after school, before school and vacation care (ASC, BSC and VAC respectively). ^b Occasional care has been excluded because due to the small number of providers, any attempt to represent its prevalence would not be visible in the figure. In addition, the analysis does not include information on budget based funded services, which are predominantly located in remote and very remote areas. Family day care has been estimated by dividing the number of FDCs by the number of children in FDCs and then applying this occupancy rate on a national level.

Data sources: Commission calculations based on Department of Education administration data; ABS Census data (Tablebuilder).

LDC is the most commonly available form of care, on a per child basis, across all geographic areas. The rate of FDC used in remote and very remote locations is below that used in other locations. While most children (99 per cent) using FDC live in major cities or regional areas, around one in six children using approved childcare in remote or very remote locations, uses FDC.

Families who live in rural areas often demand different types of ECEC to families who live in urban areas. For example, Farmsafe Australia Inc. identified in-home care (where the carer stays with the family) and mobile childcare services (available during peak times) as the preferred form of care for farming families nationally (Farmsafe Australia Inc. 2005).

Box 8.4 Regional specific access problems

The Municipal Association of Victoria said:

... there is a distinct lack of diversity of services and providers, particularly long day care providers, to enable families to have choice of ECEC in rural/remote areas. (sub. 343, p. 6)

The Isolated Children's Parent's Association of Australia said:

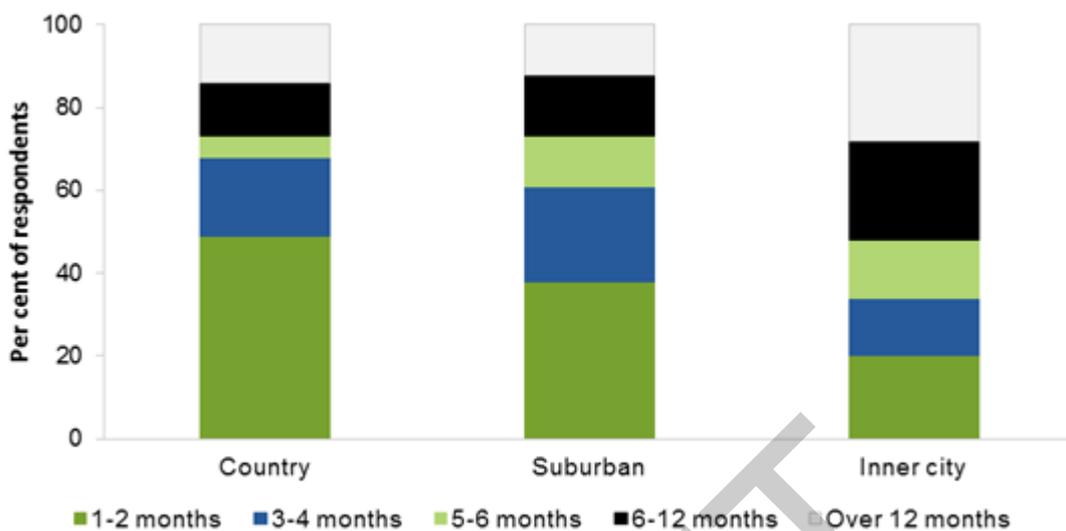
Like all Australians, our members desire equity of access as a basic requirement in the area of child care and early learning services. By virtue of where they reside, many of our member families are disadvantaged in terms of access to education. They are generally located beyond the boundaries of a town and not able to utilise mainstream education or regular child care/early learning services for their children. (sub. 120, p. 1)

The City of Sydney said:

in the provision of childcare and early childhood education places, the City of Sydney has identified a gap of 3104 places which are required to be created in order to meet the current demand for childcare in the LGA. The City's research forecasts that this gap will rise to 5976 by 2031. (sub. 180, p. 1)

Amongst parents in the Care for Kids survey who have found care, it is apparent that families in country areas generally find it easier to secure suitable childcare — close to half of respondents found suitable care within one to two months, compared with 38 per cent of respondents in suburban areas and 20 per cent of respondents from inner cities (figure 8.4). Respondents in the ACT and New South Wales generally took longer to find suitable care than families in other jurisdictions (figure 8.5).

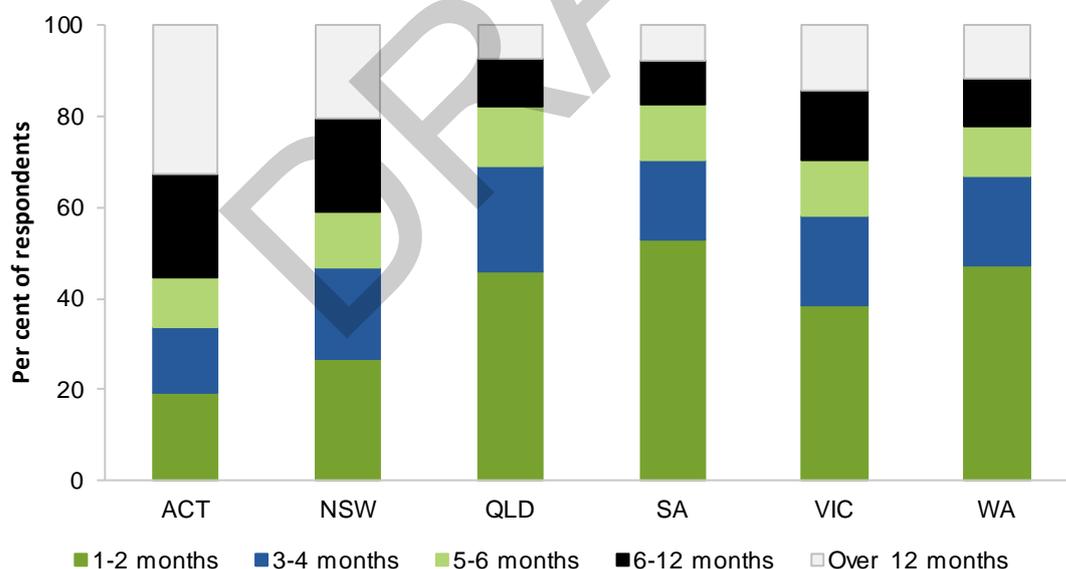
Figure 8.4 Time taken to find suitable child care, by location^a



^a Data from non representative survey. Based on 1890 responses.

Data source: 2013 Care for Kids survey.

Figure 8.5 Time taken to find suitable child care, by state^{a,b}



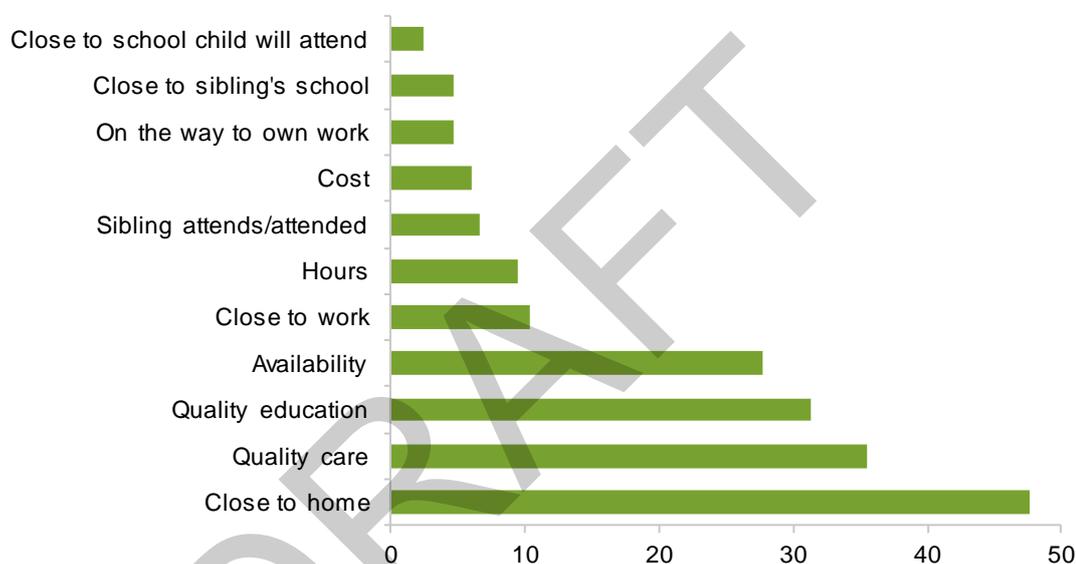
^a Data from non representative survey. ^b Due to the small number of observations, Tasmania and the Northern Territory has been excluded. Based on 1890 responses.

Data source: 2013 Care for Kids survey.

How far do families travel for ECEC?

Parents' preferred location of ECEC services varies. Many participants have indicated that ideally they would like ECEC services either near home or work or in the transport corridor in between. For parents who use LDC, proximity to home is the primary reason for choice of a particular centre, followed by quality of care and education, and the availability of places (figure 8.6).

Figure 8.6 Reasons for choosing the long day care centre^a
Per cent of children

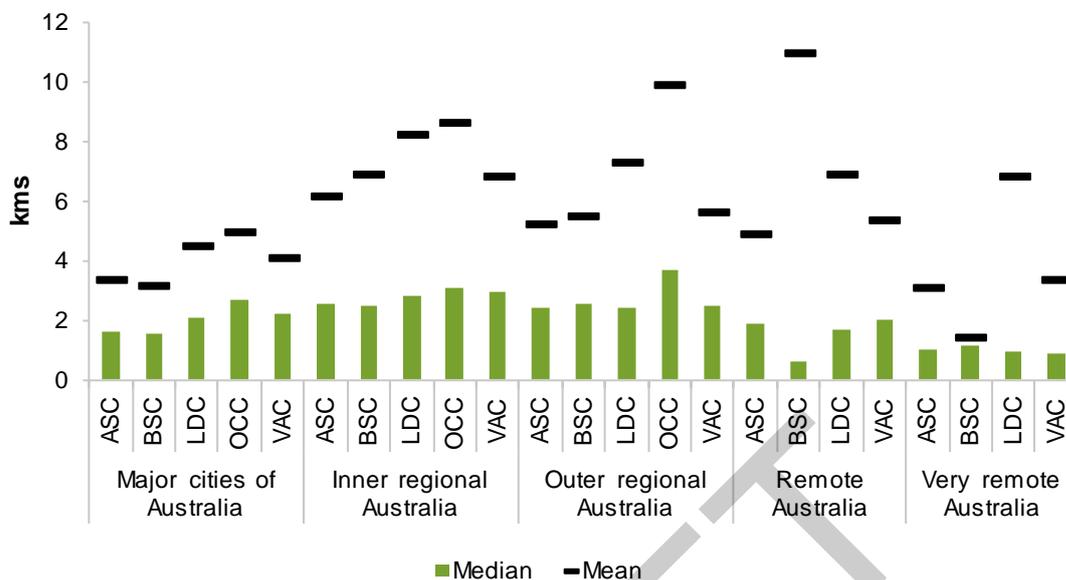


^a Children may attend the particular LDC centre for more than one reason.

Data sources: Commission calculations based on ABS (2009).

An analysis of distances travelled to approved ECEC services indicates that families generally do not travel far to use ECEC services and correspondingly, that many services draw the majority of their clients from a small geographic catchment (figure 8.7). With several exceptions, families generally travel less for OSHC and further for OCC and LDC. This is most likely related to the number of hours at a time for which each type of care is used and/or the purpose of using the care. In 2011-12, two-thirds of Australian children who use approved ECEC services attended a service within five kilometres of their home.

Figure 8.7 Distance between home and ECEC service



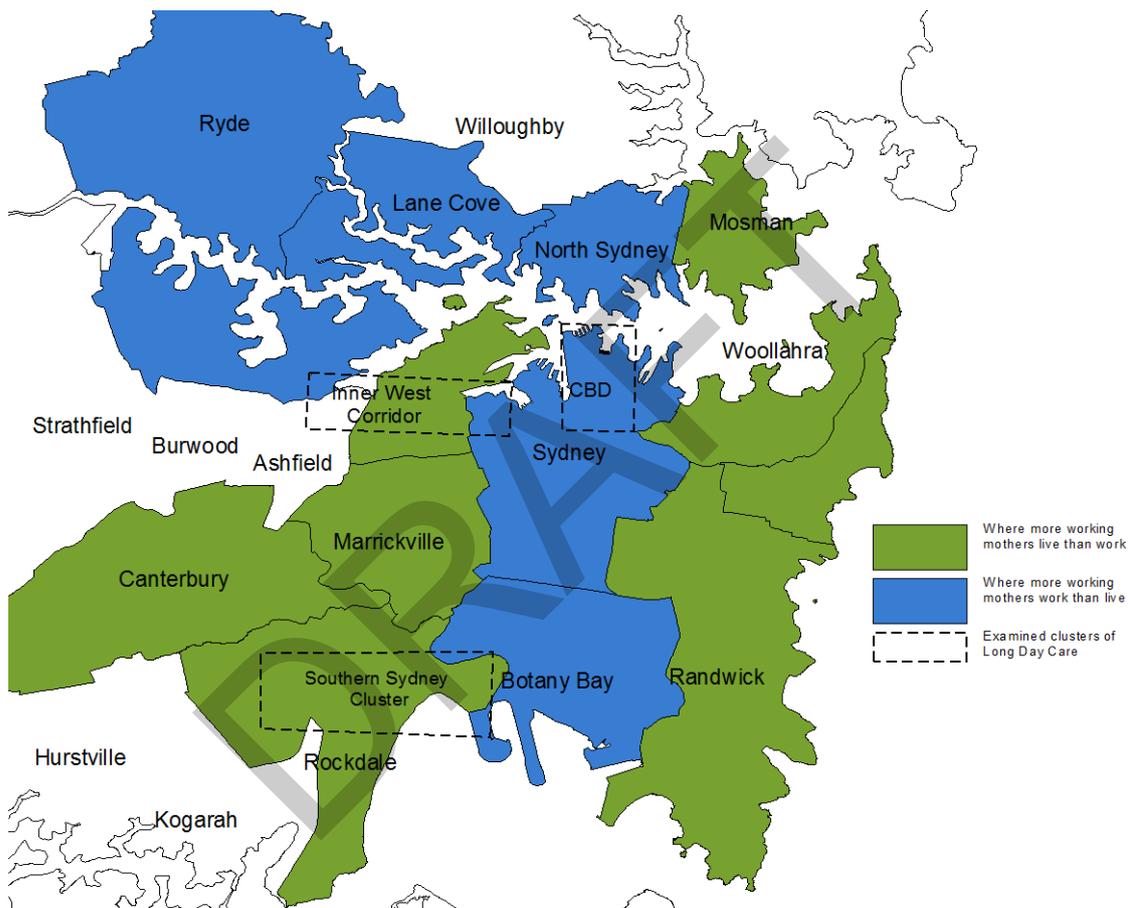
Data source: Commission calculations based on Department of Education administration data (2011-12).

One reason why parents might elect to use an ECEC service that is more than five kilometres away from their home is because it is close to their work (or their commute corridor to work). Using the Department of Education administration data, the Commission has examined the distance and direction of travel for families who use LDC in two locations in Sydney (box 8.5).

In 2011-12, 75 of the approximately 560 local government areas (LGAs) in Australia had no approved long day care, before school care, after school care, vacation care, occasional care or BBF services operating within their boundaries. This does not necessarily mean that these LGAs do not have an ECEC service located within them — some will have FDC or in-home care. Of the approximately 28 900 children aged under 13 who live in these LGAs, around 10 per cent (3000 children) travelled to ECEC services outside of their LGA (table 8.1). The most striking differences between care use by these children and the rest of the population are the relatively long distances between home and care, and the relatively few weeks of care used. There is also a relatively high use of FDC and in-home care.

Box 8.5 Traveling to and from ECEC services — examples from Sydney

The two areas of Sydney being examined have distinct characteristics that are likely to influence who uses LDC care in each of these areas. The Sydney CBD represents an area of high employment of mothers. The Southern Sydney Cluster is on a key commute corridor for families living in Western and Southern Sydney to enter high employment areas of Sydney and Botany Bay, while the Inner West Corridor serves families commuting from the West.



Over 65 per cent of children in LDCs in the Sydney CBD travel more than five kilometres to access their service — which is double the national average. People who work in the CBD are drawn from all parts of Sydney and beyond. Of the families who travel more than five kilometres over half live West of the city. A recent study has found that there is substantial shortages of LDC places in the Sydney CBD (CRED 2013). If families are having difficulty accessing ECEC close to home and close to work, it is likely to place additional pressure on LDC services around key commuting corridors.

Despite being close to major commuting corridors, LDC services in the Southern Sydney Cluster and the Inner Western Corridor have relatively few children attending their services who live more than five kilometres away — just 13 and 7 per cent respectively.

(continued next page)

Box 8.5 (continued)

Of the families who travel more than five kilometres, the direction they travel tends to be towards the CBD and consistent with the major commute corridors in those areas. For the Inner Western Corridor, parents travel from the West and North and for the Southern Sydney Cluster, from the West and South.

**Direction to home for families who travel more than 5 kilometres to an LDC centre
— key commute corridors**

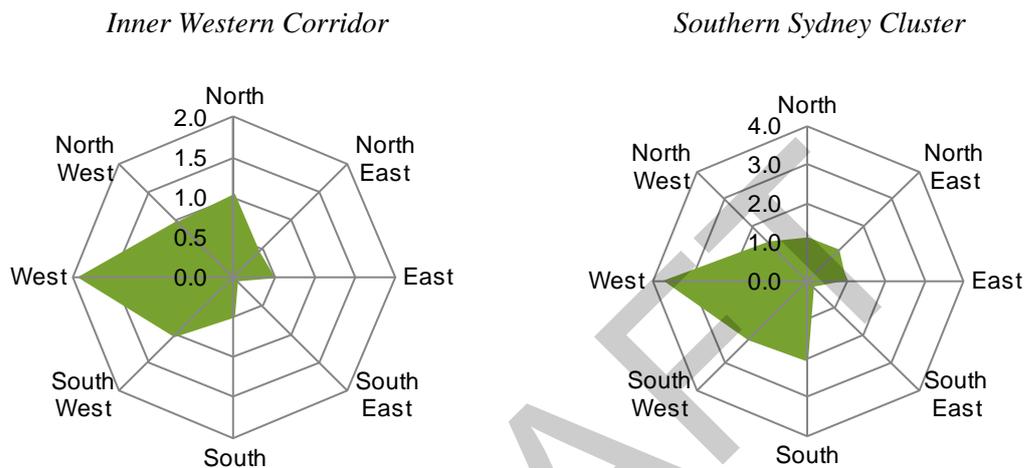


Table 8.1 Use of approved care by children with limited services in their own Local Government Areas^a
2011-12

	<i>Children using service type</i>	<i>Average number of weeks attended</i>	<i>Median distance between home and care</i>
	number	number	kilometres
Family day care	1 235	24	not available
Long day care	1 196	23	40
In-home care	141	27	0
Vacation care	179	4	22
After school care	171	14	20
Before school care	53	11	25
Occasional care	22	12	64

^a BBF services not included

Source: Commission estimates based on administrative data.

The role of waiting lists in managing ECEC accessibility

Waiting lists are used by ECEC services to minimise the risk and duration of vacancies. ECEC services are most likely to utilise waiting lists when there is a shortage of places in their local area. In its annual surveys of parent experiences with finding and using ECEC services — including information on waiting lists — Care for Kids found that of the 1889 parents (out of approximately 2500 parents in the 2013 survey) who responded to the question ‘did you go on a waitlist?’:

- 68 per cent indicated joining at least one waiting list
- 53 per cent indicated that they joined multiple waiting lists.

The Commission received numerous comments from parents concerned with the operation of waiting lists for ECEC services (box 8.6). The most common concerns included:

- children often have to be placed on waiting lists well before birth, but even then a place cannot be guaranteed
- significant uncertainty on being able to obtain a place means parents tend to put their child’s name on multiple lists, and typically leave them there even after having been offered a place elsewhere. Given waiting lists tend to be used where there is a shortage of places, it is not surprising that parents joining multiple waiting lists may also find it takes significantly longer to find suitable child care (figure 8.8)
- services are charging non-refundable fees for joining their waiting list even if there is little likelihood of obtaining a place. The 2013 Care for Kids survey found that 60 per cent of parents joined at least one waiting list, and the majority paid a fee to do so. While the most common waiting list fees were under \$60 per application, some waitlist fees exceeded \$100 (figure 8.9)
- parents are not informing ECEC providers when they are no longer needing a place and providers are not informing parents of progress in relation to their application
- there is often subjectivity around priorities for who obtains a place when it becomes available and the existing priority system (box 8.7) can mean that the likelihood of a child being offered a place varies substantially over time
- some OSHC services refresh their waiting lists at the end of each year meaning that parents may have a 2-3 month period over the summer when they do not know whether they will be able to work outside of school hours in the coming year.

Box 8.6 The priority system for allocating places

When allocating places to children from waiting lists, approved ECEC services must abide by guidelines around which children have priority in accessing vacant places. There are three priority levels:

- 'First Priority' — a child who is at risk of serious abuse or neglect
- 'Second Priority' — a child of a single parent who satisfies, or of both parents who satisfy, the work/training/study test.
- 'Third Priority' — any other child.

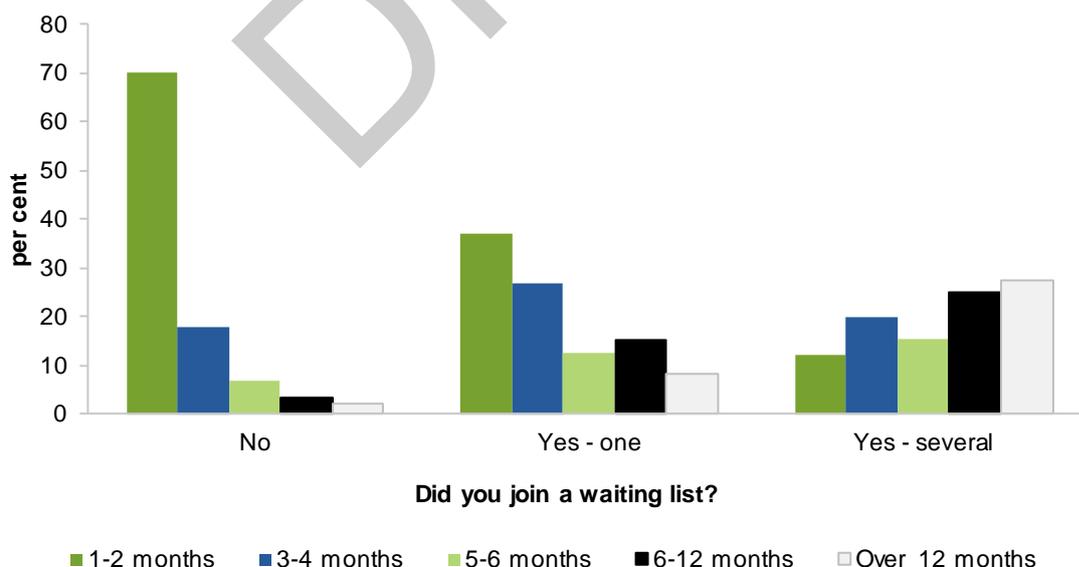
Within these main categories, priority should also be given to children:

- in Aboriginal and Torres Strait Islander families
- in families which include a disabled person
- in families which include an individual whose adjusted taxable income does not exceed the lower income threshold of \$41 902 for 2013-14, or who or whose partner are on income support
- in families from a non-English speaking background
- in socially isolated families
- of single parents.

Source: Department of Education (2013c).

Figure 8.8 How long did it take to find suitable childcare

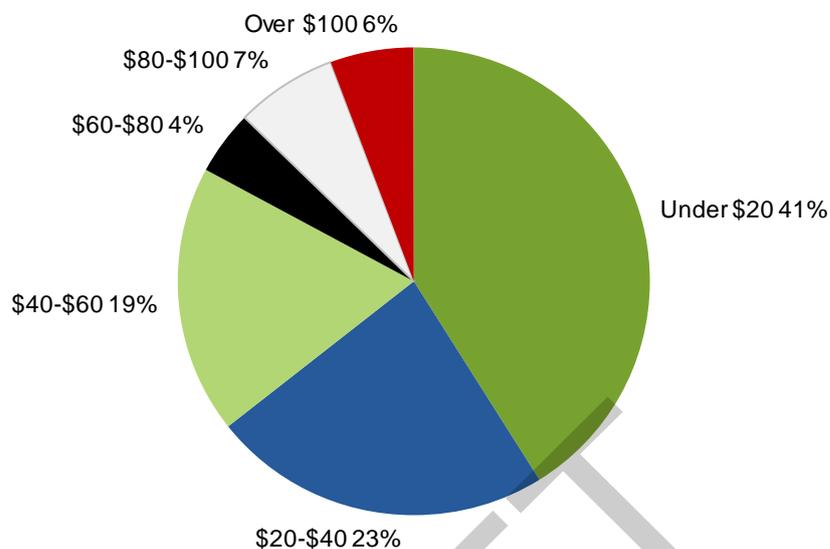
By number of waiting lists joined^a



^a Data from non representative survey. Number of responses 1865.

Data source: 2013 Care for Kids survey.

Figure 8.9 Fees for joining waiting lists^a



^a Data from non representative survey.

Data source: 2013 Care for Kids survey.

While there are clear business benefits for ECEC operators to use waiting lists, families should be provided with more accurate information about the likelihood of accessing care. Information on waiting lists and the realistic prospects of obtaining care can provide a better basis for families to plan their working lives and organise their ECEC requirements.

The Commission considers that waiting lists can be improved if services adopt practices to make them more transparent, namely:

- services should have clear and published information on fees charged to families wishing to be added to the waiting list and
- services should publish statistics on the number of families on a waiting list and the number of places offered to children from their waiting lists. This information should be updated regularly — ideally on a quarterly basis.

Suitable platforms already exist to present this information including the MyChild website and the websites of providers.

The Commission accepts that it is reasonable for services to charge a fee to parents joining their wait list, but notes that this is likely to change the expectations that parents have of the service. Specifically, parents can reasonably expect that if they are paying a fee then the service will keep them informed of their progress on the wait list.

8.2 Accessibility for children with additional needs

It is very difficult to identify the extent to which the current ECEC system provides adequately for the early learning and childcare needs for children with additional needs. These children often face additional barriers in accessing appropriate childcare, a concern reflected in submissions to this inquiry. For example, KU Children's Services — as the National Inclusion Support Subsidy Provider — stated:

Unfortunately the additional cost of employing extra educators, and the lack of experience of educators in some services, means that children are sometimes excluded from enrolling in ECEC services ... Children exhibiting challenging behaviours or who often require additional supervision or support may have their enrolment terminated, or days/hours of attendance reduced, due to the impact of their behaviour or care requirements on other children and/or educators in the education and care environment. (sub. 385, p. 4)

Chapters 3 and 5 identified four groups of children with additional needs who potentially experience disadvantage in accessing ECEC services, yet are most likely to benefit from greater access to formal ECEC services before they start school. They are children:

- from low income families
- with a diagnosed disability
- at risk of abuse or neglect
- who are developmentally disadvantaged because of characteristics of the child's family, culture or location.

Lack of access to ECEC services can also be an impediment to parents of children with additional needs participating in the workforce. The rate of workforce participation for mothers who are primary carers of children aged 0-14 years with a disability (38 per cent) is much lower than that of other mothers (64 per cent) (AIHW 2009). In the 2011-12 ABS Survey of Income and Housing (SIH), of those parents with unmet demand for ECEC services (appendix E):

- indicatively, around 5 per cent (or 21 000) of parents reported that the main reason that they could not find suitable childcare in order to work was because their 'child has special needs'
- the share of parents with unmet demand reporting 'child has special needs' as the main reason childcare is an impediment to workforce participation increases with the age of the youngest child (in part, this may be because some disabilities in children are often not diagnosed until children are of preschool or school age).

Current programs to support children with additional needs

There is a range of programs that may provide services to children with additional needs. These programs include:

- Special Childcare Benefit, which is directed at children deemed to be ‘at risk’ or from families that are experiencing temporary financial hardship.
- The Inclusion and Professional Support Program which is directed towards families with children who have a diagnosed medical need.
- The Budget Based Funding Programme which is directed towards children in rural and remote communities, often in areas that have a high density of Indigenous families.
- The Community Support Programme which is directed at supporting services in unviable markets.

The details of each of these programs are discussed in chapter 4 and appendix C and are summarised with respect to additional needs groups in table 8.2.

There are two main types of programs — those that provide fee support to parents, and those that provide financial and other support to ECEC providers to deliver services to children with additional needs. Some of the programs are dedicated to a particular client group, but others are more general, making it difficult to assess the adequacy of services provided.

Adequacy of access can be defined in several ways. First there may be children who would be eligible for the support, but are not able to access it. This could be because of the difficulty of application, or because of limits on places. Second, the services may not be sufficient to meet the needs of the children who do access a program.

Table 8.2 **Funding available to assist children with additional needs**
2012-13

	2012-13 \$ million	At risk children	Children living with a disability	Indigenous children	Other rural and remote	CALD children	Type of support
SCCB	139.0	x					fee subsidy (100% cost)
Child at risk	86.2						
Financial Hardship	52.8						
IPSP	103.7						
Inclusion support subsidy	50.6		x			x	Child-based additional funding
Inclusion Support Agencies	30.4		x	x		x	Provider support
Professional Support Coordinators	14.5		x			x	Provider coordination
Indigenous PSU	3.6			x			Provider coordination
Bicultural Support	2.4			x		x	Provider support
Specialist Equipment	0.2		x				Provider support
NISSP	2		x			x	
Community Support Programme	128.1						
Establishment Assistance	1.5				x		Provider financial support
Sustainability support	21.7				x		Provider financial support
Capital Exceptional Circumstances Grant	0.5				x		Provider financial support
Operational support	103.3						Provider coordination
Regional Travel Assistance	0.7				x		Provider coordination

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Table 8.2 (continued)

	2012-13 \$ million	At risk children	Children living with a disability	Indigenous children	Other rural and remote	CALD children	Type of support
Budget based funding ^a	78.4						
Multifunctional Aboriginal Children's Service	15.7			x	x		Provider financial support
OSHC	7.7			x	x		Provider financial support
Stronger Futures Crèches and Indigenous playgroups	3.2			x	x		Provider financial support
- Other Crèches	6.2						
Mobile	11.4			x	x		Provider financial support
Flexible	14.7			x	x		Provider financial support
- Budget Based Funded – Improved Standards Initiative	18.9			x	x		
Other	0.8			x	x		Provider financial support
Indigenous Early Childhood Development Children and Family Centres	55.6			x	x		State financial support
Estimated expenditure	505.4						

^a Some BBF services will also have children at risk, from a CALD background or with a disability in attendance.

Sources: Commission assessment based on Department of Education Submission (sub. 147), pers. comm. (Department of Education 27 June 2014).

Is SCCB adequate to meet demand for children assessed as at risk?

SCCB provides additional support to families of children that have been assessed as 'at risk' or in temporary financial hardship (appendix C). As the provider applies for SCCB on behalf of the family and there are no limits on places (other than for in-home care), eligible children should be able to access this support. There is no limit to the number of hours of support per week, and it is provided at no cost to families. As table 8.3 shows, while the average hours of SCCB a week are around 32, some children have accessed what is effectively full time (24/7) care.

Given this, there is no lack of support for children assessed at risk, or whose families are assessed as in financial hardship (this relates to a specific event that causes hardship and not low income per se) to access mainstream ECEC services. Indeed, given the current arrangements, which allow 13 weeks of support before the application is reviewed by the Department of Human Services, it may be that the support is over utilised. This does not mean, however, that there are no children who are at risk who would benefit from accessing an ECEC service and who currently do not do so.

In chapter 3, it was reported that around 13.5 children aged 0-1 and 8.4 children aged 1-4 in every thousand children are at serious risk of abuse and neglect. Based on the population, this suggests around 4000 children 0-1 and 10 000 children 1-4, may be in need of ECEC services for at risk children. This number is slightly above the number of children receiving SCCB for being 'at risk' in 2011-12 (13 141 as per table 8.3).

Table 8.3 **Use of SCCB**
2011-12

	<i>Number of children</i>	<i>Average weeks (standard deviation)</i>	<i>Average hours a week (standard deviation)</i>	<i>Maximum hours a week</i>
Child 'at risk'	11 812	17 (13)	32 (16)	168
Family in financial hardship	12 335	11 (7)	30 (15)	166
Both	1 329	14 (11)	34 (18)	141
In-home care ^a	2 723	26	28	na

^a Of those receiving SCCB

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

Is provider support adequate to meet the needs of children living with a disability?

Determining the extent of accessibility issues or unmet demand around care for children with disabilities is difficult, given the lack of data in this area. The Commission's 2011 study into the ECEC workforce encountered similar data problems when looking at the current and future demand for workers to support these children. Consequently, the evidence is anecdotal, but a consistent pattern does emerge suggesting that there remains substantial unmet need.

The Commission understands that some children with a disability are receiving SCCB, including for an in-home care place where the fees are fully met by the subsidy. However, for the majority of children with a disability, the Inclusion and Professional Support Program (IPSP) is the primary assistance measure aimed at improving the accessibility of mainstream ECEC services.

The purpose of the IPSP is to:

... promote and maintain high quality, inclusive education and care, for all children in eligible early childhood education and care settings. This is achieved by increasing the knowledge and skills of educators, and the capacity of education and care services, through providing professional development, advice and access to additional resources and support. (Department of Education 2013b, p. 12)

It has two distinct funding streams. The Inclusion Support Subsidy (ISS) funds providers to meet the additional costs of higher skilled staff (and lower staff to child ratios) required to provide services to a child with disabilities (see chapter 4 for further details). The Inclusion Professional Support (IPS) stream is focused on providing assistance to services to raise the quality of the ECEC they provide.

A number of concerns about the adequacy of the program were raised by parents, advocacy groups and service providers. The National Inclusion Support Agency Alliance commented on a lack of access for children with additional needs:

ISAs receive, all too often, phone calls from parents explaining situations where they have tried to enrol their child with an additional need into an ECEC service and were discriminated against either overtly or covertly. (sub. 298, p. 1)

Children with Disability Australia also noted that ECEC is harder to access for children with additional needs:

Although finding a childcare place is difficult for all families due to inadequate number of places in the community, this experience is greatly magnified for families with children with disability as they have the additional barriers, including entrenched discrimination to contend with. (sub. 242, p. 14)

In their submission to this study, the Commonwealth Department of Education acknowledged that some services are hesitant to take children with additional needs:

Anecdotal evidence provided to the department suggests that some services may be reticent about providing information to families regarding the inclusion of children with additional needs due to uncertainty or lack of experience about how to include these children or due to concern there may be additional associated costs. (sub. 147, p. 21)

In part, discrimination by service providers may be due to the higher cost of providing services to these children. The ISS program is designed to overcome this problem, but there is fairly widespread feedback that the support provided is not sufficient to meet the additional cost of providing services to a child with additional needs. Both the extra salary support (\$16.92 an hour for centre based care) and the hours for which it is provided (25 hours a week for LDC and 15 hours for OSHC) are viewed to be inadequate. For example, KU children's services noted:

The service that employs the educator must fund the 'gap' between the actual cost of employing the educator and the ISS subsidy which can be financially unviable for some services and is a large disincentive to enrol children with additional needs for all services. The 'gap' has been growing larger over the 6 years the program has been operating. (sub. 385, p. 5)

While Goodstart Early Learning argued:

The ISS rate needs to be increased. The current rate does not cover labour cost of the additional and the gap is increasing, making it less affordable for centres to offer inclusion support. Ideally, the subsidy should cover the cost of employing more highly qualified educators or staff with specialist skills to provide inclusion support to children with the highest support needs and build sustainable inclusive practice within services. (sub. 395, p. 35)

Several submissions (Goodstart sub. 395 and ACA sub. 330) estimated that the gap between the ISS amount and the wage of a Certificate III qualified carer is around 30 to 35 per cent. As the ISS is indexed to the consumer price index, which tends to be lower than the growth of the wages of inclusion support workers, this gap is likely to increase over time.

It was also argued in several submissions that it is difficult for ECEC providers to obtain specialist equipment needed to provide services to children with a disability:

Funding increases for specialist equipment appears to have been on hold for the last financial year, resulting in what could be viewed as a cut to funding. This may lead to children not being able to access all environments and their needs for support in development not being met. This goes against 'best-practice' described in the National Quality Framework. (Qld Parents for People with a Disability, sub. 207, p. 4)

While the Specialist Equipment Program is important in supporting childcare inclusion, its value is limited by shortages of equipment and the cost of therapists to prescribe, fit,

train, staff and monitor usage of the equipment. (National Disability Services sub. 296, p. 4)

Although providers apply on behalf of families, the process to apply for subsidies has been found to be difficult:

The current process for accessing ISS is complex and is often a disincentive for services to include children. Information required is sometimes difficult to obtain and the need for parents to provide documentation to prove that their child has a disability is challenging as wait lists for assessments may be over 12-18 months in some locations. (National Inclusion Support Agency Alliance, sub. 298 p. 3)

Reapplication process is so complex that even [Inclusion Support Facilitators] can struggle with what type of application is appropriate in certain situations let alone ECEC settings that engage with the process a few times a year. (Queensland Inclusion Network, sub. 95, p. 1)

Application processes and reapplication processes for the ISS have been found to be onerous³² and burdensome on ECEC service providers and waiting lists for support are excessively long.

Other concerns the Commission heard included that application for ISS requires children to actually be in a service in order to apply, but, depending on their need, the service may not be able to offer them a position until they have received inclusion support funding. In addition, where support is provided, it relates to a particular hours or days of the week and cannot be readily altered if, for example, parent's work situation changes.

The Commission heard similar concerns in its 2011 study into the Early Childhood Development Workforce (PC 2011), and ultimately found that:

Government funding to support access to ECEC services for children with additional needs is currently inadequate. In many cases, the limited funding that is available is provided on a short-term basis, does not fully cover the cost of employing additional staff, and is onerous to apply for and maintain (p. xxxviii)

Relying on services to co-fund the cost of providing ECEC to children with additional needs relies on the altruism of services, some of which will be hesitant to accept children with additional needs because the ISS is insufficient to cover the added costs. Other services may cross subsidise including children with additional needs by charging more for other children in their care.

³² Applications for ISS must include a Service Support Plan which documents a consideration of the issues that impact on the service's capacity to include children with additional needs, a plan to build staff capacity, including team goals and the resources available to support these goals and an action plan. Along with this plan, documentary evidence for each child is required (Department of Education 2013b).

The Commission has been made aware of instances where the onus to provide ECEC to children with additional needs falls on a particular service within a geographical area, with other services referring families with children with additional needs to this 'go to' service. The result is an ECEC system that is fragmented and underfunded for children with additional needs.

An additional concern presented to the Commission is that interaction between funding for ISS and for universal access to early childhood education is problematic. As KU Children's Services stated:

When [Universal Access] occurs within long day care services, inclusion support for children with ongoing high support needs must be accessed through the state/territory government during the hours the child is funded to participate during in the Universal Access funded preschool/kindergarten program, not through the Inclusion Support Subsidy. For the hours the child with ongoing support high needs attends outside [the] kindergarten/preschool program, the service can apply for inclusion support through the Inclusion Support Subsidy.

... This means that services can be applying to access inclusion support through both ISS and the state/territory governments to support the same children at different times of the day, week or year, which can be complex and confusing for services. (sub. 385, p. 7)

Children with Disability Australia, highlight the problem by recounting a parent's experience:

The problem is with the inclusion support program funding guidelines that outline you are not able to access the funding if you are already accessing other funding. So, basically, if you have a disability and require a support worker, you can't go to kindergarten in Queensland! (sub 424. pp. 7–8)

This problem is not universal, for example, the Victorian Government provides additional support for children in kindergarten through Kindergarten Inclusion Support Packages (Children with a Disability Australia, sub. 424).

INFORMATION REQUEST 8.1

The Commission seeks further information on the nature of the barriers faced by families with children with additional needs in accessing appropriate ECEC services and the prevalence of children with additional needs who have difficulty accessing and participating fully in ECEC. Information on the additional costs of including children with additional needs is also sought.

How well do programs improve access for Indigenous children?

The main source of funding for targeted services to Indigenous children are the Indigenous Early Childhood Development Children and Family Centres established in partnership with the states and territories, and the Budget Based Funding Programme (BBF) that supports non-mainstream ECEC services in very remote, remote or outer regional areas.

Indigenous Early Childhood Development Children and Family Centres

Aboriginal and Torres Strait Islander Children and Family Centres (ACFC) provide integrated ECEC services in communities with high densities of Indigenous families. As of June 2013, there were 35 ACFCs operating, offering a wide variety of services to their communities. Commonly provided services include ECEC (including preschool), child health checks, immunisations, early childhood allied health services, parenting advice and skills development, counselling services and cultural programs.

The Commission notes that while these centres may be providing a valuable service in their communities, the emphasis that centres place on providing ECEC services (as opposed to other social services) appears to vary.

Budget-Based Funding Programme

The stated objectives of the Australian Government's BBF Programme is to:

Assist child care providers to establish or maintain viable services in parts of the country where they might not otherwise be viable or able to meet the unique requirements of the community, such as in disadvantaged or regional and remote areas. (sub. 147, p. 29, 31).

Around 80 per cent of BBF services are focused on ECEC services for Indigenous children.

A recent review of the BBF programme looked at the extent to which the BBF is targeted to 'meet current and future community needs and delivers quality child care and early learning services and outcomes for children, families and their communities' (Department of Education 2014b, p. 5). The Review found that the BBF services plays a vital role in the communities they operate in, however, it made a number of recommendations for improvement (box 8.8).

Box 8.7 Recommendations of the BBF review

1. Introduce an outcomes based performance management framework including performance standards and key indicators.
2. Develop and introduce a quality improvement strategy to enable services to progressively meet the requirements of the National Quality Standard, building on the Budget Based Funded Quality Measure.
3. Streamline and improve efficient practice and reduce administrative burden for services and the department.
4. The programme objective and name be changed to provide a more definitive description of the programme with clear purpose and expectations.
5. The programme focus specially on supporting services in geographical locations where there are no other child care and early learning services.
6. A formula-based approach to funding be adopted for the programme to provide a more coherent and equitable means of funding allocation.
7. A service fee requirement be introduced, with the fee to be determined by the service provider based on the profile of the community and families attending the service.
8. Services that are encouraged and supported to become approved to administer Child Care Benefit where it is feasible for them to do so.

Source: Department of Education (2014b).

In response to this review, the Assistant Minister for Education announced that recommendations one, two and part of three would be actioned. The remaining recommendations would be considered after the completion of this inquiry (Ley 2014a).

There would be benefits in adopting the remaining recommendations of the BBF review. Targeted support to locations without access to another ECEC service will help to give the program focus, and given evidence on the relationship between ECEC and childhood development (outlined in chapter 5), facilitating some level of ECEC for children who currently do not have the opportunity to access ECEC could result in positive developmental outcomes. Renaming the program could assist to raise awareness of the program's objectives.

The Commission is of the view that recommendations seven and eight of the BBF review are particularly critical. It is important when a BBF funded service become viable under mainstream funding arrangements (that is, demand driven child based assistance) a transition process is in place to move them to this system. This frees up scarce block funding to be reallocated to other providers in other localities where children do not have access to ECEC. To facilitate this transition, but also to ensure

parents appreciate its value, it is important that BBF services set a suitable fee for use.

The Commission has considered these recommendations in developing a new program — the Additional Needs Program — with a wider focus than the current BBF programme. This program is outlined in chapter 12. Whether funding under this program be distributed on a formulaic basis, or through some other form of allocation, is something on which the Commission is seeking feedback.

Children in rural and remote areas

Children in rural and remote areas access preschool services at the same rate as their city counterparts, suggesting that for this age group access to ECEC services is not an issue. However, access to ECEC may be an issue for families with younger children. In addition, it may be more difficult for children in rural and remote schools to access OSHC.

BBF provides access to ECEC services for children in rural and remote areas, including those who are not Indigenous.

Mainstream services for children in rural and remote communities are also intended to be served by the Community Support Programme (CSP), which, like the BBF, aims to support ECEC services that would otherwise not be viable. However, close to 90 per cent of the money spent under the CSP is directed at providers in major cities and inner regional areas. This sits oddly against the program's stated objectives which emphasise servicing disadvantaged, regional or remote areas. A review of the program by the Australian National Audit Office (ANAO) found that it was not clear that the Community Support Programme was meeting policy goals (box 8.9).

The findings of the ANAO have been echoed in some submissions to this inquiry. For example, the Queensland Department of Education, Training and Employment noted:

This program has resulted in significant growth in the number of FDC services, but it is unclear whether this process has resulted in a commensurate increase of children receiving education and care. Rather, evidence suggests that existing FDC educators created their own FDC service with existing children. While this result is not necessarily a poor outcome, the investment arguably did not meet its policy objective, and has had the flow on effect of substantially increasing regulatory costs for the state-based Regulatory Authorities. (sub. 405, p. 12)

Box 8.8 ANAO review of the Community Support Programme

The CSP was reviewed by the Australian National Audit Office in 2012. The purpose of the audit was to 'assess the effectiveness of DEEWRS administration of the Community Support Program funding' by looking at its planning, management and performance reporting. It found that the delivery arrangements of the CSP were 'generally sound' but questioned whether the policy settings of the program were realising desired outcomes. Key findings of the report included:

- the Department has not evaluated the effectiveness of the CSP in improving access to childcare (p. 15)
- the majority (71 per cent) of CSP expenditure in 2011-12 was allocated to support FDC (which has about 10 per cent of children in formal care). Only 21 per cent of CSP funding was allocated to LDC and OHSC, despite these care types accounting for approximately 90 per cent of children in care (p. 16).
- the Department had not analysed the market to identify the areas where the market would not meet ECEC needs without CSP funding (p. 16).

The ANAO recommended that the Department:

- analyse the child care market, including the areas where the market would fail to meet child care needs without Community Support Program funding; and
- review the appropriateness of the current eligibility criteria and payment rates in light of this analysis.

In response to this review, the Department of Education has tightened the requirements for FDC to be eligible for CSP funding to be more in line with other care types. For operational support, this includes a requirement that the service is the only FDC provider within a specified geographic locality and is able to demonstrate to the Department that there is unmet ECEC demand in the area where the service operates. Additionally, a cap has been introduced that limits operational support payments to \$250 000 per annum for a FDC service.

Source: ANAO (2012).

In 2012-13, about 80 per cent of CSP funding was in the form of operational assistance to FDC (chapter 4). This suggests that the CSP has become an alternative way of supporting FDC services (possibly with lower fees charged to families), which was not its original intent. Expenditure is overwhelmingly directed at major cities and inner regional areas.

The Commission recognises that location can affect the costs of providing ECEC, particularly in the face of low and fluctuating demand. The Commission's proposed funding model, as described in chapter 12, recommends a new approach to account for different costs between locations and supporting ECEC services that may be subject to fluctuations in demand that make it hard to remain viable in every year.

DRAFT FINDING 8.1

Funding to providers has an important role to play in improving accessibility to ECEC for children with additional needs, or who live in locations without access to ECEC. There is scope to improve current programs which deliver assistance directly to providers:

- the Community Support Program has not achieved one of its main objectives of improving access to ECEC services in rural and remote areas. Further, it is unclear whether it has been effective in bringing ECEC services to disadvantaged areas where they would otherwise not have been provided*
- services funded under the Budget Based Funded Program are not all ECEC focused and there is a lack of transition pathways for services to become viable and be brought within the mainstream ECEC funding arrangements*
- the Inclusion and Professional Support Program requires additional resourcing in order to better meet its policy objectives.*

The role for integrated services

Integrated services — where ECEC forms part of a set of services provided to families and children — have considerable scope to improve the accessibility of services. Chapter 5 has examined the value of integrated services on childhood development and found evidence of at least short term improvements in developmental outcomes from attending an integrated service. Co-location and integration of family services can provide additional benefits — for families, it may represent a more convenient way to access family services, while for providers, colocation may provide efficiency and cost savings.

While all families may benefit from integrated services, they are particularly important for some client groups such as those in rural and remote areas, Indigenous families, and refugee families. Recognising this, many of the initiatives undertaken by state and territory governments in the area of integrated service provision have focused on disadvantaged areas (chapter 5).

The Commission is of the view that the scope for greater integration of family services is considerable. That said, the Commission is also cognisant that further integration of family services is inhibited by the divide in responsibilities for human services between the Australian and state and territory governments. For example, ECEC, aged care, and primary health, are largely the Australian government's responsibility, while preschool and schools, and hospitals are state and territory responsibilities. But even within jurisdictions, integration is the exception rather than the rule. There can also be other barriers to integration. Regulations that

require different facilities when multipurpose facilities would be possible, and different regulatory agencies with responsibility for assessing compliance are one source of barriers. Regulations that restrict practice and ownership are another. However, these barriers are not insurmountable if governments of all levels are willing to support integrated service delivery.

Co-location of services is only a first step to integration. This can greatly improve accessibility, but the greatest value add comes when the services work together to provide a more holistic approach to the needs of the family and child. To make integrated services work well requires dedicated coordination. For clients, the coordination service can range from comprehensive case management to as little as saving time by not having to provide the same information to multiple providers. In between, are cross referrals and booking of services and reporting on outcomes to allow the effectiveness of programs to be assessed. Coordination could be provided by an independent service or a lead agency which offers this service to other service providers in the facility.

Most integrated services are the result of a community's push to bring services together in the one location. Often the focus is on establishing a multi-purpose facility, drawing on local government support, grants from state and territory and the Australian governments and philanthropic fundraising. Successful operation requires that consideration is given to the long term funding.

Where the facility brings together services that attract a fee for service (as is the case for mainstream ECEC services), this provides a source of operational funding. However, such fees are unlikely to cover the coordination service, which is where value can be added. To the extent that coordination can reduce costs for the individual providers, they should be willing to pay for this service. But this will not always be the case, where the benefits accrue mainly in better outcomes for the clients. Block funding of coordination services may be required to realise the value of integration. Block funding of the services is more problematic for the long term sustainability of integrated services. The loss of one service if funding for that service is not continued can threaten the viability of other providers in the service. Hence, having all providers largely funded through fees (which may be subsidised by governments) is a more sustainable model. If all the services are block funded the problem of interdependence for viability is of less concern, but such services remain vulnerable to the funding cycle.

Discussions with some integrated services have emphasised the need for:

- community commitment and 'ownership'
- some government capital support for construction of facilities (see chapter 12)

-
- including the services most often used by the client groups
 - a business plan that looks at least five years out as to how services will be funded
 - a focus on disadvantaged communities, which benefit the most from improved accessibility and the coordination of services.

The review of BBF, discussed above, pointed to the value of integrated services, but also the need to transition block funded services to a more sustainable client-based funding arrangements.

Moving to demand-based funding arrangements could also facilitate more innovative financing approaches to integrated services delivery (box 8.10).

Box 8.9 Innovative models of integrated service delivery

There is considerable scope for social impact investing to provide a new approach to integrated service delivery. As many services are funded and operated in programs that align with the departmental responsibility, integrated services can be difficult to establish. Most are set up as a separate program with standalone funding or designated contributions from the different agencies involved. In the latter case governance arrangements can be difficult, and cost shifting is a possibility.

The value from integrated services results from the ability of one service to encourage their clients to seek other services where those people need a more holistic (or just a single additional) service to address their needs. Sharing of information on clients, as well as referral powers, allows better assessment of needs, and can prove more cost effective. For government funding of services, it is such information that can guide the allocation of resources to areas that are more cost-effective in delivering desired outcomes.

There are a range of models for delivering integrated services, the most common being a lead agency model, where one service provider takes on the responsibility of organising the information exchange and managing the set of services a client receives. This is the model used for Medicare Locals, with the infrastructure costs paid for by the Australian Government. An alternative is to have a platform provider who provides the facilities and the information management systems (bookings and client records). The platform provider would receive rent from the facilities, but could also be paid by government on an outcomes basis for achieving the government objectives for the population that is being served by the integrated service. Such a model would align with social impact investing, which can be structured to reward the investment on an outcomes basis.

This model could work well for the integration of ECEC services with other services.

INFORMATION REQUEST 8.2

The Commission is seeking feedback on the role that integrated services can play in making ECEC more accessible for families. In particular, the Commission is interested in:

- the extent to which integrating ECEC services with other family services and schools will deliver benefits to families and/or ECEC providers, and in particular, Indigenous and potentially other disadvantaged communities*
- views on the best way to fund integrated services that provide ECEC, including whether child-based funding would be an appropriate funding model*
- how funding could be apportioned across activities operating within an integrated service, including for the coordination of services, the management of administrative data and an evaluation of outcomes.*

8.3 How flexible are current arrangements?

A concern that has been raised by many parents is that ECEC services are not sufficiently flexible to meet the needs of families. Common themes presented to this inquiry include:

- operating hours that are not sufficiently broad to allow parents to meet work commitments
 - in particular, ECEC services are not available for those who regularly work outside the traditional 9-5 work day
- there is little or no flexibility to vary the days that can be used (need to pay for the same days each week, even if work commitments vary).

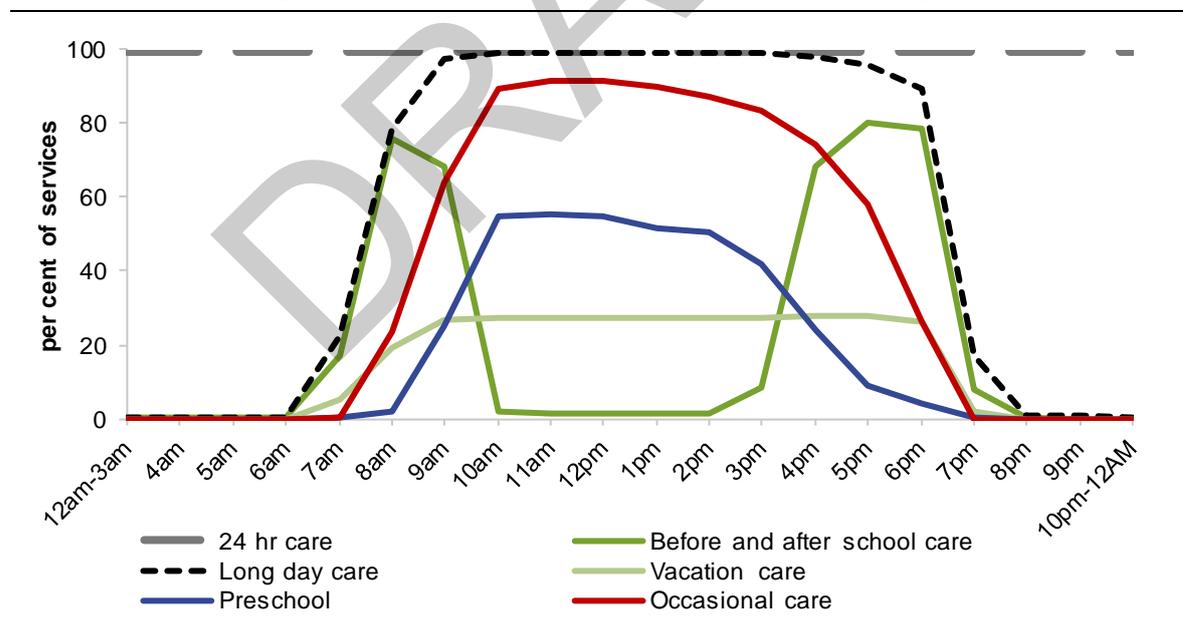
This section explores the flexibility of ECEC services to meet the needs of families. A wider definition of flexibility also encompasses the extent that employers can accommodate flexible work patterns of parents so they can provide for care their children. Flexibility in the workplace is discussed in chapter 6.

How flexible are operating hours?

The proportion of approved services operating over the course of a weekday, by care type, is outlined in figure 8.10. Apart from a small number of services which operate 24 hours per day³³, the majority of centre based services (excluding OSHC) are available from 6-7am in the morning through to 6-7pm in the evening.

The number of hours a service is open each day varies considerably by care type, which is understandable given that different types of care serve different functions. Commission analysis of ACECQA administration data shows almost all places for before school hours care operate for less than three hours per day, while almost all afterschool care places operate for no more than four hours. As these services operate in conjunction with schools, they can enable between 8 and 13 consecutive hours of non-parental care time. Approximately 70 per cent of LDC places operate for at least 11 hours per day. Information for FDC is not available, but it is typically espoused as being a more flexible form of childcare than other care types in terms of operating hours and a small number of FDC services operate for 24 hours a day.

Figure 8.10 **Operating hours of centre based care services**
Average per cent of services operating weekday hours during the week



Data source: Commission calculations from ACECQA administrative data (20 January 2014).

Just prior to the completion of this draft report, Early Childhood Australia released the results of a survey about how flexible Long Day Care Services are — one item

³³ ACECQA administration data made available to the Commission indicates that there are about 130 services that operate for 24 hours per day. Most are family day care services.

of which was operating hours. The findings on LDC operating hours are similar to what the Commission obtained from using administrative data.

For the majority of families whose employment is focused around a standard ‘nine to five’ working day or those regularly working longer hours on weekdays, these opening hours are likely to be sufficient to meet their childcare needs. It is those parents working non-standard hours — such as shift workers, night workers or on-call workers and those working weekends — who are most likely to experience difficulty accessing childcare at times when they need to work. One problem raised by some inquiry participants is that LDC, in particular, tends to offer care in full day sessions only — that is, parents who do not need a 10-12 hour day nevertheless have to pay for that. While this is a part of the business model for many LDCs, there would potentially be considerable support from parents were other business models to emerge that offered part day centre based care options which could be booked on a regular basis (essentially a more permanent and reliable version of occasional care).

Under Family Assistance Law, providers must meet certain criteria around operating hours in order to be eligible for government subsidies. A subset of this criteria is outlined in box 8.11.

Box 8.10 Selected operational criteria for CCB approved services

Long day care, family day care and in-home care

- The service operates on all normal working days in at least 48 weeks of the year.
- The service provides care for at least 8 continuous hours each day it operates.

Occasional care

- The service operates for a maximum of 9 hours per day.

Vacation care

- The service is available to provide care for at least 8 continuous hours on each normal working day in at least 7 weeks of school holidays in the year.

Source: Department of Education (2012, pp. 58–60).

These requirements were introduced to support workforce participation by ensuring the availability of ECEC. However, they also limit services’ flexibility, especially in rural and remote areas where demand may not be sufficient to sustain a service for five days a week (as noted by the Minister’s Education and Care Advisory Council, sub. 290) or in locations with seasonal employment (such as from tourism or agriculture). In fact, it is possible that these criteria have, in some instances, resulted in outcomes contrary to their objectives by reducing the availability of ECEC —

either through increased fees (to cover costs for days or times with low demand where the service would otherwise not operate) or even by potentially preventing services from opening where it would otherwise have been viable to do so (for instance, for three days a week instead of five).

Although services can apply for an exemption from these criteria under exceptional circumstances, such exemptions are currently only granted to 29 services across Australia (Department of Education, pers. comm., 2014).

The Commission considers that these criteria unreasonably constrain services' ability to operate, are likely to have reduced the viability of ECEC services, and should be removed.

DRAFT RECOMMENDATION 8.3

The Australian Government should abolish operational requirements that specify minimum or maximum operating weeks or hours for services approved to receive child-based subsidies.

Scope to vary days of ECEC used

At present, there is limited scope for parents to vary the days they use some types of care. Many participants, and especially shift workers, commented that this lack of flexibility meant that the system was not meeting their needs.

As a permanent firefighter I am a shift worker. My roster is an 8 day rolling roster so though I can tell which days and nights I am working for the next 10 years they are different days and nights every week. Therefore, regular childcare where I have to nominate a day each week is not an option (comment no. 26, neither use nor work in ECEC).

My other issue is inflexibility with days as I work five days a fortnight but childcare centres have stated I need to book for four or six days a fortnight. I am therefore relying on friends and family in order to work the fifth day (comment no. 85, ECEC user).

There is no flexibility for shift workers who don't always work the same set days (comment no. 102, ECEC user).

It would be wonderful if childcare could be more flexible. We work on a 4 week roster and different days are needed on different weeks due to shift work. There is no flexibility for alternating days over a two or four week cycle (comment no. 209, ECEC user).

The degree to which parents have scope to vary their use depends on care type. LDC and OSHC, which are typified by recurring attendance on set days of the week, is the least flexible, while FDC may be more flexible depending on the capacity of the provider to meet the irregular working patterns of parents.

Occasional care can be entirely variable, but typically cannot be booked by parents more than a week or two before it is required. It is therefore not a reliable source of care for use by working parents.

An opportunity to promote a more flexible ECEC system is through the manner which providers respond to periods of extended absences by children in their care. Under current regulations, families receive 42 days of allowable absences per annum, in which they remain eligible for CCB and CCR even if their child does not attend the service, and without a need to identify the reason for this absence. Additional absence days may be claimed beyond these 42 days in some circumstances such as proven illness, periods of local emergency or for attendance at a preschool.

One way families utilise these allowable absences is to take extended leave from child care, for example, for holidays, or when a parent has short-term work in a different city. In such instances, the Department recommends terminating the enrolment of the child and re-enrolling them on their return.

When a child is absent from care for an extended period of time (i.e. more than six weeks), it is a business decision for each CCB approved child care service on how this is reported (if at all). However services, are advised that they should not use CCB and CCR payments as a way to subsidise holding fees, exit penalties, other administrative charges or unpaid accounts.

In instances where a family asks a service to hold a place while they are on extended leave ... services should end the child's enrolment and create a new enrolment when the child returns to care. How a family is charged for the interim period is each service's business decision. (Department of Education 2012, p. 72)

In practice, the Commission understands that many services do not take this approach — rather, services retain the enrolment of the child for the time they are absent, and charge fees as if the child was attending the service (although some services offer discounts). Similarly, families may elect to 'hold' a place — that is, pay for ECEC that they do not really need — in order to make sure they do not lose a place in a service they are already using. Often, this occurs because the mother is on maternity leave, and therefore is able to care for their child at the home, or because the mother, while not currently working, expects to return to work soon, and does not want to lose what care has been secured.

The Commission considers that there would be benefits — in terms of flexibility and accessibility — if providers were to offer the places of a child on an extended absence to other children for the duration of the absence. The families of children who are taking an extended absence would not be required to pay regular fees for the duration of their absence (although the service could elect to charge a reasonable administration fee) as their place would be filled by another child. During this time,

assistance from the government would be claimed only for children actually using places.

For the families of the children who fill the temporary vacancy, the advantage is that it allows them short term access to ECEC (or more ECEC if they already attend the service) during which assistance from the government could be claimed. Their place is relinquished once the child on extended absence returns to the ECEC service.

INFORMATION REQUEST 8.3

The Commission seeks feedback on making the places of children who are on an extended absence available to other children on a short-term basis. In particular, the Commission is interested in disincentives or regulatory barriers that discourage or prevent services from implementing these arrangements.

Places in occasional care ECEC types are capped

Occasional care is currently capped by the Australian Government. This means that a new occasional care service is unable to operate without the Australian Government allocating them places. When a service ceases to operate, the number of places it was granted are retained by the government, and reallocated to different services at a future date.

This cap greatly restricts the accessibility of occasional care for families. In their submission to this inquiry, Occasional Child Care Australia noted:

Whilst there has been a recent allocation of occasional care places, there has been a decrease in occasional care services throughout the nation. This is due to the cap placed on occasional care places and limited allocation of places. It is very important that the occasional care service type is not lost to the community but rather supported and places increased. (sub. 200, p. 2)

There is evidence that occasional care is becoming less common. Between 2004 and 2012, the number of children accessing approved occasional care fell from 11 000 to 7000, or by about 40 per cent (DEEWR 2013).

For many families, occasional care represents the care type most suited to meeting their needs. As examples, Occasional Child Care Australia listed families where parents are shift workers, employed on a casual or contractual basis or studying as families who utilise occasional care. Occasional care also serves an important function in meeting the needs of families with an emergency need for care. Occasional care is also useful for rural families with seasonal work patterns — for instance, at harvest time (Natalie Akers, sub. 460).

The Commission notes that the Department of Education allocated occasional care places in 2012, and that this may enable more children to access occasional care than in previous years. This allocation was for 539 places, bringing the total number of occasional care places to 2927 places. However, in this allocation round, 1672 places were applied for — this suggests that providers perceive that there is a level of unmet demand for occasional care places. Proposed funding under the National Partnership on the National Occasional Care Programme announced in the 2014-15 budget, will also assist in making occasional care more available for families, particularly in rural or regional areas.

While these initiatives will likely increase the prevalence of occasional care, the Commission is recommending the removal of the cap on occasional care places. By removing this cap, providers would be free to deliver occasional care in any location they feel that there is sufficient demand for the service. This will make ECEC more accessible for families whose needs are best serviced by this care type.

DRAFT RECOMMENDATION 8.4

The Australian Government should remove caps on the number of occasional care places.

Use of informal care options for greater flexibility

For flexibility and accessibility reasons, nannies are the preferred form of childcare for many families. The main benefits of nannies compared to centre based care or family day care, as cited in submissions and comments, are:

- the greater flexibility they offer — hours of care and activities undertaken can be tailored to the individual child and family needs
- children are cared for in their home environment and are less exposed to infectious illnesses
- multiple children from the same family can be cared for together and nannies may be the most cost effective form of care for larger families
- the typical number of children cared for by nannies is much lower (often one on one) than average child to staff ratios in other forms of care, LDC in particular
- they are often available at short notice, including when places are unavailable in LDC, FDC or OCC.

A subset of parent's views about the benefits of nannies is contained in box 8.12.

Box 8.11 Parent's views on nannies

One parent commented:

I have a 6 month old daughter and am facing return to work in the next 6 weeks. As a permanent firefighter I am a shift worker. My roster is an 8 day rolling roster so though I can tell which days and nights I am working for the next 10 years they are different days and nights every week. Therefore, regular childcare where I have to nominate a day each week is not an option. After months of research into what sort of care is available for our family I have decided a nanny is the only way to go forward. (comment no. 23, people who neither use nor work in education and care services)

Another parent said:

I use a nanny to look after my children at home because I work irregular hours and because I prefer for my children to be looked after in a home environment by someone I know and trust, and for whom I set the ground rules ... I could not go back to work without the peace of mind and flexibility afforded to me by nannies. (comment no. 346, people who use education and care services)

Olivia del Piano stated:

Employing a private nanny is the only practical option for our family. It is a very expensive option and one not taken lightly given the significant financial outlay as a proportion of my salary. However, in our situation where we both work long and unpredictable hours without family childcare support ... we strongly feel it is in the best interests of our family for many reasons including consistency and quality of care, length of time of care and the lack of flexibility afforded by childcare centres. (sub. 35, p. 1)

Melissa Jones stated:

Even if we had been offered a position in long day care in our area, it would have been difficult for us to manage this arrangement given the lack of flexibility (especially given the long commute between our home and the city). A nanny is actually a sensible option for us and so far we are pleased with this arrangement. (sub. 335, p. 1)

While nannies tend to be a more costly form of childcare, particularly when employed through an agency, and are therefore used more by higher income households than those on lower incomes, they are not used exclusively by the 'rich':

We have clients from all over Australia who wouldn't be classified as 'rich'. ... Our clients range from professionals to blue collar factory workers. (Dial an Angel sub. 135, p. 5)

That said, if nanny services were more affordable, for example if government support reduced out-of-pocket expenses, it is likely that many more families would consider using them.

Extending government support for families using nannies

Most families using the services of nannies are not eligible to claim any government support to offset the cost. Some nanny services qualify, as registered care, for the

Registered Care Child Care Benefit (which is paid at a much lower rate than CCB for approved services). A limited number of nannies are also working within the existing government subsidised in-home care and Special Child Care Benefit schemes (Australian Nanny Association sub. 254) (chapter 4).

There is support for extending government assistance, currently available for other childcare services, to nannies (box 8.13). More than 62 per cent of the nearly 1700 respondents to a CareforKids survey considered that ‘families who use nannies should be able to claim the CCB and CCR’ (CareforKids.com.au 2014 Child Care & Workforce Participation Survey (unpublished)).

Submissions also pointed to some potential benefits — beyond the obvious improvement in affordability this would generate for families — of making nannies eligible for support:

By professionalising the industry and opening the rebate to nannies, this would provide some protection for the families and the nanny who is employed by them. (Dial an Angel sub. 135, p. 6)

Box 8.12 Extending government assistance to nannies

A number of submissions, for example, Peter Apps (sub. 414) and the Australian Nanny Association (sub. 254) as well as a number of website comments supported assistance being extended to cover nannies:

Extending the child care rebate to in home nanny care would allow for families like my own to source affordable and quality in home care for our children, enabling us to pursue a career. (comment no. 170, ECEC user)

A nanny would be more appropriate, however then I have to pay upfront. Therefore, I am getting help from grandparents in looking after my daughter. I simply can't afford a nanny at \$25 an hour without any rebate or assistance from government. (comment no. 140, ECEC user)

Rebates and deductions (perhaps capped) should apply to qualified nannies. Why can't I chose my own form of Childcare that best suits our family's needs? (comment no. 193, ECEC user)

Generally, participants recognised that such an extension of support should be conditional on nannies being subjected to certain regulatory requirements in order to ensure standards of care are reasonable and that it is care of children and not housework and other home duties that taxpayers are subsidising. Some suggested that the assistance provided could be subject to specific limits to contain the budgetary cost. Peter Apps, for example, suggested:

The cost could be contained by limiting claims to those for one child aged five or under where both parents (or the sole parent) work full-time as an initial step. (sub. 414, p. 17)

Other participants are opposed to the extension of government support to nannies for various reasons. They include doubts about the ability of nannies without a qualification to deliver educational and development gains for children (Lady Gowrie, sub. 355) and that many families using nannies have high incomes and do not need the assistance — indeed in some cases the provision of support makes no difference to the parent’s decisions about participation in the workforce or use of ECEC services.

In the Commission’s view, extending support to those families using nannies that meet the equivalent standards and regulations of existing approved care services receiving government support would make the current support arrangements more equitable and improve the accessibility, flexibility and affordability of childcare for many families.

How should nannies be regulated ?

The Commission considers that nannies should be able to continue to provide childcare services without meeting minimum regulatory standards and parents should have the choice to employ such nannies. However, where Government is subsidising the cost of nanny services, the community should rightly expect that those nannies will meet certain quality standards. This view is supported by many participants. For example:

ANA recommends that any government assistance provided to a family for the use of a nanny should be conditional upon the nanny being appropriately licensed. (Australian Nanny Association sub. 254, p. 4)

There would need to be some regulatory oversight, including some form of registration system and compliance monitoring to ensure the parents as employers are tax and legally compliant. (ACCI sub. 324, p. 11)

The Commission considers that nanny services eligible for Australian Government support as approved care should be brought within the NQF, but subject to standards that are appropriate for the type of care provided and the needs and expectations of parents. Dial-An-Angel, for example, suggested that nannies could be included under the NQF ‘with similar exemptions and requirements to those of Family Day Care’ (sub. 135, p. 5). Staff ratios should be equivalent to those applying to FDC which would enable parents to ‘share’ a nanny.

Further consideration is required, but key elements of any regulatory arrangements for nannies should include a minimum qualification requirement of a certificate III in Early Childhood Education and Care (or equivalent), with appropriate recognition of prior practical experience, as well as enforcement of existing mandatory working with children checks.

A compliance and inspection regime tailored for nannies, based on the adoption of a risk management approach, would need to be put in place to ensure minimum standards of care are being met. This would need to be designed so as to ensure efficiency, recognising the practical difficulties and cost likely to be associated with in-home inspections. Costs would also be substantially reduced if, as expected, a large proportion of nannies were engaged through agencies and authorities are able to rely to some extent on the quality control and monitoring processes employed by those agencies.

As is currently the case for approved services, a further condition of eligibility for support would be that nannies provide a tax file number or Australian Business Number. This would assist authorities with data matching and the identification of tax avoidance or welfare fraud. With the same objectives in mind, consideration could also be given to imposing a requirement on parents that engage nannies directly to report payments made to the Australian Taxation Office.

While it should not be compulsory for nannies to be employed through an agency or existing childcare centre in order to be eligible for assistance, this would likely provide administrative efficiencies for the government, some savings in compliance costs for parents and nannies, including potentially simplifying and/or improving the efficiency of:

- the administration of any childcare subsidy payments
- ensuring superannuation and tax obligations are met and that appropriate workers compensation insurance cover is in place.

DRAFT RECOMMENDATION 8.5

Governments should allow approved nannies to become an eligible service for which families can receive ECEC assistance. Those families who do not wish their nanny to meet National Quality Standards would not be eligible for assistance toward the costs of their nanny.

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

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

The Commission is envisaging home based care — including care provided by nannies and other certificate III workers who satisfy the NQF — will represent an important part of Australia’s ECEC sector. It will also allow more families to receive subsidised ECEC in their home.

Under current regulatory arrangements, a family can only receive subsidised ECEC in their own home if they are eligible for in-home care. Eligibility requirements for in-home care are tight (box. 8.14) and places are capped by the Australian government.

Box 8.13 Current in-home care eligibility

In-home care is only available to children for whom:

- only an in-home care service can provide suitable care; and
- one or more of the following characteristics applies
 - the child has, or lives with another child who has, an illness or disability
 - the child's guardian (or guardian's partner) has an illness or disability that affects their ability to care for the child
 - the child lives in a rural or remote area
 - the work hours of the child's guardian (or guardian's partner) are hours when no other Child Care Benefit (CCB) approved child care service is available
 - the child's guardian (or guardian's partner) is caring for three or more children who have not yet started school; or
 - any other circumstances determined by DEEWR in relation to the child.

Source: Department of Education (2012, p. 28).

The Commission considers that once nannies and other certificate III workers who satisfy the NQF have been moved into approved care, the case for maintaining a separate category for in-home care is diminished. Families who receive subsidisation under in-home care would still be eligible for subsidisation provided their carer satisfies the NQF. Families who receive Special Child Care Benefit while using in-home care would continue to receive additional support under the Commission's proposed funding arrangements discussed in chapter 12.

DRAFT RECOMMENDATION 8.6

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

Au pairs

Au pairs offer families some of the benefits associated with nannies (for example, flexible hours, including overnight care, and closer relationships with children) and typically at a substantially lower cost. They often provide care for the children in the family in exchange for board and some payment. Families also often cite language and cultural exchange benefits as a factor in their decision to engage an au pair.

Au pairs are able to work in Australia under the Working Holiday Maker Program, which makes visas available to passport holders from those countries participating in the program (box 8.15). Arrangements are being negotiated with additional countries. The program promotes cultural exchange by allowing visa holders to have an extended holiday and combine work with travel. The vast majority of au pairs are young females, but increasingly males are applying for positions. There are estimated to be around 10 000 au pairs currently working in Australian homes (sub. 446).

There is also an emerging trend to more mature au pairs, sometimes referred to as 'Granny au pairs' (AuPair-Assist sub. 153). However, it is unclear as to how these more mature workers would qualify for an Australian work visa.

While au pairs are a more affordable care option for families, they typically do not have any formal training or qualification in childcare. It is generally accepted, therefore, that they are principally carers, rather than educators. Most au pairs also do not hold a current first aid qualification and few have undergone a working with children check from either overseas or Australia (AuPair-Assist sub. 153).

Box 8.14 Working Holiday Maker Program — key requirements

- For young people aged between 18 and not yet 31 years of age
- With a passport from an eligible country .
- Two sub classes, depending on country of residence:
 - Working Holiday Visa sub class 417 (for example, United Kingdom, Canada, France, Italy, Germany, Japan, Republic of Korea)
 - Work and Holiday Visa sub class 462 (for example, Argentina, Bangladesh, Indonesia, Malaysia, Thailand, Turkey and USA).
- Need to meet certain health, character, and financial requirements.
- Stay in Australia for up to 12 months and work in all types of work.
 - Limit of six months with any individual employer.
 - May be able to apply for a second Working Holiday Visa (sub class 417 only) if three month's work has been completed in 'specified' field or industry in a designated regional area while on the first 417 visa — au pairing is not a specified field of work.
- Annual limit to the number of visas issued to each country.

Source: Department of Immigration and Border Protection (2013).

It is appropriate that parents continue to have the option of utilising au pairs to care for their children. The evidence provided in submissions of the growing unmet demand for au pairs suggests families are increasingly finding this childcare option attractive. A range of participant views on au pairs is contained in box 8.16.

However, services provided by au pairs are essentially unregulated, so families assume the risks associated with ensuring the suitability of the au pair. Agencies that facilitate the placement of international au pairs with families undertake varying degrees of vetting and this can reduce such risks to some extent. Au pairs employed through agencies are also better able to access information and advice about their rights and obligations.

Box 8.15 Au Pairs – participant’s views

One view was that there were inadequate checks on au pairs and their suitability for caring for children (Cultural Au Pair Association of Australia, sub. 238) as the Australian Government imposes no specific conditions for the screening, placement and ongoing support of au pairs and some agencies also offer little or no screening or support.

There were also suggestions that some au pairs (mainly those not employed through agencies) are being exploited by families (Dial-An-Angel, sub. 135), for instance by requiring them to work excessive hours or to undertake inappropriate duties, and that there is inadequate protection for young au pairs when working conditions are not appropriate.

Others considered that au pairs provided a more flexible and affordable child care option and working Holiday visas were too restrictive. They called for:

- the program to be extended to other countries, such as the Philippines (Au Pair Assist, sub. 153)
- the duration of the visa to be extended beyond 12 months and/or the restrictions on the type of work that can be undertaken in order to be eligible for obtaining a second 12 month visa be relaxed, so as to include ‘Au Pairing’
- the six month limit on working for any one employer be removed — this would give the family greater continuity of care and reduce disruption and any separation anxiety for children (Jane Bowd, sub. 458).

The Commission considers that it would not be appropriate for families to be able to claim government support to subsidise the use of au pair services because:

- au pairs typically have little or no relevant ECEC training or experience
- au pairs live-in with the family so there is not a clear separation between childhood development and education, childcare responsibilities and other household tasks they may assist with.

The Commission is of the view, however, that more could be done to improve access to au pairs that meet the expectations of parents and to ensure the rights of au pairs are protected. Specifically, the Australian Government should give further consideration to:

- amending existing working holiday visa requirements to:
 - as far as possible, eliminate unnecessary differences in the requirements applying to the two sub classes or between countries within the sub classes
 - ensuring the criteria for determining whether countries can participate in the working holiday visa program are transparent and consistently applied
 - allowing people over the age of 31 to apply for working holiday visas

-
- streamlining application processes, whilst at the same time ensuring that health, character, financial and educational requirements are rigorously enforced
 - allowing au pairs to work for a family for the full term of the visa (12 months, rather than the current limit of 6 months).

There may also be merit in:

- encouraging au pairs — and families using au pairs — to utilise the services of an accredited agency
- ensuring au pairs are given information (ideally before their visa application is approved), in their own language, about their rights, laws and customs and what they should expect in Australia and also a standard information pack when they arrive which includes similar information and further details about where they can get assistance, advice and emergency support.

As noted in relation to nannies, making it easier for families to use carers from overseas not only has the potential to help address childcare accessibility, flexibility and affordability issues in Australia, but also to provide cultural exchange benefits and, for some developing countries in our region, possible economic benefits.

DRAFT RECOMMENDATION 8.7

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

Provider trials of alternative flexible arrangements

Innovations to better suit the needs of shift workers have been examined under the Child Care Flexibility Trials (Department of Education 2013a). Nine providers were selected to trial programs, across various locations, with trialists contributing 50 per cent of the project costs (either financial or in kind). Some initiatives that were selected for trialling included extended weekday care, overnight care, weekend care and additional flexibility in catering for shift changes.

Evidence presented to the Commission is that initial take up rates of these flexibility initiatives have not been high. The Police Federation of Australia noted:

The commencement of the Child Care Flexibility Trial Pilots in 2013 across the states of New South Wales and Victoria was greeted with a positive response by police, however as the trial commenced mid-year and has only been seen as a trial, take up has

not been as strong as we would have liked initially. We are confident however that as more members sign up, word of mouth will ensure it is well patronised. (sub. 94, p. 3)

Likewise, the Queensland Nurses Union stated:

The QNU took part in these trials and worked with Family Day Care to provide extended hours of care for families in South East Queensland, Toowoomba and Townsville. The trial produced varying results with Townsville showing the greatest take-up. This was a new initiative involving a major shift away from traditional childcare outside standard hours. We urge the current federal government to continue with the trial and to support extended hours care for working parents across regions and sectors. The concept will take time to promote and implement, but it will ultimately provide nurses with more care options and therefore more opportunities to pursue their careers if they choose. (sub. 65, p. 10)

Goodstart Early Learning submitted that their initiatives under the Flexibility Trials did not experience high take up rates:

... the initial results of the trial of extended hours in six centres demonstrated that there was low take up and insufficient demand to make the extended hours viable. This is consistent with the feedback from other long day care providers about extended hours of this type of care. (sub. 395, p. 66)

Three of the six Goodstart services that were operating with extended hours under the Trials no longer offer these hours, and Goodstart noted that participation in the 'Extended Hours Trial continues to be significantly lower than expected at all centres' and that 'the numbers are not financially or operationally sustainable. They do not support an extension of the trial to a possible permanent operating model.' (p. 70). In June 2014, it was announced that 244 families had taken part in the Flexibility Trials — roughly half of the number anticipated (Ley 2014b).

Currently available evidence suggests that there is insufficient demand for flexible delivery of childcare to warrant further policy intervention at this time. The Commission notes that a systemic evaluation of the Childcare Flexibility Trials is currently being undertaken, with a reporting date in November 2014. This review should offer more comprehensive insights into the take up rates of the Flexibility Trials and provide a better evidence base to determine if there are particular innovations that are both successful and scalable to the ECEC sector as a whole.

8.4 Summing up

Most families in Australia have access to, and do access, ECEC services. Many families have some degree of choice about what care types and services they use, and many families can receive care on the days and for the hours that suit their

needs. However, many families report difficulty accessing ECEC services. Difficulties in accessing ECEC can be present across all care types, although they appear particularly pronounced for younger children (aged 0-2) and for OSHC for school and preschool aged children.

Families in regional and remote areas are likely to have fewer services available to choose between and may have to travel further to reach services, but also appear to have less difficulty accessing a place in a service than do families in urban areas. The provision of before school care is particularly limited in non-urban areas. Accessibility problems can also be experienced in major cities, and the Commission has heard about a lack of childcare places in the central business districts of capital cities. Even in areas where there is a high density of ECEC providers, families can still experience difficulties in obtaining appropriate care and pockets of unmet demand exist.

As well as experiencing accessibility issues common to all families, families with children living with additional needs may face extra barriers to accessing ECEC. While the programs that target children with additional needs do seem to promote access to some extent, improvements can be made in how they are targeted and how they operate.

A number of submissions have highlighted the inflexibility of ECEC in meeting non-standard work hours, noting that many in the workforce do not work 'nine to five' jobs or have irregular work patterns. The Childcare Flexibility trials are currently looking at innovative care trials, although the low take-up in these models suggests that they may not be meeting the needs of families. Instead, the Commission has heard that many families value the flexibility provided by home based care undertaken by nannies or au pairs.

An ECEC system that is not sufficiently accessible and flexible enough to meet the requirements of families restricts the extent to which parents can participate in paid employment. By removing caps on occasional care, putting the onus on schools to organise OSHC, removing regulatory restrictions on operating hours and by extending subsidies to nannies that satisfy suitably tailored NQF requirements and extending family placement limits for au pairs, the Commission believes that these measures will promote a more accessible ECEC system that will better meet the needs of families.

DRAFT

9 Affordability

Key points

- For the vast majority of children in care, at least 50 per cent of their ECEC fees are met by government subsidies. Nearly 10 per cent of children have at least 90 per cent of their ECEC costs covered by government subsidies.
- Many factors influence how much families pay for ECEC:
 - families who use long day care, family day care and nanny care tend to pay more than users of other care types
 - out-of-pocket costs generally increase as family income increases
 - those who use long hours of ECEC across a week also face comparatively high out-of-pocket costs.
- Only about 5 per cent of children in ECEC reach the Child Care Rebate cap of \$7500 in 2013-14 with this number expected to rise in future years. Children in households who reach this cap tend to be receiving ECEC in a long day care setting on a full time basis for over 45 weeks a year.
- While current subsidy arrangements do make ECEC more affordable for families, there are a number of issues with the way they are delivered:
 - the existing system is complex and families can have difficulty understanding their entitlements under the Child Care Benefit and the Child Care Rebate
 - there is not sufficient evidence to suggest that the Jobs, Education and Training Child Care Fee Assistance program and the Special Child Care Benefit program are meeting policy goals
 - subsidies under the Registered Child Care Benefit program are so small they do not materially affect the affordability of ECEC and are onerous for families to claim and government to administer.
- Out-of-pocket costs of ECEC services in Australia are marginally above the average of other OECD countries. That said, Australia spends more on social assistance to families than other OECD countries.

Affordability for families is a key government objective of an ECEC system. If families cannot afford to use ECEC services, it is unlikely that government goals for child development, education or workforce participation would be adequately met through ECEC. This chapter reviews the evidence on families' current expenditure on ECEC, and how this has changed over time.

Affordability can be viewed across a number of dimensions. At its most basic level, affordable ECEC implies that a family has sufficient financial resources to pay for some basic level of ECEC — that is, families can afford to use ECEC for at least a few hours a week. Given that the majority of Australian children attend some form of ECEC over their lives, it is clear that for most, but not all, families some level of ECEC is affordable under the current system of subsidies.

Notions about what constitutes affordable ECEC are value judgements, and invariably vary between person to person. Therefore, the Commission has avoided defining what constitutes a ‘fair’ or ‘reasonable’ cost for ECEC, but rather focused on the capacity of families to pay for ECEC, given current ECEC prices, family characteristics and the patterns of ECEC use.

The three main programs that deliver support directly to families to meet ECEC costs are the Child Care Benefit (CCB), the Child Care Rebate (CCR) and the Jobs, Education, Training Childcare Fee Assistance (JETCCFA). Chapter 4 and appendix C outline the details of these payments, including payment rates and eligibility requirements. This chapter focuses on affordability after subsidies have been deducted — that is, net childcare costs.

9.1 How much do families pay for ECEC?

Before evaluating current government support for families to deliver affordable childcare, it is important to first determine how much parents currently pay for childcare services.³⁴ The amount of out-of-pocket expenses families face for childcare and ECEC services depends on the specific features of their use, including:

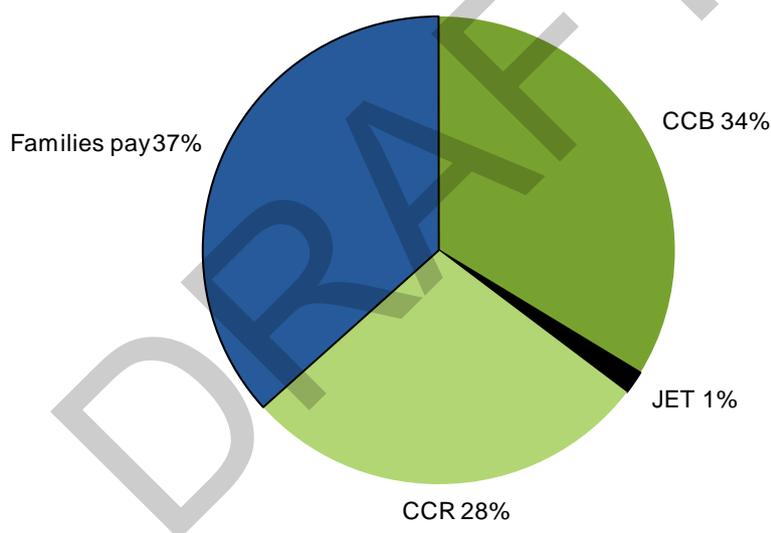
- what types of care families use
- family income, which has implications for means testing and provides insights into the work decisions of families
- how many children in the family receive care
- how many hours children are in care
- geographic location; and
- subsidy rates, eligibility criteria and caps on subsidies payable.

³⁴ This section will predominately draw on administrative data because it represents a census of all approved childcare users. The administrative data utilised for this analysis is for the 2011-12 financial year — while this is relatively recent, it is likely that current fees are slightly higher than what is represented in this data. Across all care types, fees have increased by around 7 per cent between June 2012 and June 2013 (Department of Education 2014a).

The proceeding sections explore these features.

In any discussion about the affordability of ECEC services, it is important to recognise that ECEC is heavily subsidised by the Australian Government, most significantly through CCB and CCR. This means that the out-of-pocket fees of families are usually considerably lower than the actual fee charged by providers. In aggregate, taxpayers contribute more to the fees of ECEC than families do (figure 9.1). For the vast majority of children in care (95 per cent), at least 50 per cent of ECEC fees met by government subsidies. For around 45 per cent of children, at least 70 per cent of their fees paid by government, and for just under 10 per cent of children, at least 90 per cent of the fees covered by subsidies (table 9.1 and figure 9.2).

Figure 9.1 **Who pays in Australia's ECEC system**



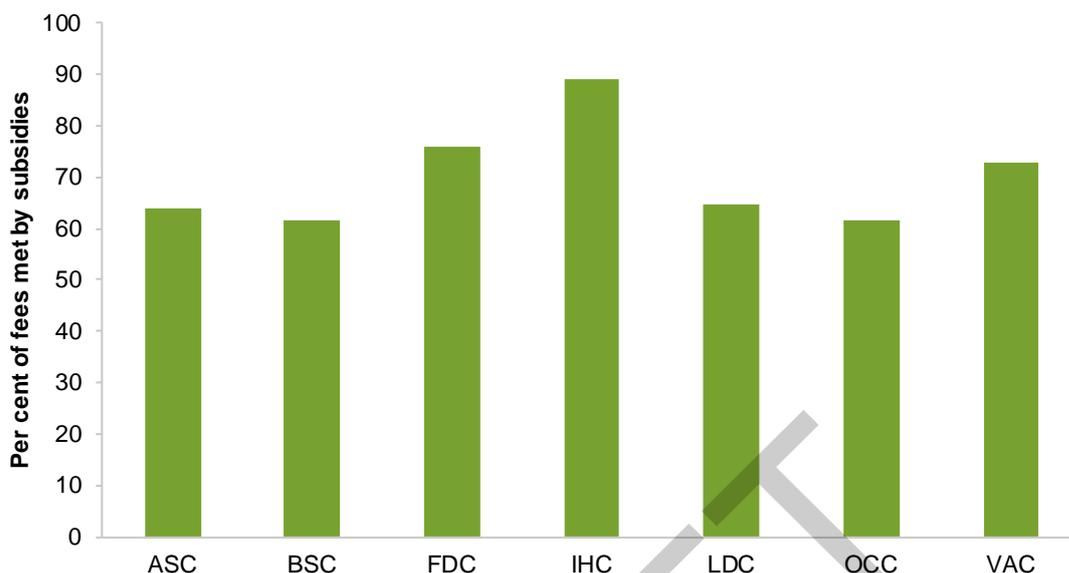
Data source: Commission calculations based on Department of Education administrative data (2011-12).

Table 9.1 **Proportion of fees covered by government subsidies**
2011-12

<i>Proportion of ECEC fees met by government subsidies</i>	<i>Per cent of children in care</i>
Less than 50 per cent	5
Between 50 – 60 per cent	34
Between 60 – 70 per cent	17
Between 70 – 80 per cent	19
Between 80 – 90 per cent	17
Greater than 90 per cent	9

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

Figure 9.2 Fees covered by CCB, CCR and JETCCFA, by care type^{a, b}



^a Calculated by aggregating CCB, estimated CCR and JETCCFA entitlements across all users of that care type then dividing by all fees. ^b In this figure: ASC = After School Care; BSC = Before School Care; FDC = Family Day Care; IHC = In Home Care; LDC = Long Day Care; OCC = Occasional Care; VAC = Vacation Care.

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

How does affordability vary by care type?

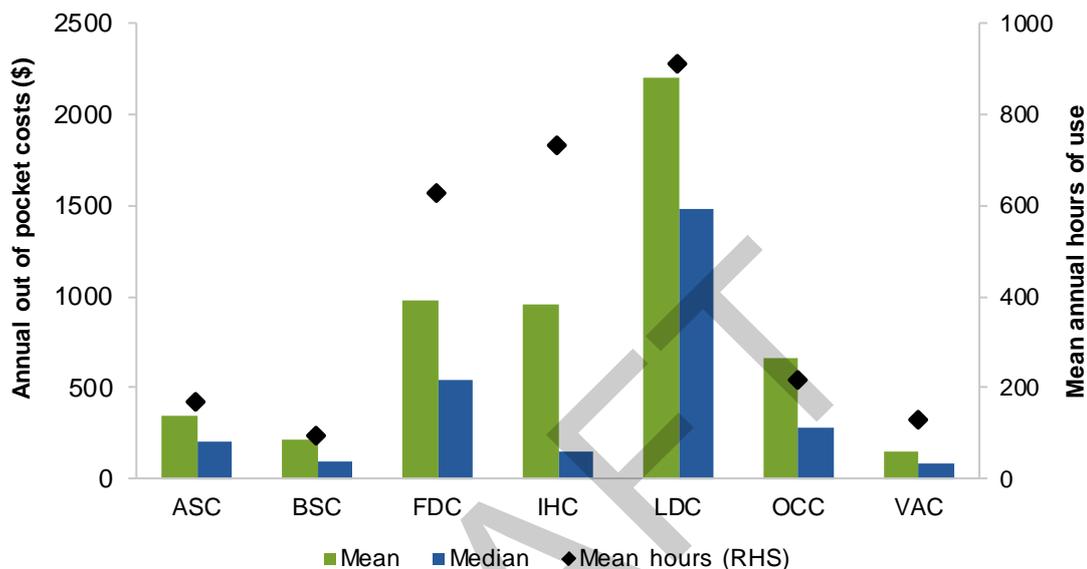
Approved ECEC

Out-of-pocket costs of ECEC vary markedly by the type of care used (figure 9.3). Annual out-of-pocket costs for LDC care are substantially higher than for other care types, particularly outside school hours and vacation care. This is largely reflective of different care intensities — that is, the number of hours used in different kinds of care. On an average, per child basis, long day care is used for 910 hours per year, while the average usage of after school care (167 hours), before school care (91 hours) and vacation care (127 hours) is substantially lower. Figure 9.3 also shows that across all care types, the median cost of care is well below average levels. This implies that while most families face out-of-pocket costs below the annual average, there are some families who pay well above the median out-of-pocket cost of care.

On an hourly basis, out-of-pocket fees are highest for occasional care, although this care type also showed the second greatest dispersion in hourly fees (behind in-home care). Median out-of-pocket costs per hour were lowest for in-home care, with a third of children using this care type being eligible for Special Child Care Benefit,

which results in free or very low cost care. Median hourly out-of-pocket costs for LDC were slightly higher than for family day care, which is generally considered to be its closest substitute (figure 9.4).

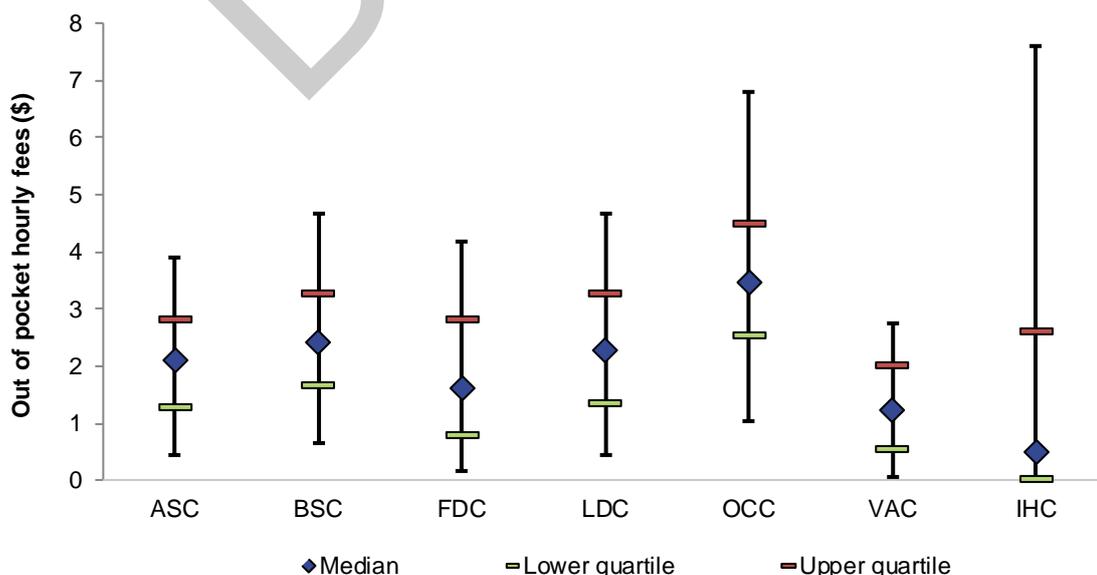
Figure 9.3 Annual ECEC fees per child by care type



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

Figure 9.4 Out-of-pocket costs by care type

Lower and upper bounds of the lines represents the 5th and 95th percentile respectively.



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

The preceding figures suggest that the type of care has potentially significant implications for the affordability of childcare. Generally speaking, those who use before and after school care and vacation care are much less likely to experience affordability problems, owing to the low intensity (in terms of hours used) of these care types.

Given that average annual hours of care is substantially higher for long day care, affordability issues are more likely to be prevalent in families who use this care type.

Budget Based Funded Services

As with all ECEC services, Budget Based Funded (BBF) services have discretion around what fees are charged to users. However, there is very little information on fees, and the Commission was advised that for many BBF services the parent contribution is often a minimal daily rate.

The Final Report of the Review into Budget Based Funding noted that users of BBF services may have out-of-pocket fees ranging from a minimal amount to market rates (Department of Education 2014c). Families who use BBF services are typically ineligible to receive assistance through the CCB and CCR.

Preschool

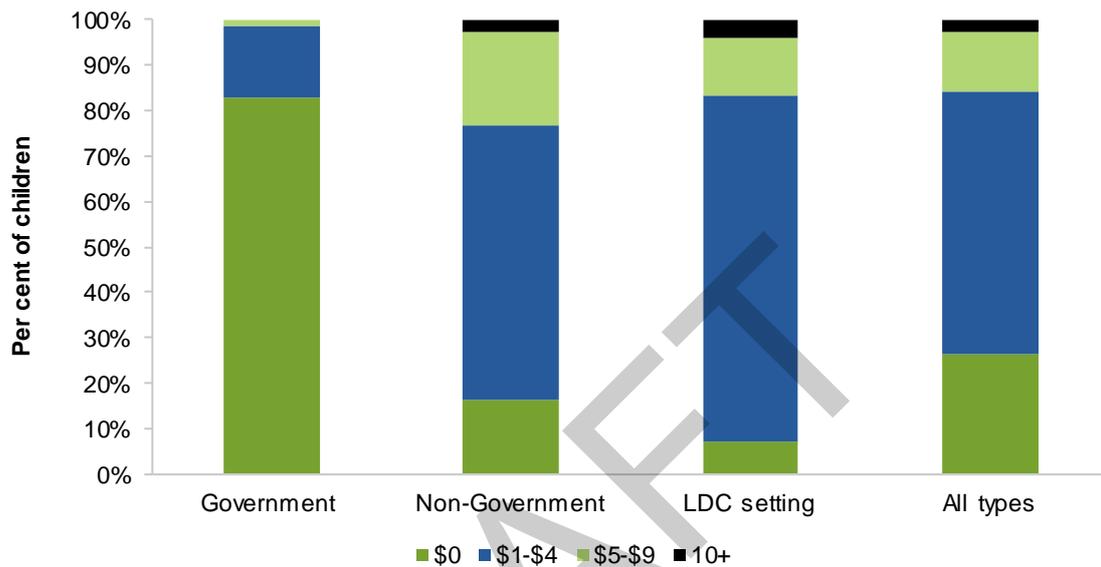
For children who attend government preschools, hourly fees are typically low. Over 80 per cent of children enrolled in a government preschool receive free care (figure 9.5). The vast majority of those who paid a fee, paid less than \$4 per hour. In some jurisdictions — South Australia, Western Australia, Tasmania, the ACT and the Northern Territory — fees in government preschools are universally zero (although some collect a small, fixed amount, voluntary parent contribution). In other states, families may be charged for using government run preschools.

For non-government preschools and preschool programs undertaken within a LDC service, the range of fees charged was more dispersed, although for most children, out-of-pocket hourly charges remain relatively low (over three quarters had an hourly out-of-pocket cost of no more than \$4 per hour).

Australia-wide, approximately 43 per cent of children who attended dedicated preschool (government or non-government) and 7 per cent of children who attended preschool in an LDC received free ECEC. However, the proportion of children receiving free preschool varied markedly by jurisdiction (figure 9.6) as do average hourly out-of-pocket costs. As noted in chapter 4, under the National Partnership

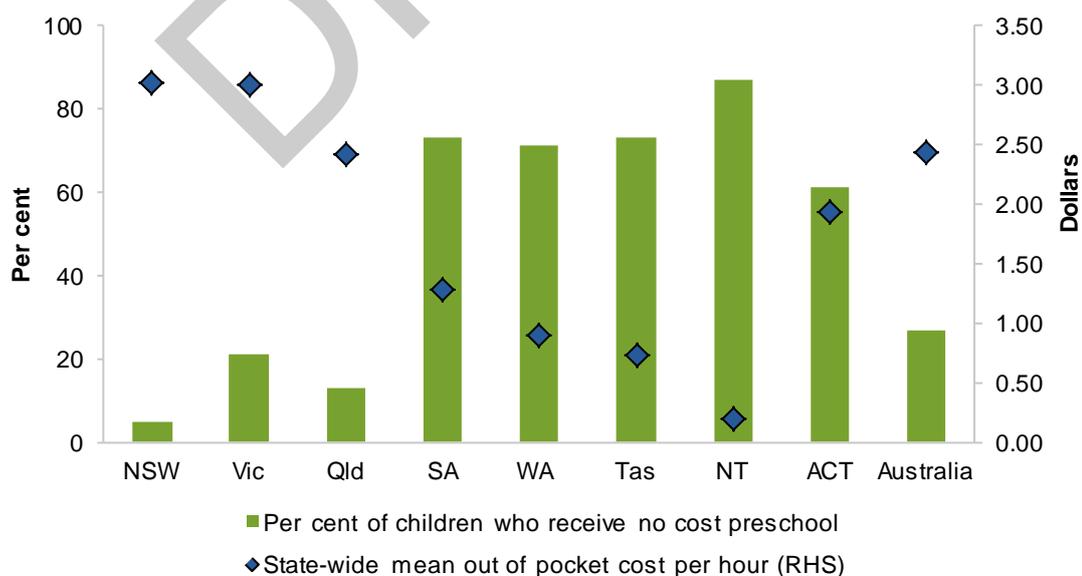
Agreement on Early Childhood Education, the Australian Government has contributed \$1.6 billion to improve the accessibility and affordability of preschools. Not all states and territories fully pass this on to preschool providers.

Figure 9.5 Hourly out-of-pocket fee by preschool type



Data source: ABS (2013).

Figure 9.6 Out-of-pocket fees for preschool across jurisdictions



Data source: ABS (2013).

The preceding analysis suggests affordability issues for government preschools are likely to be rare, given the very low fees that families face when accessing these services. For non-government preschools, hourly rates for most users are roughly similar to LDC. This means affordability issues are likely to be more prevalent for non-government preschool users. Families who use preschools in LDC settings are also charged a relatively high fee for this service when compared with dedicated government preschools.

Nannies and au pairs

There is very little collected information on the hourly or weekly price of nannies, but the Commission has received indicative information from both the Australian Nanny Association (sub. 254) and Dial – An –Angel (sub 135) that the range of prices for a nanny is generally \$20 to \$35 dollars per hour.

The absence of subsidies makes nannies a relatively expensive form of care despite the effective hourly price depending on the number of children the nanny looks after. One of the reasons why nannies are relatively more expensive is that they offer additional flexibility and typically higher ratios of adult to children. Most nannies (unless working in approved in-home care) are not eligible for CCB and CCR. Some families who use nanny care may be eligible for subsidisation under the registered care component of CCB, but the subsidy is so small (66 cents per hour) that it does not materially reduce the out-of-pocket cost of nanny care.

Many participants commented on the out-of-pocket costs of nannies being prohibitive. For example, Melissa Jones (sub. 335) noted:

... the private nanny option is very expensive and is simply not an option for many families. (p. 3)

Likewise Bronwyn Batten (sub. 63) commented:

I would prefer to use a nanny and have them care for my toddler and also do before/after school care for my older children but such an arrangement is inaccessible financially. (p. 1)

Comment no. 261, from an ECEC user, also picked up on the price of nannies:

For families with more than 1 child, a nanny is an excellent and convenient option, particularly given the scarcity of childcare places in larger centres. However, as there is no rebate available the cost is prohibitive. This option should be actively supported and subsidised.

The effective hourly price of nannies and au pairs depends on the number of children they look after. Larger families may find nannies a more cost-effective option than some forms of approved care. Nannies would need to look after three or

four children before hourly out-of-pocket costs are roughly equivalent to that of LDCs. However, other families value the flexibility of nannies, or prefer to have all their children looked after by the same carer, and therefore are prepared to pay a premium for nanny care.

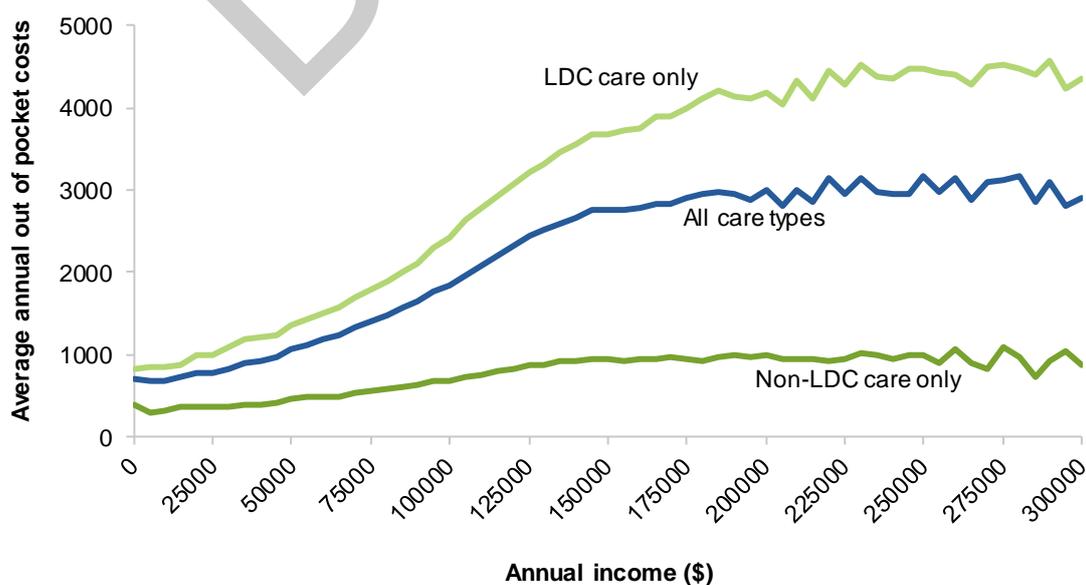
How does family income affect affordability?

It is reasonable to expect that out-of-pocket ECEC fees increase as income rises. This is because:

- The CCB subsidy is means tested on family income.
- As family income increases, so does the probability that the family has two income earners, with a greater need for ECEC.

This is borne out in figure 9.7, which shows annual out-of-pocket expenses for families by gross family income. It shows a distinct upward trend in out-of-pocket fees as income increases. Average annual out-of-pocket fees were approximately three times higher for the highest income family for than the lowest income family across all care types (the blue line) and approximately four times higher for LDC users only (the light green line). It is also important to note that for any given income level, there is considerable variation in the out-of-pocket costs families pay for LDC and this variation increases with income (figure 9.8).

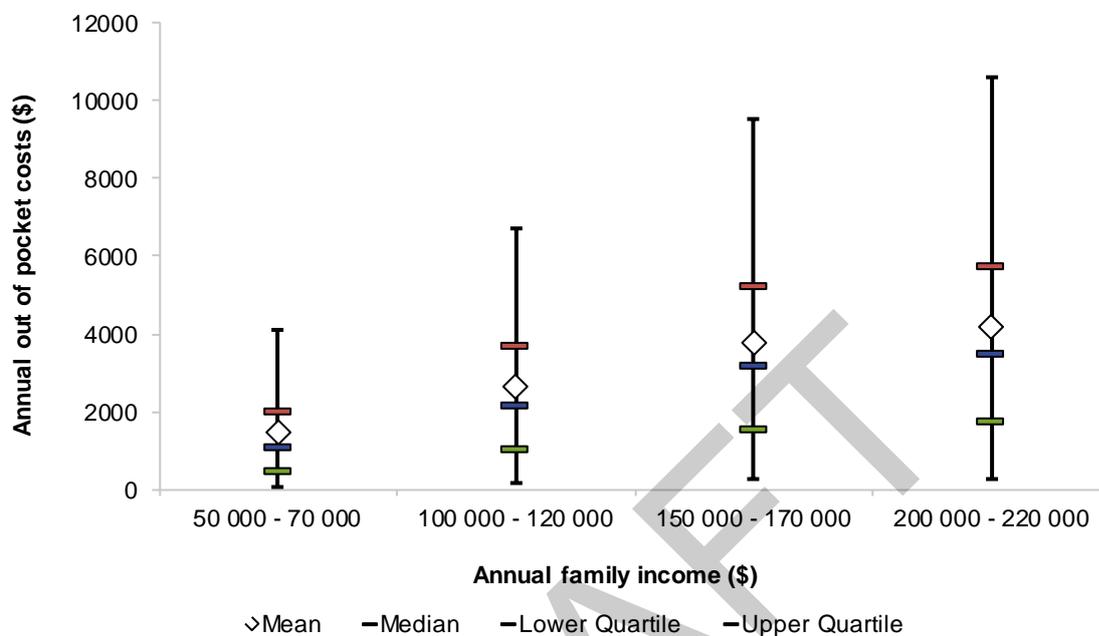
Figure 9.7 **Annual out-of-pocket costs by family income**
Average annual amount per child



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

Figure 9.8 Distribution of out-of-pocket costs paid by income, per child, LDC users only

Lower and upper bounds of the lines represents the 5th and 95th percentile respectively.

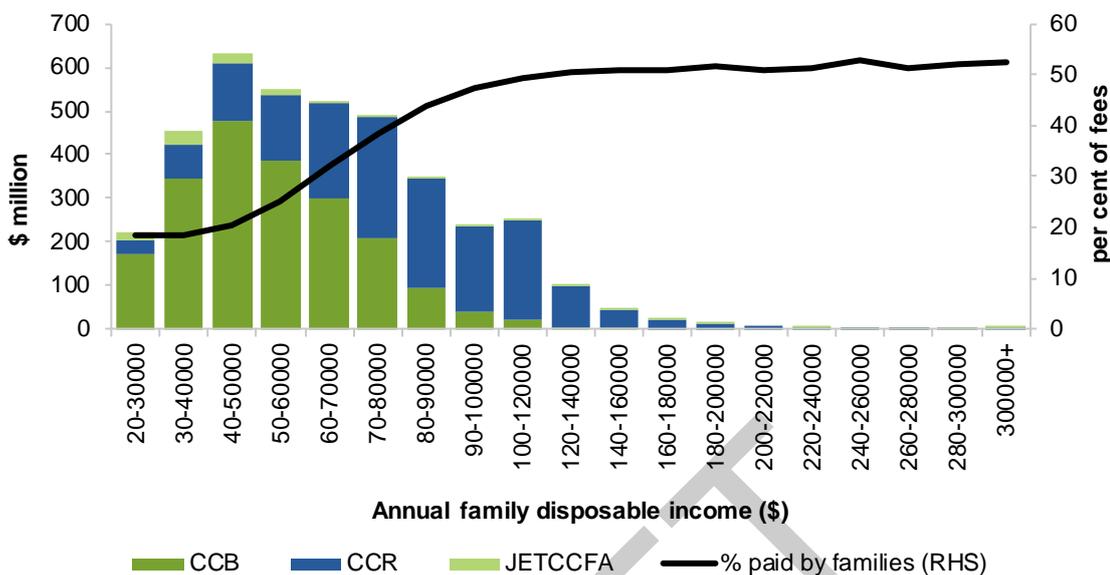


Data source: Commission calculations based on Department of Education administrative data (2011-12).

The proportion of fees that families pay for childcare increases with income. One reason for this is that most assistance is targeted at lower income groups. Apart from some special cases (children identified as being at risk, JETCCFA recipients and those eligible for Grandparent Child Care Benefit who receive higher subsidies), the vast majority of families received subsidies of between 90 and 50 per cent of their child care fees in 2011-12, with low income families eligible for the maximum rate of CCB receiving the highest subsidy levels (figure 9.9). Around two per cent of families with disposable incomes (net of tax, but including welfare payments) lower than \$40 000 do not face any out-of-pocket costs for their approved childcare, however, the incidence of free care falls away sharply for higher disposable income groups (figure 9.10) That said, isolated cases of families receiving free care do occur at very high income ranges — these are likely to be families eligible for subsidisation under the Special Child Care Benefit or the Grandparent Child Care Benefit.

A survey undertaken by Mission Australia suggests that childcare is perceived to be less affordable by low income households. Only 27 per cent of families in the most disadvantaged SEIFA (Socio-Economic Indexes for Areas) quintile considered childcare to be currently affordable, in contrast to over half in the most advantaged quintile.

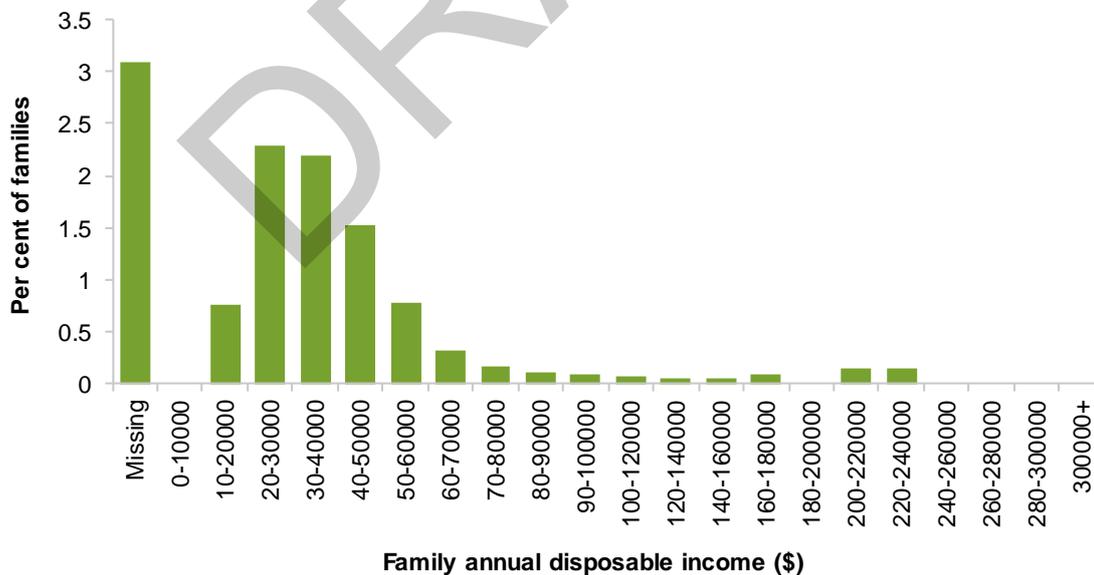
Figure 9.9 Subsidy amounts by income



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

Figure 9.10 Families getting free approved care by income

Per cent of all families in approved care. Does not include budget based funded services or preschools not in a long dare care setting.



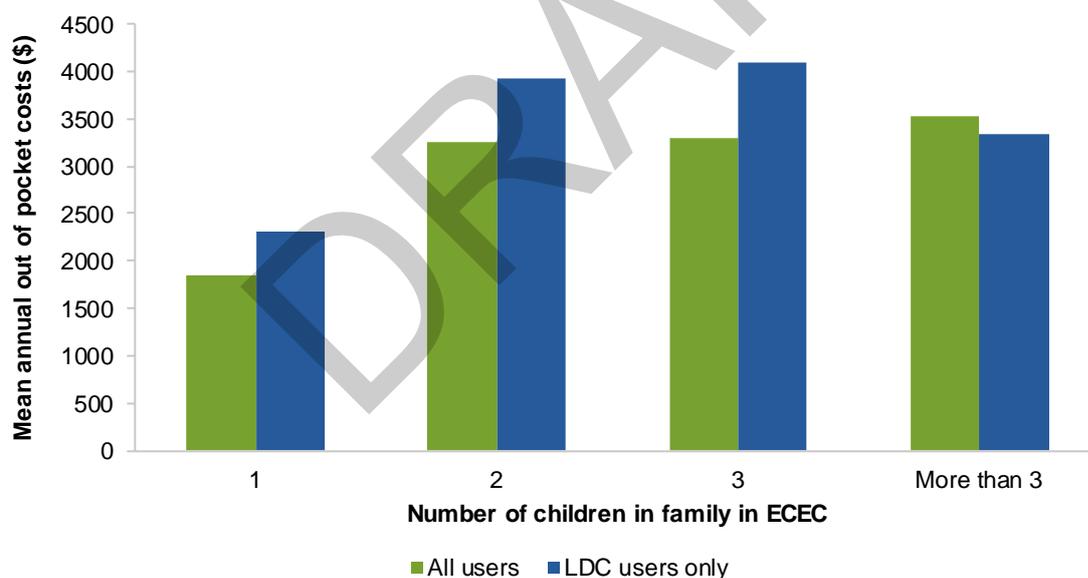
Data source: Commission calculations based on Department of Education administrative data (2011-12).

How does number of children in care affect affordability

Across all care types, median annual out-of-pocket fees increase as more children from a family are in ECEC. However, the increase in median fees between families having two children in ECEC and families having four children in ECEC is negligible (figure 9.11). For LDC users, the relationship is less clear — families with more than three children in care in the year for which the Commission has data, on average, face lower out-of-pocket costs than families with two or three children.

While this runs counter to what might be expected, it can be explained — at least in part — by a greater proportion of larger families being eligible for CCB. About 98 per cent of families with more than three children in LDC in 2011-12 were eligible for CCB, in contrast to around three quarters of families with three or fewer children in LDC being eligible.

Figure 9.11 **Mean annual out-of-pocket costs by number of children in family in ECEC**

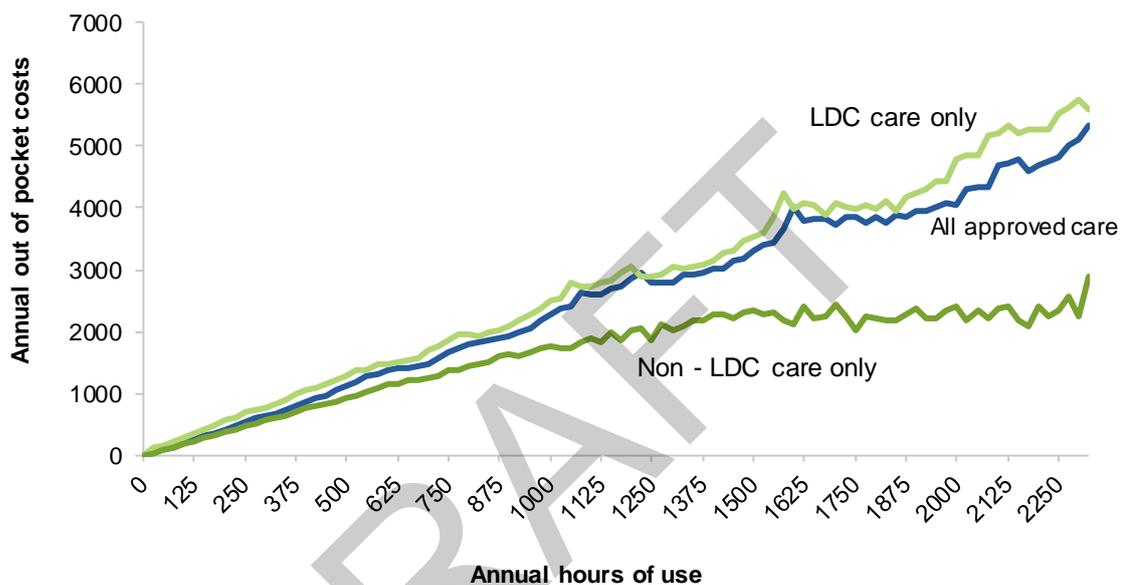


Data source: Commission calculations based on Department of Education administrative data (2011-12).

How does hours of care per child affect affordability?

A clear positive relationship can be seen between the hours of care and out-of-pocket fees (figure 9.12). This is unsurprising — it is expected that families who use more ECEC services will face higher out-of-pocket costs for these services. The profile of out-of-pocket fees for users only of LDC is similar.

Figure 9.12 Annual out-of-pocket costs by hours of care used, per child

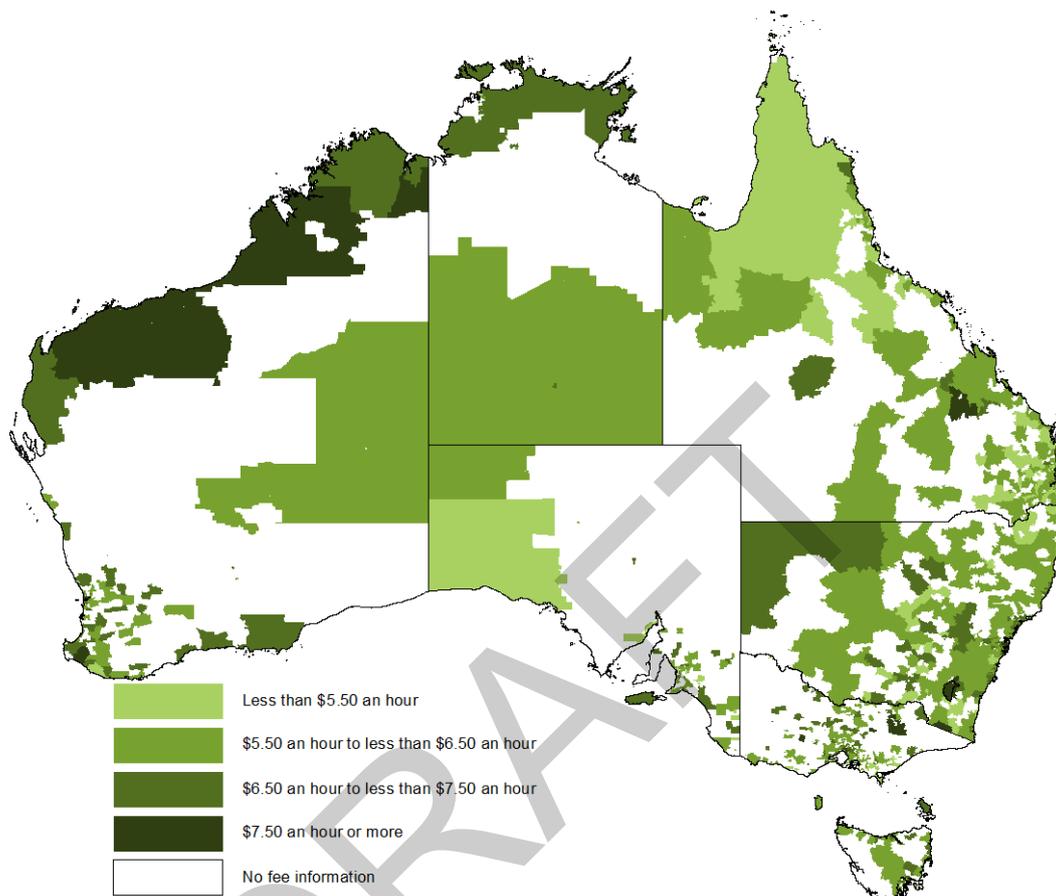


Data source: Commission calculations based on Department of Education administrative data (2011-12).

How does location affect affordability?

Fees — both before and after subsidies — vary by location. Using the administrative data provided by the Department of Education, the Commission has been able to map the average fee before subsidy by postcode, which shows that average fees are higher in capital cities and areas near large mining operations (figure 9.13).

Figure 9.13 Average fees for approved care
By postcode

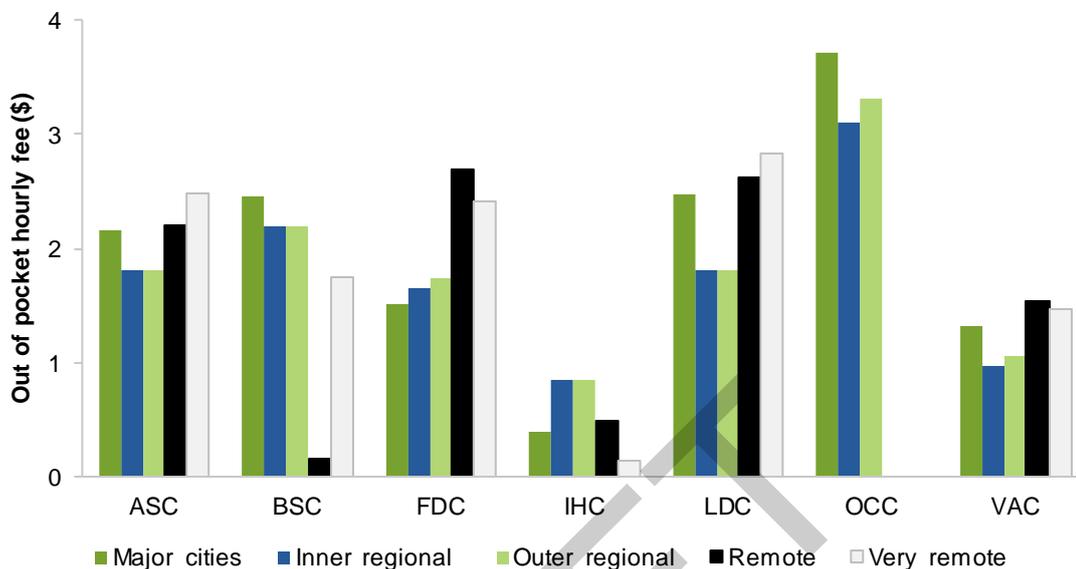


Data source: Commission calculations based on Department of Education administrative data (2011-12).

Hourly out-of-pocket costs vary substantially by location. One common pattern across most approved care types, was that hourly out-of-pocket costs were higher in rural and remote locations compared to city and regional areas (figure 9.14).

However, once account is made for the lower hours of LDC care used by remote and very remote families over the course of a year, the annual out-of-pocket costs for LDC use by remote and very remote families are lower, on average, than those in major cities (but remain more than those in regional areas). For FDC, those in remote locations pay more than those in cities (figure 9.15).

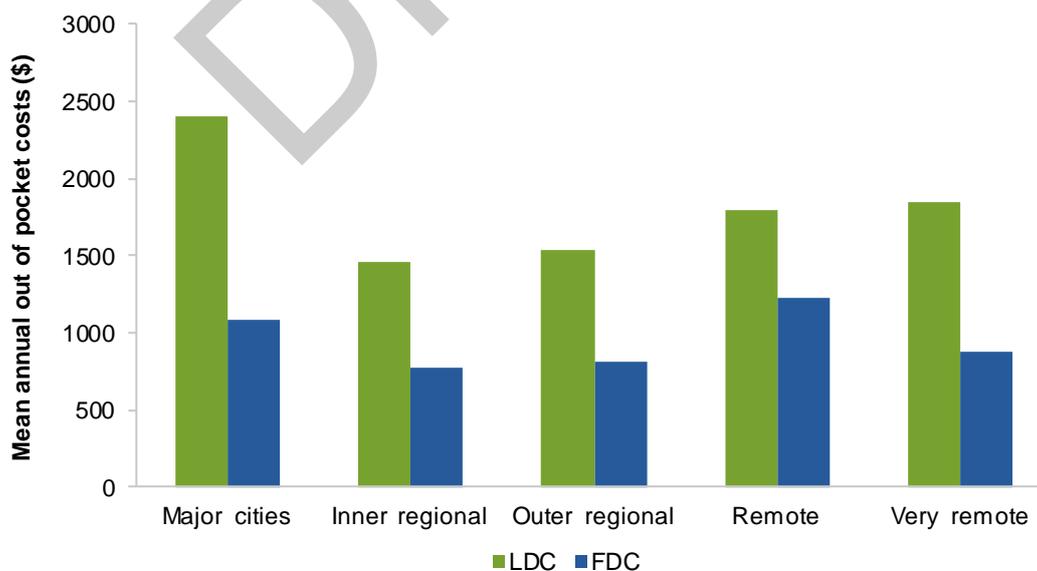
Figure 9.14 **Out-of-pocket hourly costs by ARIA^a**
Median, by care type



^a ARIA stands for Accessibility/Remoteness Index of Australia. It is an index used by the Australian Bureau of Statistics. It is based on road distances from a point to major population centres (Australian Population and Migration Research Centre 2014).

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

Figure 9.15 **Annual out-of-pocket costs by ARIA**
LDC and FDC only



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

Australian Government subsidies paid to families do not vary depending on where they live, but funding — primarily BBF — for eligible providers makes ECEC more affordable and accessible in regional, rural and remote areas. As noted earlier, out-of-pocket costs of BBF services are typically lower than for approved care services.

The Northern Territory Government also pays LDC, FDC and ‘three year old kindy’ an additional subsidy to ‘assist operators of approved education and care services contain the care for parents/guardians and maintain fee charges at an acceptable level’. As of 1 July 2014, the subsidy is \$30 per week for children under two, and \$22 per week for children aged two to five (Northern Territory Department of Education 2014). Some states and territories also distribute funding under the National Partnership Agreement on Early Childhood Education on a per capita basis (chapter 4).

Affordability for Special Child Care benefit and Grandparent Child Care benefit recipients

While most families receive support under the standard CCB and CCR, a small number of families receive support under a more targeted form of CCB:

- The Grandparent Child Care Benefit (GCCB) supports grandparents who are the primary carer of a child and receive an income support payment.
- The Special Child Care Benefit (SCCB), where eligibility is dependent on a child being deemed ‘at risk’, or a family is deemed to be facing ‘short term financial hardship’

Additional detail on these programs can be found in appendix C. Between April 2013 and June 2013 (the most recent quarter data that is available), slightly over 3000 families received GCCB and slightly over 8000 families received SCCB.

Families who are in receipt of the GCCB are eligible for free ECEC for up to 50 hours a week (and longer in some circumstances). Families in receipt of the SCCB also typically face no out-of-pocket costs.

Families of children with additional needs, but not eligible for subsidisation under the SCCB, do not receive additional support from the Australian Government to meet ECEC costs beyond the standard CCB and CCR subsidies available to all eligible families. That said, services that enrol children with ongoing high support

needs may be eligible for provider subsidisation through the inclusion support subsidy that aims to facilitate their access to affordable ECEC services.³⁵

How does the CCR cap affect affordability?

For many Australian families, the only form of childcare subsidies for which they are eligible is CCR. The main concerns relating to affordability of childcare that have been raised about the operation of the CCR relate to the annual cap on subsidies per child — particularly that the maximum threshold for the cap has been frozen in nominal terms since 2011-12.

Based on administrative data for 2011-12, as many as 22 000 children could have reached the \$7500 limit on out-of-pocket expenses.³⁶ This is slightly less than 2 per cent of all children who used approved ECEC services in 2011-12 with 1 in 59 children reaching the cap. Analysis undertaken by the Department of Education suggest that 5.4 per cent of families using approved care reached the \$7500 cap in the 2013-14 financial year (Department of Education 2014b).

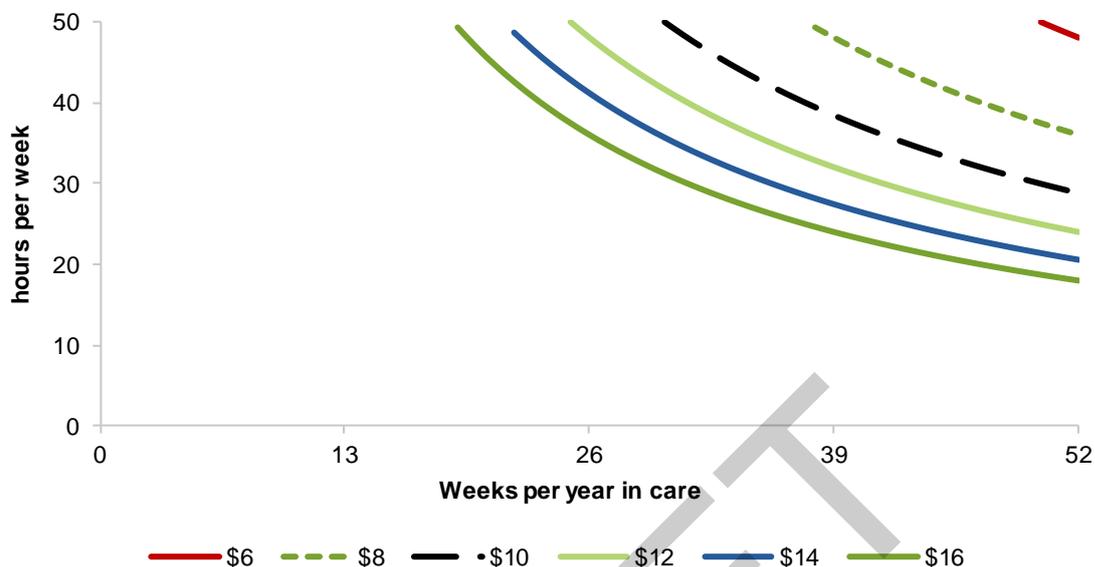
The CCR cap — hours of use, weeks per year and fee rates

As outlined in chapter 4, parents are entitled to receive a payment of up to half of their annual out-of-pocket costs for approved ECEC services for each child, but up to a \$7500 limit per financial year. In order for the CCR cap to be reached, the annual ECEC fees for a child (after CCB or JETCCFA subsidies) need to exceed \$15 000. There are numerous combinations of weeks in care, hours of care per week and hourly fees that will result in annual ECEC fees reaching or exceeding \$15 000. Figure 9.16 highlights the combinations of hours and weeks in care and hourly out-of-pocket fees that are required to exactly reach the CCR cap — the cap would also be reached with any combination of higher hours, higher weeks in care or higher fees.

³⁵ Under the Inclusion and Professional Support Program guidelines, children with high ongoing support needs include children with an assessed/diagnosed disability, who are undergoing continual assessment of a disability or children from a refugee or humanitarian intervention background (Department of Education 2013).

³⁶ There is uncertainty over the number reaching the CCR cap because some people also receive CCB and because some information may have been mis-entered by ECEC services. The most likely people who may be incorrectly identified as reaching the CCR cap are those who may be eligible for some CCB, but who have chosen to have CCB paid as a lump sum in arrears, people who have overestimated their incomes (and could be entitled to more CCB than currently indicated) and where a very large fee had been accidentally entered by a ECEC service into the Child Care Management System.

Figure 9.16 Combinations of out-of-pocket fees, hours and weeks of care per year that reach the CCR cap

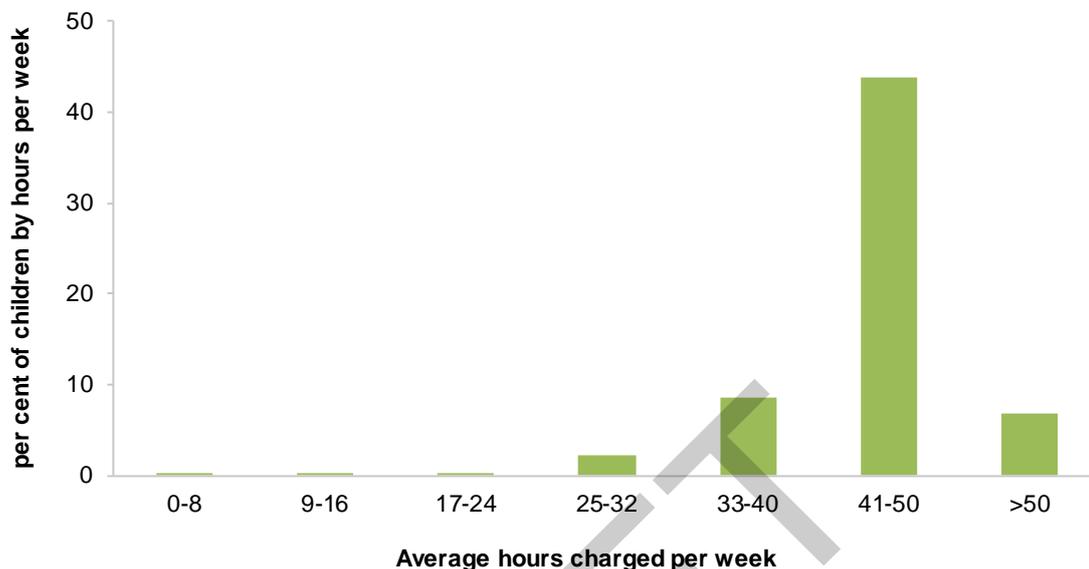


Data source: Commission calculations based on Department of Education administrative data (2011-12).

For example, if the out-of-pocket fee was \$10 an hour and a child was in care for 38 weeks in the year, then a child would need to be charged for close to 40 hours of care per week to reach the CCR cap during the year.

Probably the biggest single determinant as to whether or not a family reaches the CCR cap is the number of hours of care used a week — the more hours a week children are in care, the greater the chance that the cap will be reached (figure 9.17). While the per cent of children reaching the CCR cap falls substantially for children with more than 50 hours of ECEC a week, this is a very small group with a higher probability of being eligible for CCB or Special Child Care Benefit (SCCB) subsidies. It is also clear that the hourly fees before subsidies for children who reach the CCR cap are on average higher than for all ECEC users (figure 9.18).

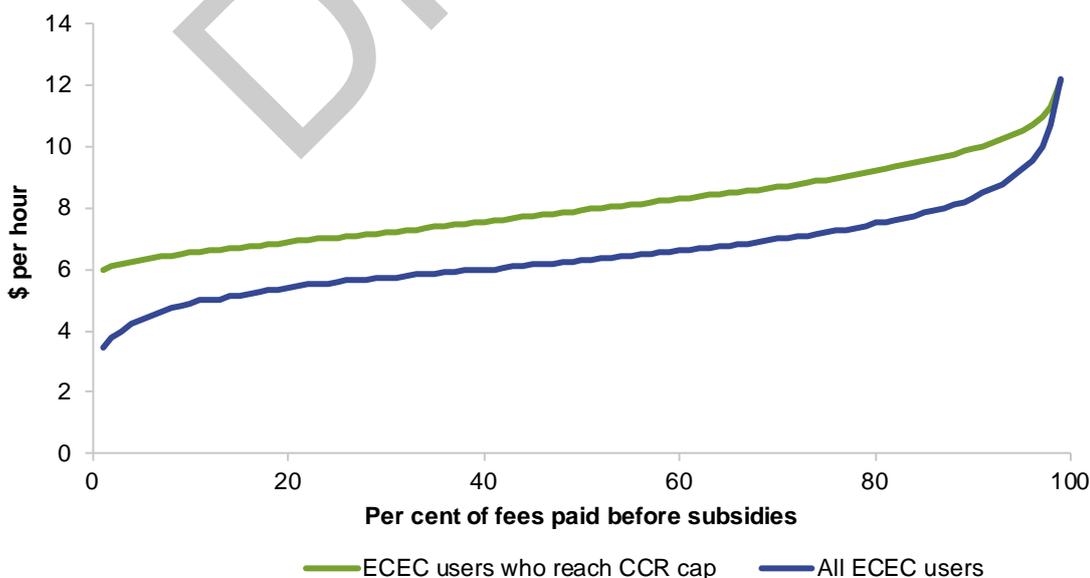
Figure 9.17 Children reaching CCR cap by average hours per week^a
 Per cent of children by average range of ECEC hours per week — 2011-12



^a For some forms of ECEC charge based on the length of session, and the actual hours of attendance can be significantly less than the hours charged for.

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

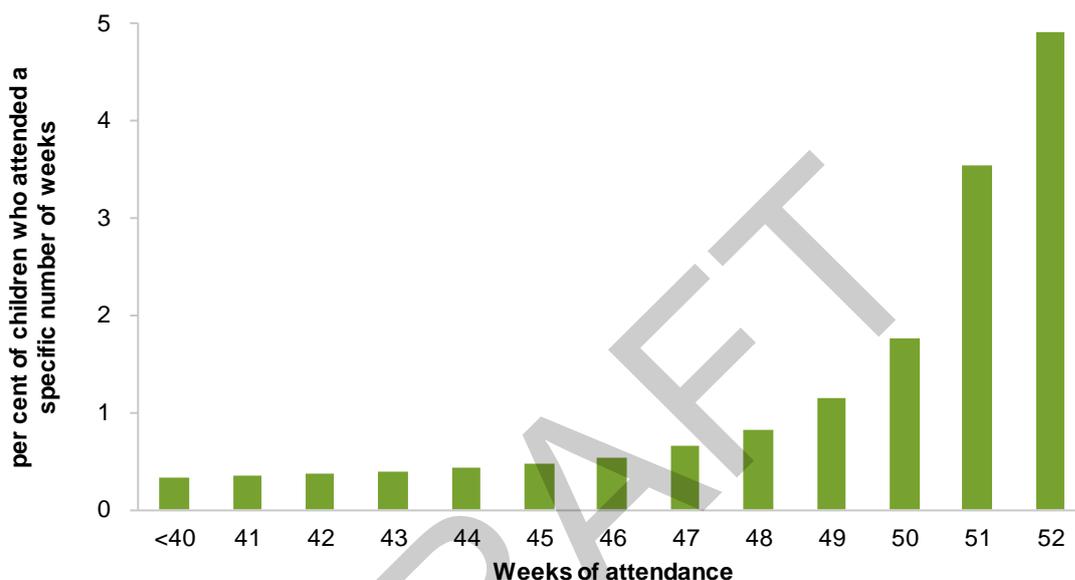
Figure 9.18 Hourly ECEC fees of families who do and do not reach the ECEC cap
 ECEC fees before subsidies, 2011-12



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

There is a clear relationship between weeks of ECEC attendance and probability of reaching the CCR cap (figure 9.19) — with the probability increasing with each additional week of attendance. However, it should be noted that only 5 per cent of children who attended an ECEC service every week of the year reached the CCR cap in 2011-12.

Figure 9.19 Children reaching CCR cap, by weeks of ECEC attendance

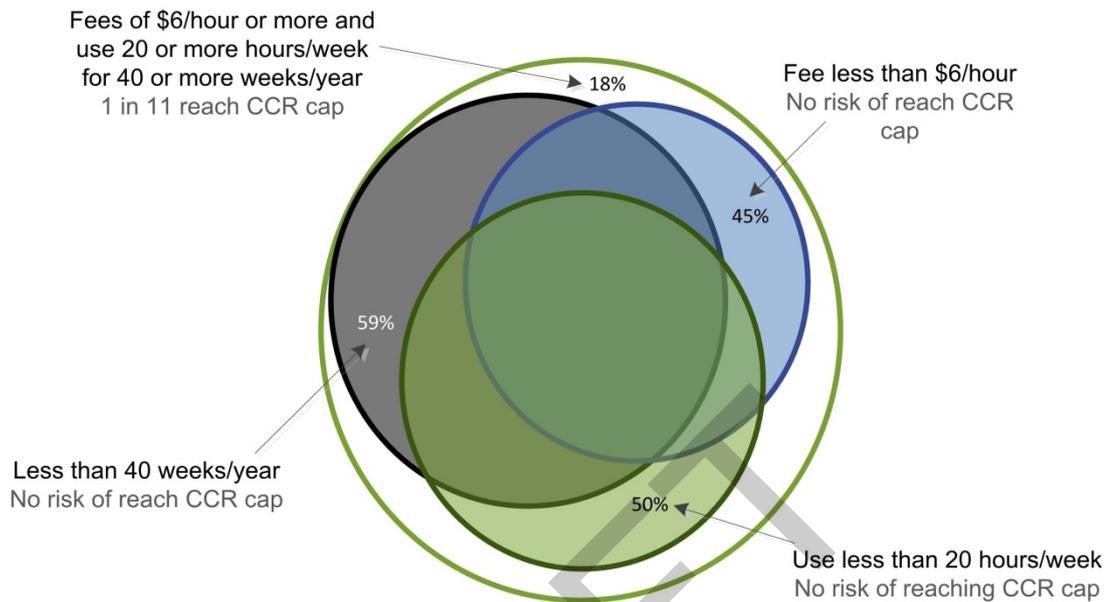


Data source: Commission calculations based on Department of Education administrative data (2011-12).

The information on weeks attended, hourly fees and hours charged per week provides better information on who is not going to reach the CCR cap than those who will. For example, any family charged an hourly fee (before subsidies) for ECEC services that falls within the lowest 40 per cent of approved childcare fees paid in 2011-12 is highly unlikely to reach the CCR cap — regardless of use. In addition, children who attend care for less than 40 weeks per year or less than 20 hours per week have very little prospect of reaching the CCR cap (and there is significant overlap between these two groups). In fact, 82 per cent (or slightly over 1 million) of the children who used approved care in 2011-12 had these characteristics (figure 9.20).

That leaves a population of over 263 000 children (or 18 per cent of children in approved care) in 2011-12 who had usage patterns associated with a higher probability of reaching the CCR cap, yet less than 9 per cent of those children actually reached the CCR cap.

Figure 9.20 Risk of hitting CCR cap under different patterns of ECEC use
Percentages refer to the proportion of children in each group in 2011-12



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

What else do we know about those currently hitting the CCR cap?

The main type of care used by children who reached the CCR cap in 2011-12 was LDC services — both in absolute terms and relative to the total number of children using each service type (table 9.2). That said, only about 1 in 39 children attending LDC actually reach the cap.

The odds of reaching the cap are even lower for children using other forms of ECEC, with children who only used FDC or IHC being very unlikely to reach the cap. Even among children who reached the cap by using a combination of services, 98 per cent of those children used LDC in their mix of services over the year. In contrast, no child who only used outside school hours care services reached the CCR cap in 2011-12.

Table 9.2 Types of approved ECEC used by children reaching CCR cap 2011-12

<i>Care type</i>	<i>number</i>	<i>per cent of children reaching cap</i>	<i>Odds of children reaching cap by type of ECEC service</i>
Long Day Care only	20 706	94	1 in 39
Family Day Care only	300	1	1 in 1 531
In Home Care only	104	<1	1 in 81
Occasional Care only	6	<1	1 in 2 014
Outside School Hours Care only	0	0	0
Combination of care types	938	4	na
Total	22 054	100	na

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

Given the ubiquitous role that LDC plays in the care mix of children who reach the CCR cap, it is unsurprising that very few school aged children reach the CCR cap (table 9.3). The odds of children aged between 1 and 3 reaching the cap are similar. The lower likelihood of 4 year old children reaching the cap is probably linked to the use of dedicated preschool in the year before school, often in a standalone setting and therefore not supported through CCB and CCR.

Table 9.3 Age of children reaching CCR cap 2011-12

<i>Age of child in years (as at first of January 2012)</i>	<i>number</i>	<i>per cent of children reaching cap</i>	<i>Odds of reaching cap by age of child</i>
Under 1	293	1	1 in 229
1	4 715	21	1 in 29
2	7 011	32	1 in 26
3	6 449	29	1 in 30
4	3 486	16	1 in 52
5 and over	100	<1	1 in 5 342

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

The strongest indicator of the probability of reaching the CCR cap in 2011-12 was to live in the ACT, closely followed by remote areas of Western Australia (table 9.4). In contrast, those living in Tasmania — and particularly the outer regional parts of that state — are some of the least likely to reach the CCR cap.

Table 9.4 Odds of reaching CCR cap by geographic categorisation
By jurisdiction and ARIA category, 2011-12

	<i>Major Cities</i>	<i>Inner Regional</i>	<i>Outer Regional</i>	<i>Remote</i>	<i>Very Remote</i>	<i>By jurisdiction</i>
ACT	1 in 6	1 in 6	na	na	na	1 in 6
NSW	1 in 15	1 in 82	1 in 202	0	1 in 44	1 in 19
NT	na	na	1 in 14	1 in 36	1 in 20	1 in 16
Qld	1 in 37	1 in 95	1 in 50	1 in 55	0	1 in 43
SA	1 in 71	1 in 172	1 in 666	0	0	1 in 81
Tas	na	1 in 128	1 in 745	0	0	1 in 162
Vic	1 in 19	1 in 99	1 in 169	na	na	1 in 23
WA	1 in 26	1 in 98	1 in 49	1 in 8	1 in 25	1 in 26
By ARIA nationally	1 in 21	1 in 95	1 in 53	1 in 18	1 in 55	

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

While some children in ECEC did appear to hit the CCR cap while receiving CCB or JETCCFA in the same year, these numbers were small — less than 1 per cent of CCB recipients and less than 0.02 per cent of JETCCFA recipients reached the CCR cap in 2011-12.

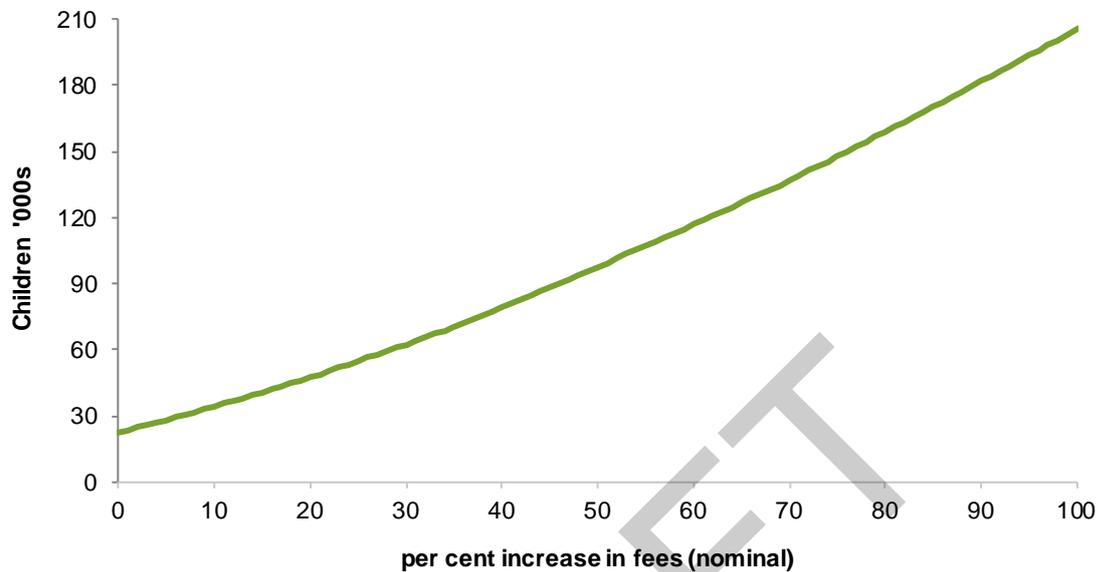
How many more people may hit the CCR cap in the future?

The CCR cap has been specified as a nominal dollar amount. This amount has not been changed since 2011-12, when it was decreased from \$7941. As a result of the CCR being kept constant in nominal terms, it is likely that more families will be at risk of reaching the cap in the future — particularly associated with fee increases by ECEC services and increases in family income levels that reduce the amount of CCB received.

For example, if childcare fees in nominal terms were 20 per cent higher than those charged in 2011-12, the number of children who would have reached the CCR cap would have doubled (figure 9.21). Given that some families would change their behaviour if faced with higher fees, the relationship between nominal fee increases and the number of children expected to hit the cap should be considered as a general indicator of the magnitude of change and an upper bound.

Figure 9.21 Number of children who would reach CCR cap if ECEC fees increase

Based on care use and fees in 2011-12



Data source: Commission calculations based on Department of Education administrative data (2011-12)

In terms of families, assuming the CCR cap remained at \$7500, the Department of Education estimates that 74 000 families would reach the CCR cap in 2014-15. This estimate increases to around 93 000 families in 2015-16, and 114 000 families in 2016-17 (Department of Education 2014b).

Evidence of behavioural change to avoid hitting the CCR cap

Many families pre-emptively manage their pattern of care use to avoid hitting the CCR cap (box 9.1). For most families, this involves using three days of care per week over the course of a year. This suggests many families are factoring in the effects of the CCR cap in their decisions about their work and care patterns over the course of a year.

Insights can also be gained from examining changes in the care use by families who reach, or are very close to reaching, the CCR cap. To do this, the Commission has extracted from the administration data, children in LDC whose CCR subsidy over the course of the 2011-12 financial year exceeded \$6000, and explored their ECEC use over each quarter of the year.

Box 9.1 Comments on avoiding the CCR cap

Comment no. 68, ECEC user:

Substantial government investment is made to subsidise 50% of childcare costs, however the current cap of \$7500 ... translates to only 3 days/week of subsidised care at my centre (fees are approximately \$95/day). This has heavily influenced my decision to only return to work 3 days/week.

Comment no. 345, ECEC user:

The rebate is good, but because it is capped, it is only worth my while to go back to work 2 days per week.

Comment no. 126, ECEC user:

Thankfully we receive the child care rebate, but it is not worthwhile for me to work any more than three days per week as we would then exceed the rebate limit and it would be less financially viable for us.

Across this population, there was no discernable change in use across quarters. Average weekly hours for this group was between 41-42 hours per week across all four quarters. About 8 per cent of children were in care for at least 10 per cent fewer hours (on average) between the third and fourth quarter of the financial year, however this proportion was the same between the third and the second quarter.

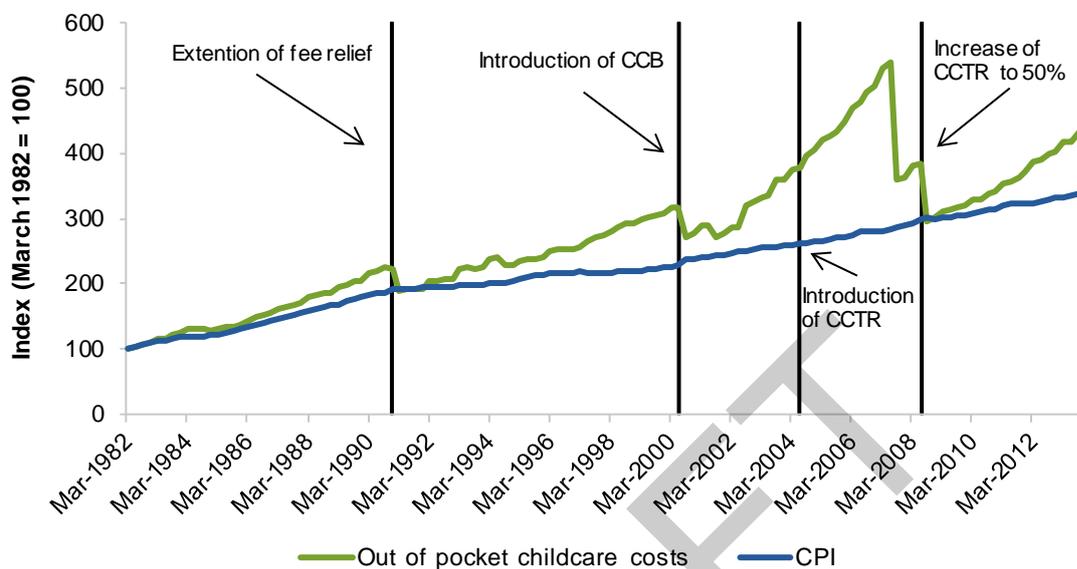
This data, coupled with what the Commission has heard during the inquiry, suggests that while some families do change their care patterns as a result of reaching the CCR cap, it is more common for families to pre-emptively choose a care pattern that avoids hitting the cap, rather than adjust their care pattern after the cap is reached (or almost reached).

Is childcare becoming more or less affordable?

Out-of-pocket childcare costs are growing faster than inflation (figure 9.22). Major policy initiatives to make childcare more affordable are indicated by the black vertical lines on the graph. These policy responses from governments have only been successful in alleviating out-of-pocket-cost increases in the very short term — once the immediate effects of these policy changes have abated, out-of-pocket costs continue to grow much faster than CPI. That said, these policy inventions have been somewhat successful in curtailing sustained increases in ECEC out-of-pocket costs. As an illustrative example, if fees had continued to increase at the same rate prior to the introduction of the Child Care Tax Rebate in June 2004, holding all other things constant, the index of childcare fees would have been approximately 900 in December 2013, roughly three times the CPI index. This ignores the likelihood that prices may have been higher because of the subsidies available (chapter 10).

Figure 9.22 **Growth in out-of-pocket childcare costs compared with general prices**

Quarterly index of childcare sub group of CPI, weighted average of eight capital cities



Data source: ABS (2014).

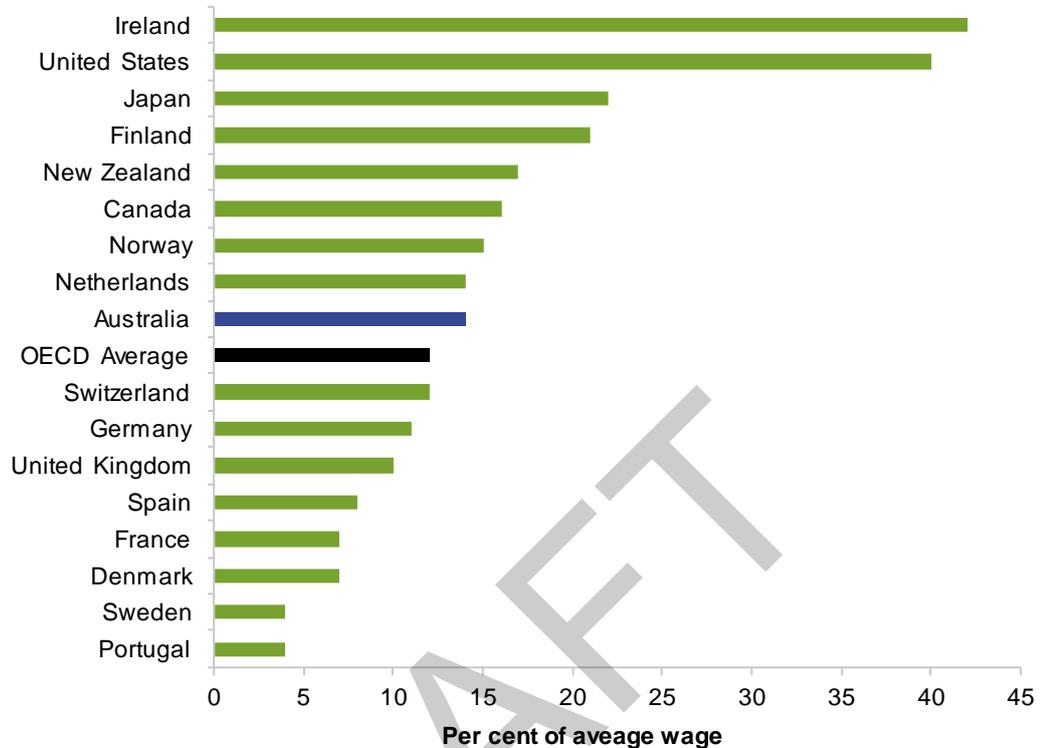
The CCB is indexed to the rate of inflation. This means that so long as fees are rising faster than inflation, the proportion of fees covered by this subsidy falls. Likewise, freezing the cap of fees reimbursable to families through the CCTR also means that an increasing number of families are reaching this limit, in part as a result of rising prices.

The implication of fees rising faster than inflation is that ECEC is likely to be taking up a larger share of family budgets.

Is childcare more expensive in Australia than in other countries?

OECD data suggests that out-of-pocket childcare costs as a per cent of average earnings are slightly higher in Australia than the OECD average (figures 9.23 and 9.24). When compared against other English speaking countries, fees as a per cent of the average wage are higher in Australia than the United Kingdom, but lower than Canada, New Zealand, the United States and Ireland for a lone parent family. For partnered families, Australia has the lowest fees as a per cent of average wages of all these countries. Additional information on the ECEC systems of different countries is contained in appendix I.

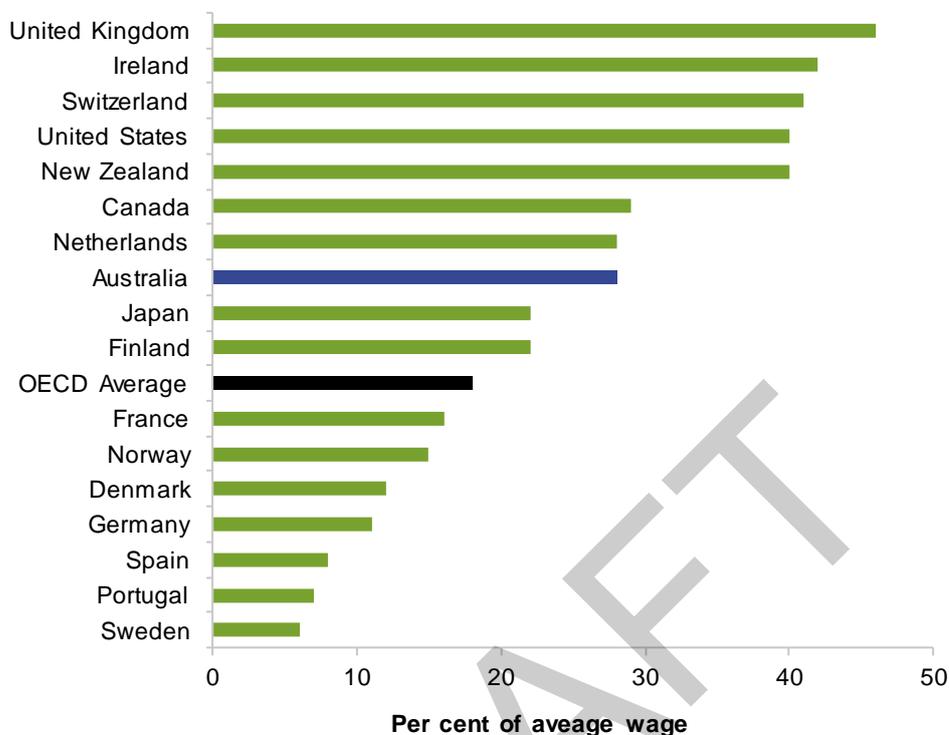
Figure 9.23 **Out-of-pocket costs as a per cent of average wage for a lone parent family, 2012^a**



^a Assumes the parent is earning 100 per cent of the average wage. Assumes two children: one aged two and one aged three. The out-of-pocket cost of centre based childcare (or net cost of childcare) is calculated as the difference in "family net income" of a family who uses centre based childcare and an otherwise identical family who does not use such childcare. "Family net income" is the sum of gross earnings plus cash benefits minus taxes and social contributions. This methodology takes into account childcare specific supports designed to reduce the cost faced by parents as well as the interaction between childcare specific policies and other tax and benefit policies. All fee reductions, including free pre-school or childcare for certain age-groups, are shown as rebates where possible. In-work incomes do not include any time limited benefits paid on taking up employment.

Data source: OECD (2014)

Figure 9.24 **Out-of-pocket costs as a per cent of average wage for a partnered family, 2012^a**



^a Assumes both parents are earning 100 per cent of the average wage. Assumes two children: one aged two and one aged three. The out-of-pocket cost of centre based childcare (or net cost of childcare) is calculated as the difference in “family net income” of a family who uses centre based childcare and an otherwise identical family who does not use such childcare. “Family net income” is the sum of gross earnings plus cash benefits minus taxes and social contributions. This methodology takes into account childcare specific supports designed to reduce the cost faced by parents as well as the interaction between childcare specific policies and other tax and benefit policies. All fee reductions, including free pre-school or childcare for certain age-groups, are shown as rebates where possible. In-work incomes do not include any time limited benefits paid on taking up employment.

Data source: OECD (2014).

9.2 The design of current assistance arrangements for families

As governments are the largest source of funds for the ECEC sector, the way subsidies are designed and delivered have large impacts on the structure and conduct of the ECEC sector and on the decisions of families about how much ECEC they use. This means the design of subsidies, and how they are paid, are integral to developing an ECEC system that meets policy goals.

This inquiry has heard that — while current arrangements do contribute to making childcare more affordable for families — there are a number of issues that warrant closer attention.

The calculation of, and the interaction between payment types, is complex for families to understand

Many submitters and commenters to this inquiry pointed to the current subsidy arrangements paid to families as being complex. A subset of these comments is contained in box 9.2.

Box 9.2 Comments on the complexity of current ECEC subsidies

Gowrie NSW (sub. 306):

Gowrie NSW supports a review of funding for the education and care sector. The present fragmentation of funding streams for early childhood services is complex and confusing to families. For example: CCR and CCB as two separate payment system. (p. 3)

The City of Sydney (sub. 126):

The current model of funding parents through Child Care Benefit and Child Care Rebate are confusing to families (especially on entry or where a family is contemplating entry to an early education and care service) and complex to administer. (p. 18).

The Crèche and Kindergarten Association (sub. 272):

The current CCB and CCR payment systems are confusing and it is difficult for families to compare their out-of-pocket expenses for different ECEC types. (p. 9)

Comment no. 144, ECEC user:

The system for financial assistance is unwieldy and confusing for both parents and child care centres.

Comment no. 152, ECEC user:

Accessing the 'Child Care Rebate' and 'Child Care Benefit' is excessively complex and the application process is mindboggling. Why is applying for these payments so difficult and confusing? Streamline the payments and make the application process simple.

Comment no. 127, ECEC user:

I think the CCB and rebate are quite complex to understand at first – I wonder if they could be amalgamated into one payment (means tested) which is deducted from childcare fees.

The Henry Tax Review also pointed to the complexity of the current assistance arrangements:

Current arrangements for child care assistance can be complex for parents, providers and administrators. The calculation of CCB is particularly complicated as the standard hourly rate can differ based on type of care, whether the care is part-time or full-time, the number and ages of children a family has in care and whether the care is

work-related. While tailoring assistance to particular groups is important, it comes at the cost of additional complexity. This can make it difficult for parents and providers to interact with the system and may deter them from doing so.

The existence of two child care payments and the way they interact can also add to complexity (Henry Tax Review 2009, p. 589).

The implication of this complexity is that many parents find it difficult to ascertain before they use care how much ECEC services will cost them, since families are not easily able to estimate the amount of a subsidy to which they are entitled. Families may base ECEC decisions around what types and how much childcare they access on gross fees (the advertised price of the provider) rather than net fees. Depending on how parents elect their subsidies to be paid, there may also be a long time lag between fees paid by parents and subsidies paid by governments, leading parents to potentially underestimate the value of the assistance provided by government.

Compared with an arrangement where assistance is provided through a single funding instrument, current arrangements are expensive to administer both for services — who provide advice for families and usually represent the interface through which families claim their subsidises — and government — whose role is to assess entitlements, pay entitlements to families and to reconcile the amount families actually receive against the amount they are entitled to receive once their realised income is known.

The way ECEC assistance interacts with other government payments, and the implications this has on the work decisions of families is also complex and is explored in more detail in chapter 6 and appendix G.

While the option of claiming CCB and CCR entitlements in the form of a fee reduction or a lump sum payment gives families a choice around when they receive assistance, this adds an additional layer of complexity to current funding arrangements. Further, the Commission has heard that some families who elect to receive their payment as a lump sum may not pay (or pay fully) their ECEC fees, yet still receive their full CCB and CCR entitlement. Families may intentionally set out to defraud the system by claiming CCB and CCR through one provider, not paying owed fees, then moving to another provider while still claiming CCB and CCR.

Simplifying subsidy arrangements should be an objective in a reformed ECEC system.

Subsidies improve the affordability of some care types more than others

There do not appear to be clear reasons as to why some service types are subsidised differently from others. Some of this variance is enshrined in CCB and its underlying legislation. Full time LDC and FDC are subsidised at a lower rate than:

- part-time LDC users, the rate varies by number of hours used, but is as high as 110 per cent of the standard hourly rate
- part-time FDC users, the rate also varies by number of hours used, but is as high as 133 per cent of the standard hourly rate
- FDC used in non-standard hours, 133 per cent of the standard rate applies.

The policy rationale for these differentials in payment rates is not clear. The different rates of subsidisation for different care types adds complexity to the overall funding system and may create incentives for families to favour one type of care over another.

Registered care represents another distinction in subsidisation rates. Under registered care, families receive a relatively low rate of subsidisation (\$0.66 per hour) if care is provided by an individual registered with the Department of Human Services. Subsidies for registered care cannot be claimed in conjunction with subsidies for approved care.

Most registered carers cared for five children or less in 2012-13. That said, nearly 30 per cent of registered carers in 2012-13 cared for more than eleven children throughout the year. This suggests that many registered carers are operating in centre based arrangements that are not 'approved' for CCB. Many of these will be services that do not meet operating requirements for CCB as they open for too few hours a day and/or too few hours a week. Some of these services likely offer occasional care or before or after preschool care.

Subsidies for registered care do not improve affordability

Approximately 40 000 families and about 47 000 children received government support under registered care in 2012-13. In 2010-11, total expenditure by government on registered care was \$13 million. As of March 2012, there were slightly over 30 000 registered carers considered by the Department of Human Services to be active.

The requirements to claim registered care are onerous. Unlike approved CCB (where the subsidy may be paid in the form of a fee reduction) claimants using registered care require original receipts of their payments to a registered carer in

order to receive the subsidy, and are required to lodge the claim either in the mail, or at one of the Department of Human Services service centres.

The very low subsidy rate — just \$0.66 per hour or \$33 per week — means that for many families eligible for registered care subsidies, it may not be worth going through this process.

The onerous procedures required to process applications — both for families claiming a subsidy for registered care also impose sizable administration costs on the responsible department (The Department of Human Services).

Further, the current subsidies paid for registered care do not have regard to the qualifications of the registered carer (beyond a working with children check) or the quality of the care being provided (as registered care is not within the scope of the NQF). In the Commission's view, this weakens the case that registered care should be funded, as it cannot be ensured that registered care delivers safe, stimulating or educationally rich environments for children.

The Commission considers that the benefits of subsidising care provided by registered carers do not outweigh the costs.

Families who use carers that are currently registered and who meet the qualification requirements for home based care may be eligible for government support at an increased rate under the Commission's proposed funding arrangements outlined in chapter 8.

DRAFT RECOMMENDATION 9.1

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

JETCCFA improves affordability but distorts incentives

One of the objectives of JETCCFA is to 'reduce barriers for parents who are receiving certain income support payments to participate in activities that will enable them to make the transition to work'. Depending on individual circumstances, and subject to limits on hours, JETCCFA can be claimed while parents are looking for work, while they are studying or training, or in the initial 26 weeks after starting a new job. To be eligible for JETCCFA, parents must be in receipt of an eligible income support payment from the Australian Government, such as the Newstart Allowance or the Parenting Payment.

JETCCFA beneficiaries pay no more than \$0.50 an hour for ECEC services after the JETCCFA and CCR subsidies have been deducted. This represents a very high rate of subsidisation. Given that the majority of JETCCFA recipients have low incomes, this very high subsidy rate likely encourages eligible families to use ECEC services.

That said, the potential for large disparities between out-of-pocket costs for families eligible for JETCCFA and families that are not eligible for JETCCFA may create incentives for families to remain eligible for that program. To illustrate:

- A family with one child who is eligible for JETCCFA who uses approved childcare for 24 hours a week will be charged \$180 per week (assuming an hourly price of \$7.50). After the deduction of JETCCFA, this price reduces to \$24 a week and after CCR is deducted, this price falls to \$12 per week.
- A family with one child and income of \$40 000 who is not eligible for JETCCFA who uses approved childcare for 24 hours a week, will be charged \$180 a week (assuming an hourly price of \$7.50). After CCB and CCR is deducted, this results in a final out-of-pocket cost of \$42 per week.

The Commission notes that there is very little information on the extent that JETCCFA is facilitating transitions to work for parents. This makes it very difficult to assess whether JETCCFA is meeting its objectives. During this inquiry, the Commission has heard that some parents remain on JETCCFA for many years undertaking higher levels of education and training, and only move into employment once their children have entered school.

Data provided by the Department of Human Services has suggested that over half of the people on JETCCFA in June 2013 had been approved for the program at least twice (indicating that they were eligible up to 24 months) and about 7 per cent had been approved at least five times (indicating eligibility for up to 60 months).

Special Child Care Benefit improves affordability but is poorly targeted

Special Child Care Benefit (SCCB) provides families with additional assistance to meet ECEC fees if:

- A child is at risk of serious abuse or neglect; or
- A family is experiencing short term financial hardship that is affecting their ability to pay ECEC fees.

Information provided to the Commission by the Department of Human Services indicates that about 19 500 families received the SCCB for some duration in 2012-13. While a roughly equal number of families receive SCCB for the two categories (children at risk and financial hardship), expenditure on children at risk (\$87 million) outstripped expenditure on temporary financial hardship (\$33 million) in 2011-12.

The Commission has two main concerns with how SCCB is currently designed. First, it is open to providers gaming the system around the price charged, and therefore the subsidy paid by the government. Providers may charge a rate:

... to the full amount of the **usual** fee charged by your service, i.e.[a] higher fee cannot be charged because a SCCB rate is applicable. (Department of Education 2012, p. 212)

In practice, the Commission understands this to mean services cannot charge more for a child receiving SCCB than for a child not receiving SCCB in that service. However, the Commission understands that there are providers who solely provide services to children who are eligible for SCCB, allowing them to charge very high fees for this service and as such, receive very large subsidises from the Australian Government. While this practice does not appear to be widespread, it does represent an inefficient use of scarce funding, and represents a concern with the design of the SCCB program.

INFORMATION REQUEST 9.1

The Commission seeks feedback on regulatory barriers (such as those contained within A New Tax System (Family Assistance) Act 1999), which may prevent services from varying their fees according to the cost of service provision to children with differing needs.

Second, providers are able to assess a child as being eligible for SCCB for the first thirteen weeks without needing to seek approval from the Department of Human Services. As such, services are able to nominate children to receive higher subsidy rates under SCCB without ex ante verification that the child is eligible for SCCB under the regulatory guidelines. Since 1 July 2009, just over 45 000 families have been in receipt of SCCB — with the vast majority (66 per cent) for a duration of thirteen weeks or less.

DRAFT FINDING 9.1

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

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

- the existing system is complex and some families have difficulty understanding their entitlements under the Child Care Benefit and the Child Care Rebate*
- the design of these measures is resulting in a declining proportion of assistance to lower income families who are least able to afford ECEC services*
- the Jobs, Education and Training Child Care Fee Assistance program and the Special Child Care Benefit program are not well targeted and have attracted families unable to get low cost access to ECEC under other more targeted programs.*

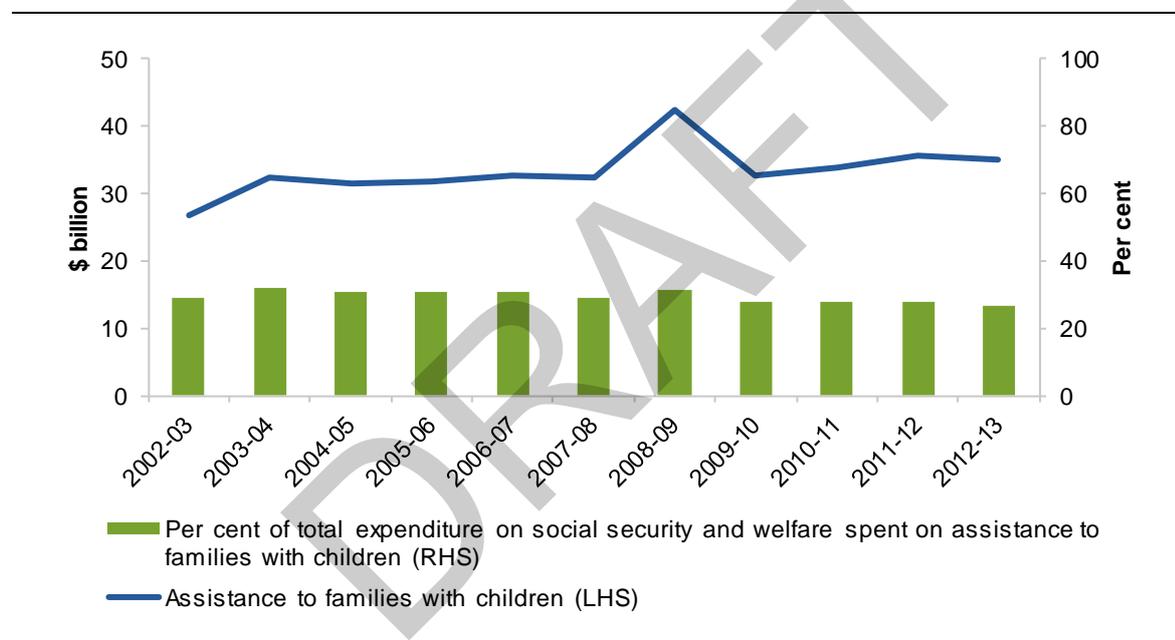
Sustainability for taxpayers

Given the quantum of government support for ECEC services, there is a need to ensure that this spending is sustainable — that is, increasing at a sufficiently low rate to avoid accumulating outlays that lead to future fiscal pressure on governments. ECEC subsidies paid to families and assistance paid to service providers represent a large government outlay. In 2012-13, the Australian and state and territory governments spent over \$6.8 billion per year (about \$6100 per child in formal care). Most of this government expenditure is in the form of CCB, CCR and JETCCFA, which combined, represent a contribution of about \$5 billion dollars (chapter 4).

ECEC assistance is only one form of transfer paid to families from governments. Families who meet eligibility requirements receive additional support through the Family Tax Benefits stream to assist with the cost of raising children. The combined value of Family Tax Benefits parts A and B was \$19 billion in 2012-13 (Parliamentary Budget Office 2013). An additional \$1.4 billion was paid to families in the form of paid parental leave in 2012-13 (FAHCSIA 2014) with government expenditure on this program to increase significantly if currently proposed policy changes are implemented.

The Parliamentary Budget Office estimated that total assistance to families with children was \$35.1 billion in 2012-13 which includes Family Tax Benefits, Parenting Payments and child care assistance programs, representing over one-quarter of all expenditure on social security and welfare. While this proportion has remained relatively constant since 2002-03, assistance to families with children has grown between 2002-03 and 2012-13. The Australian Government now spends \$8.5 billion more on assistance (in 2012-13 dollars) to families with children than it did a decade ago (figure 9.25). This excludes expenditure on services, such as education and health. Overall, Australia spends slightly more on assistance to families than the OECD average (figure 9.26).

Figure 9.25 **Australian Government assistance to families with children^a**
2012-13 dollars

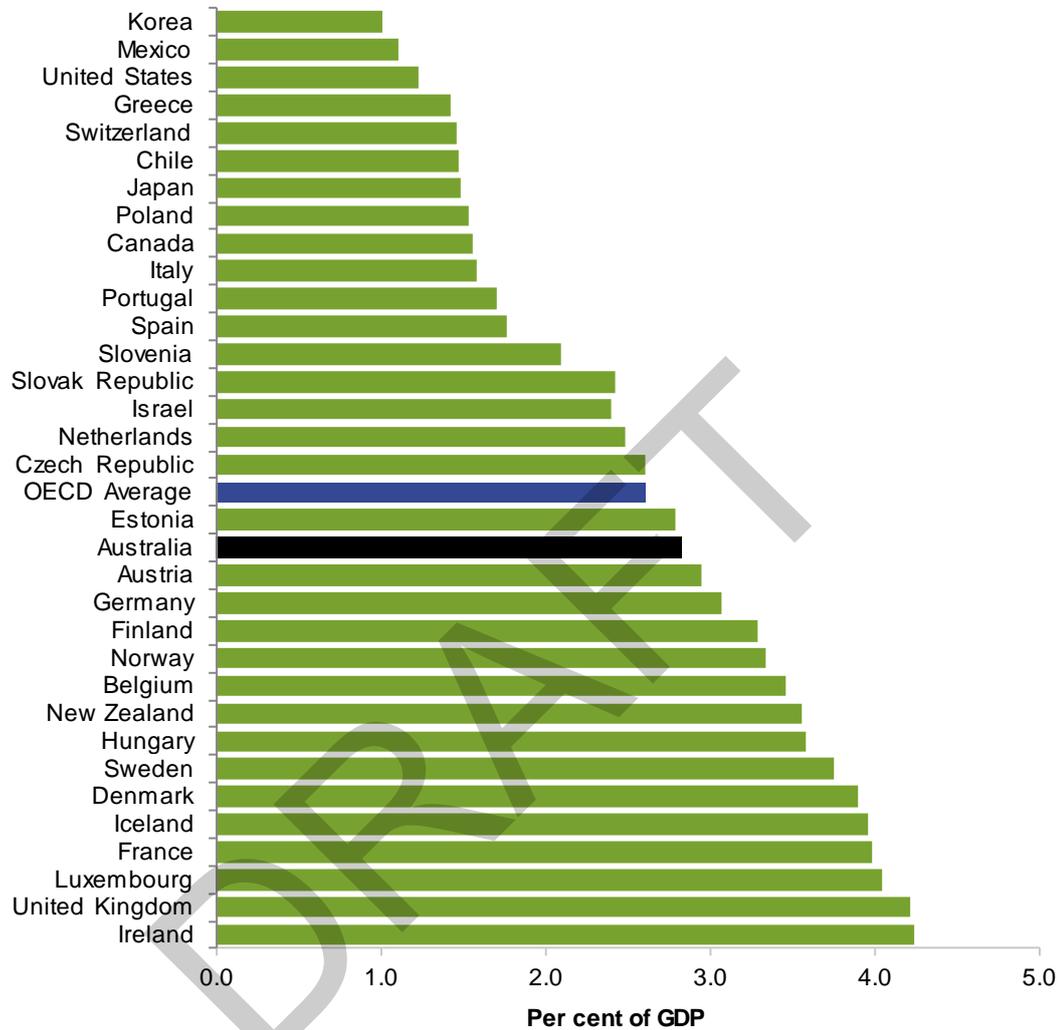


Data source: Adapted from Parliamentary Budget Office (2013), appendix D.

^a The large spike in expenditure in 2008-09 is attributable to increased fiscal expenditure as a result of the Australian Government's response to the global financial crisis. Part of the response included \$20.5 billion of one off expenditure on social security and welfare, although a breakdown on how much was spent directly on families is not available.

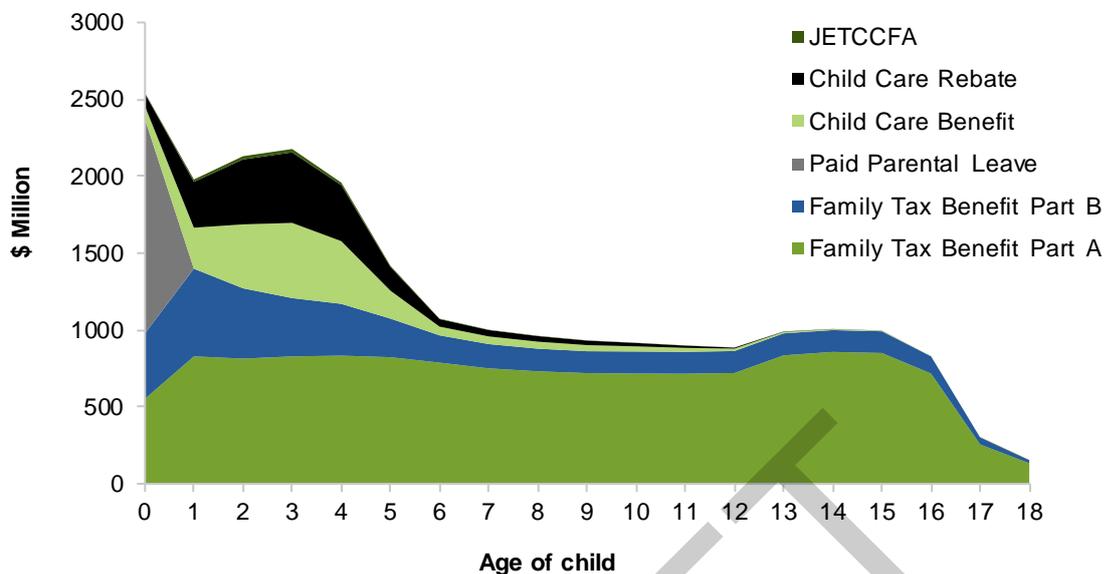
Figure 9.26 **Public expenditure on families, 2009**

Includes tax breaks towards families, services and cash transfers



Data source: OECD (2012).

While most of this expenditure is directed at families with younger children through paid parental leave, higher rates of Family Tax Benefit, CCB and CCR, many families still receive support while their children are in their late teens through the family tax benefit stream (figure 9.27).

Figure 9.27 Government expenditure^{a, b}

^a The FTBA expenditure has been distributed per child within a family depending on the rate of FTB paid due to that child. The Supplements expenditure amount has been distributed evenly between children of a family. ^b Under current policy, Paid Parental Leave is payable for 18 weeks.

Data source: Department of Human Services administration data, Australian Government (2014).

It has already been established in this chapter that out of pocket ECEC costs are growing faster than inflation, and that major policy interventions have only had very short term impacts on the growth of out-of-pocket childcare costs.

In the absence of further policy interventions, the Commission expects that ECEC fees and consequently, overall costs to taxpayers will continue to rise. Many of the regulatory changes for ECEC worker qualifications and ratios which are currently being implemented will impose additional costs on providers, which can be expected (at least in part) to be passed onto ECEC users in the form of higher fees. The ECEC sector also has an equal remuneration case before the Fair Work Commission. Given that wage and salary costs are the most substantial cost component of operating an ECEC services, significant changes to the pay rates of ECEC workers will have cost implications for the sector, and, subsequently, price implications for ECEC users and budgetary outlays for governments (the cost structures of ECEC services are explored in chapter 10).

Governments always need to have regard to which programs deliver the greatest net benefit to the community. The current programs where governments have the most control over their spending — the supply side subsidies funded through budget appropriation — are generally aimed to deliver services that are targeted on particular groups or localities (chapter 4).

The Government also has some control over expenditures on the CCB, for which means testing, a capped hourly payment rate, capped weekly hours and caps on the number of approved in-home care and occasional care places, has been growing more slowly than CCR.

In contrast, given its near universal eligibility, it is much more difficult for the government to control CCR expenditure. Expenditure on the CCR is particularly sensitive to fee increases because of its universal nature and because relatively few childcare users currently reach the \$7500 annual cap. Given that CCR is the least targeted of all the programs that aim to make ECEC more affordable for users, and given that CCR will soon outstrip CCB in terms of dollars spent by government, it is here that the Government has the greatest scope to ensure that payments are sustainable in the future.

The Commission considers that there is considerable scope to improve the funding arrangements of Australia's ECEC system, with a view to making ECEC affordable for Australian families and taxpayers more generally. This proposed funding system is outlined in detail in chapter 12.

DRAFT

10 The market for childcare services

Key points

- In Australia, early childhood education and care (ECEC) services are delivered through a managed market model. Although governments have a role in managing the availability, quality and affordability of services on behalf of the community, services are delivered through a network of mostly non-government providers on a fee-for-service basis.
- Well performing ECEC markets require that:
 - parents can make effective price-quality assessments and exercise choice
 - providers compete with each other on price and quality.
- In most markets, parents can choose providers and concentration of ownership is low. Competition is likely to be effective in most local markets. In particular, based on the number of providers:
 - 75 per cent of long day care centres have 10 or more other long day care centres within a distance of 5-kilometres
 - profit margins are generally low and are reported to be likely to remain below 5 per cent, as affordability for parents and competition constrain prices.
- Pursuing further market benefits, including from stronger competition, avoiding any sustained shortages of supply and supporting appropriate quality outcomes requires improving mechanisms for providers to realise market opportunities. This includes:
 - addressing unnecessary barriers to entry and exit — although short-run mismatches between supply and demand are likely to be unavoidable
 - improving the design and targeting of government subsidy policies, including by:
 - ... creating a stable set of policies with clear objectives that support investment certainty — any significant redirection of taxpayer funded subsidies could generate large transition costs for some market participants
 - ... reducing providers' incentives to cross-subsidise fees across users and minimising the potential for over- or under-use of services by parents when facing muted price signals.
 - removing tax concessions for not-for-profit childcare providers, which create an uneven playing field across providers and, as a form of government assistance, lack transparency and accountability.
 - ... as a group, there is little evidence that not-for-profit providers systematically address socioeconomic disadvantage or set lower fees
 - ... social and access goals related to ECEC should be funded through transparent mechanisms, targeted to clear objectives.

10.1 Introduction

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

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

To reap these benefits, childcare markets must function effectively and, in particular:

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

However, several features of childcare markets in Australia suggest the presence of market imperfections (box 10.1).

In addition, some inquiry participants and commentators have suggested that market based delivery of childcare services fails to achieve equity and fairness levels expected by the community (Cleveland 2012; Penn 2012; Brennan, sub. 420). Governments can still achieve community expectations about equity and fairness within a market-based model of childcare services. In particular, governments can partly, or even wholly, fund access to childcare services and, with carefully designed policies, do so without foregoing the efficiency benefits of competitive childcare markets.

Nevertheless, regulatory or assistance measures implemented by governments can also have unintended effects on the functioning of childcare markets, hampering competition, muting price signals and/or reducing innovation.

Box 10.1 Potential issues with the functioning of childcare markets

Childcare markets may be functioning less effectively than other markets because:

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

This chapter begins by examining the functioning of the Australian childcare market, including the market dynamics and competitiveness of service delivery (section 10.2). It then considers the responsiveness of childcare providers to recent growth in parents' demand for services (section 10.3). The chapter concludes with an examination of the impact of government support through childcare subsidies and taxation concessions on childcare markets (section 10.4).

10.2 How do childcare markets function?

An assessment of how childcare markets function requires identifying the:

- geographic range and service quality attributes that define a local 'market'
- ability of, and incentives for, parents to exercise choice in their selection of childcare services
- circumstances where demand is too low to support effective competition or where market services may be 'missing'
- strength of price-based competition in delivering a given quality of services
- extent of quality-based competition in childcare markets
- levels of market concentration and circumstances where competition may be weak due to market power or regulatory barriers.

Each of these considerations is discussed below, focussing on formal childcare services — that is, services for which parents can receive government assistance. Much of the analysis focusses on long day care services, since it accounts for the majority of expenditure on ECEC and more data is available on this type of care.

Childcare markets are very localised

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

The geographic size of a childcare market is mainly determined by a parent’s transport and time cost in accessing substitutable providers. Generally, childcare providers that are close alternatives or ‘substitutes’ would be located near each other and provide a similar quality of service at a similar price.³⁷

Participants to this inquiry have indicated that around half of parents choose a service within 2 kilometres of their home, and the Commission estimated that the average distance travelled is around 4 to 5 kilometres (chapter 8). Some parents travel further when using services near their workplace, commute route or a sibling’s school. Other parents travel longer distances to access a service that provides the experiences and care they desire for their child. In some remote and very remote areas, some parents travel over 60 km each day (sub. 288, p. 2).

Several providers told the Commission that they evaluate the financial performance of a service and levels of competition within a 2 to 5 kilometre zone or the nearest 5 to 6 centres. The Australian Competition and Consumer Commission (ACCC 2004) assesses competition in the childcare sector based on a 5 to 10 kilometre radius of a ‘target’ site. Consistent with the ACCC and many providers, a 5 kilometre distance was chosen for the purposes of this inquiry illustrating the potential strength of competition and the availability of choice for parents. The alignment of prices between providers of the same type of service was evaluated at the postcode level.

Choice in the use of childcare services

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

³⁷ Each type of childcare service generally competes only at the margins in separate, but related markets, which reflects differences in the quality or age-appropriateness of formal care options or differences in the price (and availability of government subsidies).

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

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

- high switching costs — such as breaking an established relationship between a parent and a local provider, assessing the quality of other suitable services and resettling a child. For outside school hours care, parents have very little capacity to switch care providers, as doing so would generally require moving schools
- waiting lists, especially for infant services, and caps on funded places for in-home care and occasional care (chapter 8), which may prevent parents from selecting their preferred service provider or accessing a service at all
- an insufficient density of demand for services to support the existence of multiple services (or any service at all) within a local area.

The Commission analysed the location of ‘like’ service providers and found that, in the vast majority of local childcare markets, parents have the ability to choose a long day care service that best meets their needs and preferences (figure 10.1).

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

At the extreme, in Rockdale, Marrickville and Canterbury (inner suburbs of Sydney), over 150 providers of long day care services exist within a 5 kilometre radius of a given long day care centre. Even in many remote and very remote areas, choice is still available, with 45 per cent of long day care providers in such areas having at least one other service within 5 kilometres (figure 10.1). For example, in Mt Isa there are four long day care centres within 5 kilometres.

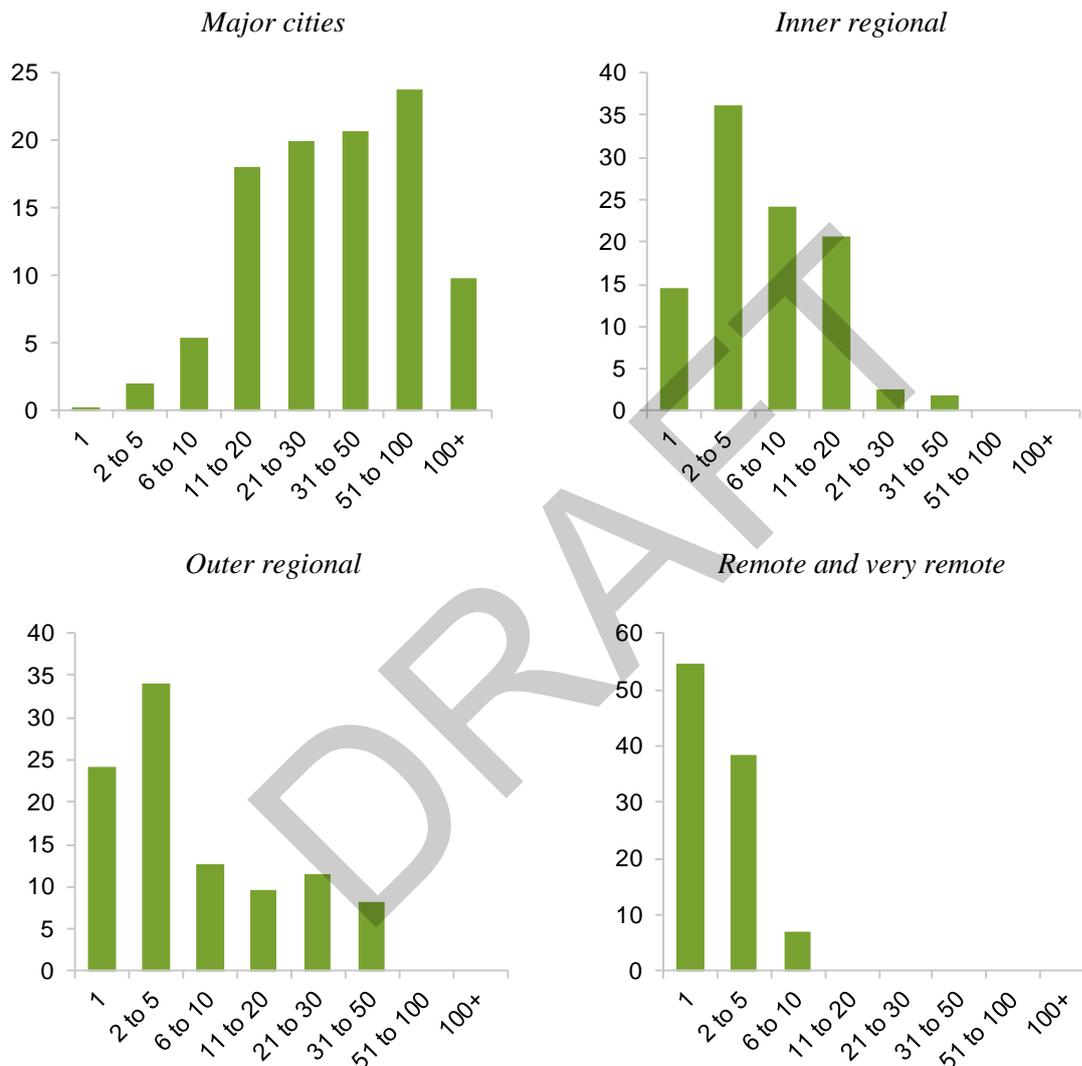
Services are generally located in residential areas or in key commuter corridors and work destinations. The exception is in central business districts of major cities, where childcare providers compete with other high value uses of real estate. In that case, childcare services congregate around the immediate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

Switching costs can present a significant barrier for parents in exercising choice. For example, Platenga (2012, p. 70) found that parents generally only exercise choice at the initial point of selecting a service in the Dutch childcare market. A survey of Dutch families found that one-third of families would never consider switching providers, indicating that the preferences of such parents are already met by their current provider and that a switch is not necessary or has already occurred. The

remaining two-thirds of parents would only consider switching if, for example, an alternative was cheaper, higher quality or closer to home (Berden and Kok 2009).

Figure 10.1 There is a high potential for competition and choice in most long day care markets

Per cent of LDC centres, by number of centres within 5 kilometres



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

In Australia, waiting lists in some areas may prevent parents from switching services or, at least, add to the cost and hassle of switching. Parents in the ACT commented:

... if you aren't happy with where your child is in care, you have no choice but to either leave them there while you move your way up other waitlists or you pull them out and leave work to look after them yourself. (comment no. 51, user of ECEC services)

... we have been offered a place at only one centre. ... we now have limited options should we require flexibility in the location or number of days of care, or if we have any issues with the quality of the centre. (comment no. 55, user of ECEC services)

Some parents report using nanny services while waiting to change day care days (comment no 163, users of ECEC services) or have their child attending multiple centres during a transition between centres, such as when waiting for the required number of days at a preferred centre (comment no. 134, user of ECEC services).

Choice is limited for outside school hours care

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

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

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

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

A third issue is ratio and qualification requirements applying to outside school hours care, which may constrain the number of places that can be provided within a school, raising the price and reducing the availability of services for parents. Options to change regulatory requirements and improve accessibility for outside school hours care are examined in chapters 7 and 8 respectively.

In some markets, demand may be too low or variable to support competition and choice

Around 5 to 10 per cent of childcare service providers operate in ‘thin markets’ — that is, markets where there is a limited number of providers and users of services.³⁸ In these markets:

- prices may be ‘sticky’ and not align with costs, given the limited number of ‘transactions’
- the cost of services per child may be excessively high due to low or variable demand for services
- service providers may also have a limited capacity to differentiate service quality³⁹, meaning families may lack choice, particularly among long day care providers (MAV, sub. 343, p. 6).

Such issues are usually encountered in remote and very remote areas where just over half of long day care centres had no other like service within a 5 kilometre distance (figure 10.1).

Locations with highly variable populations, such as due to tourism or other seasonal employment industries, are also reported to have higher costs, meaning services cannot sustainably meet peaks in demand (Early Childhood Quality Consultants, sub. 141, p. 2). However, rather than demand fluctuating seasonally or from year-to-year, in some areas, services may experience low use of licensed capacity due to changing demographics in remote and regional areas (Uniting Care, sub. 387, p. 8). In such cases, service providers may look for innovative ways to cut fixed costs, including by reducing operating days and making the premises available for other community uses or sharing qualified staff with other nearby centres.

Any lack of services in some remote and very remote areas reflects the reality that demand may be too variable or insufficient within a ‘catchment’ area to support low-cost services similar to that available to many parents living in more populated

³⁸ For long day care services, the Commission estimated that 10 per cent of services operate in markets with 5 or fewer other providers and a population density of 20 or fewer persons per square-kilometre; and 5 per cent in markets with two or fewer other providers and 10 or fewer persons per square-kilometre.

³⁹ As is explored by Cleveland and Krashinsky (2009), economies of scale in childcare provision imply that in many remote areas, centres must select a quality level that can attract a sufficiently large continuing flow of parents willing to pay to consume the firm’s chosen level of childcare quality. Therefore, in such markets, it is generally not possible to select a preferred level of quality among centre-based care. The main choice is between a centre, if one is available, and other models of care including in-home care, family day care services or informal options.

or urban areas. While such an outcome is not strictly a ‘market failure’, consistent with other comparable service industries, including aged care, education and disability services, governments have tended to provide additional assistance to childcare service providers in remote areas.

There appears to be some price competition

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

The Commission analysed price convergence in local long day care markets to determine the degree of price competition in these markets. It found that roughly half of all long day care providers set their fees within 5 per cent of the average fee for a 3 year old within the local area (figure 10.2).

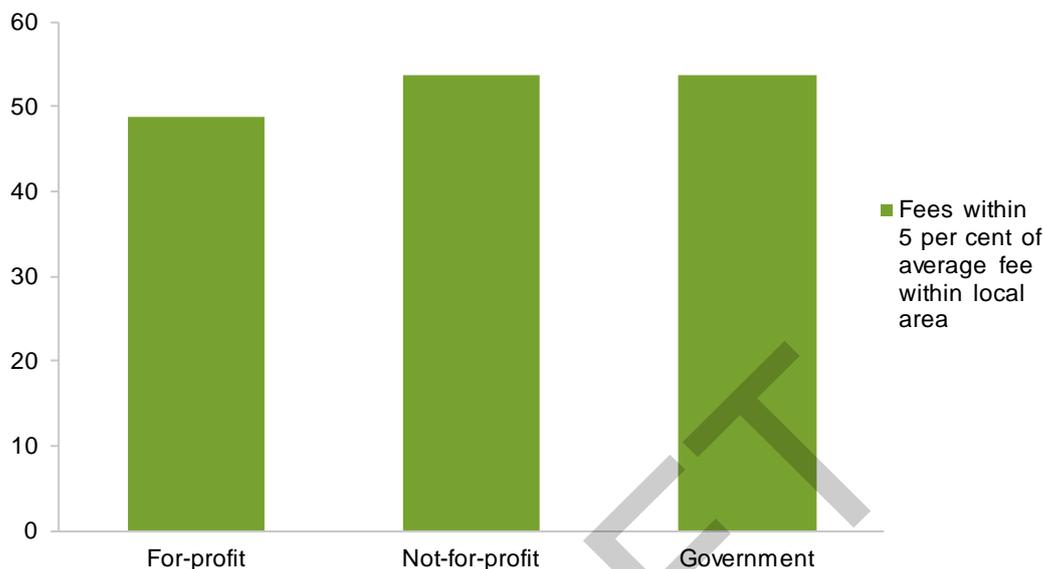
Although there is a need to interpret these results with a high degree of caution — as childcare fees reflect a bundle of attributes, many of which are intangible and immeasurable — they suggest that fees are aligned across providers within localised markets. As such, competitive forces are likely to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

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

The degree of price competition may be reduced by the presence of waiting lists, which can undermine the capacity of parents to exercise choice. An analysis of the Dutch childcare market by Berden and Kok (2009) found less evidence of price competition in markets where waiting lists were longer. Similarly, in Australia, some parents, particularly those seeking services for young babies in the ACT, have indicated that there is ‘so little choice you just have to take what is available regardless of cost’ (comment no. 249, users of ECEC services).

Figure 10.2 Fees are set in the ballpark of the average fee within a local area

Per cent of LDC services setting fees within 5 per cent of the average hourly fee for a 3 year old within a postcode (n=6343)



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

Quality based competition is important

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

Unlike price competition, where services provide a comparable quality level and alter prices in response to demand, competition on quality results in service providers attempting to provide the highest quality service possible for a given market price. Often, this involves providers differentiating themselves according to an aspect of quality they can deliver for a given price that other providers cannot, or that other providers have chosen not to specialise in providing. Potentially, such differentiation of service quality can lead to wider differences in headline prices across providers — for example, if parents are willing to pay more to obtain certain quality features.⁴⁰

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

⁴⁰ Quality aspects include locational convenience; hours of operation; inclusions such as food or nappies, or health and educational components; the age and condition of facilities; National Quality Standard ratings; and a range of intangible factors valued by parents. Such non-price factors are likely to moderate the close alignment of prices, masking the extent of price competition.

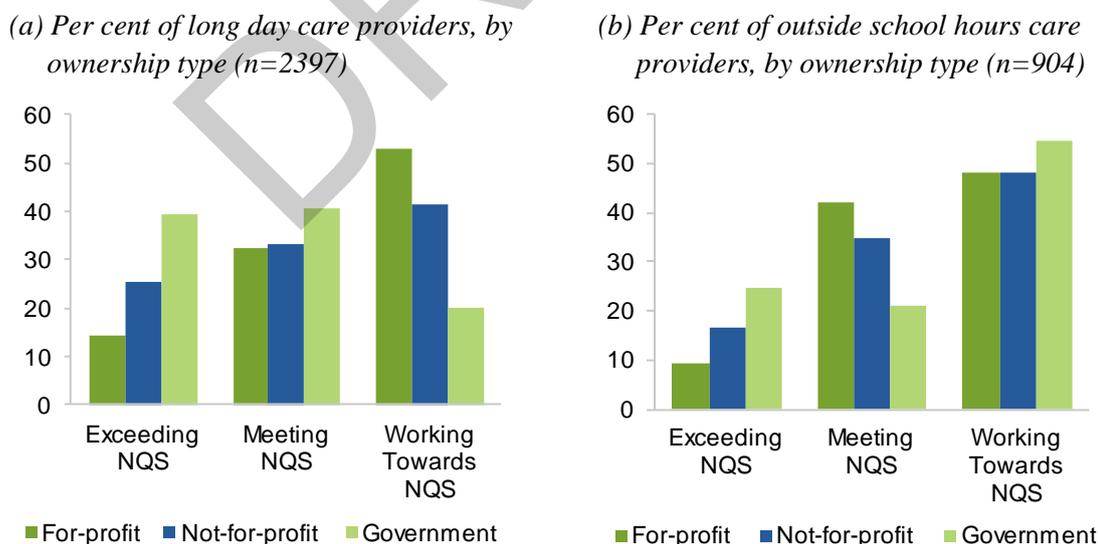
and differentiate quality aspects of their services. For example, in a high demand area, a service provider may offer specialised activities, play equipment or educational aids.

Not-for-profit providers compete on quality

Not-for-profit long day care providers appear to compete on service quality — as measured by National Quality Standard (NQS) ratings — rather than price. The Commission’s analysis of NQS ratings, which are available for about one-third of approved childcare services, indicates that not-for-profit and government providers achieve a slightly higher average quality than for-profit providers (figure 10.3). This could explain why, as a group, not-for-profit and government providers are able to charge slightly higher prices (figure 10.4).

However, the Commission’s analysis of the NQS ratings of long day care services showed that not-for-profit providers rated as ‘exceeding’ were no more likely to set higher fees than were other not-for-profit providers. This could suggest that some services rated as higher quality under the NQS do not command a large price premium or that there could be other quality aspects of not-for-profit services that appeal to parents.

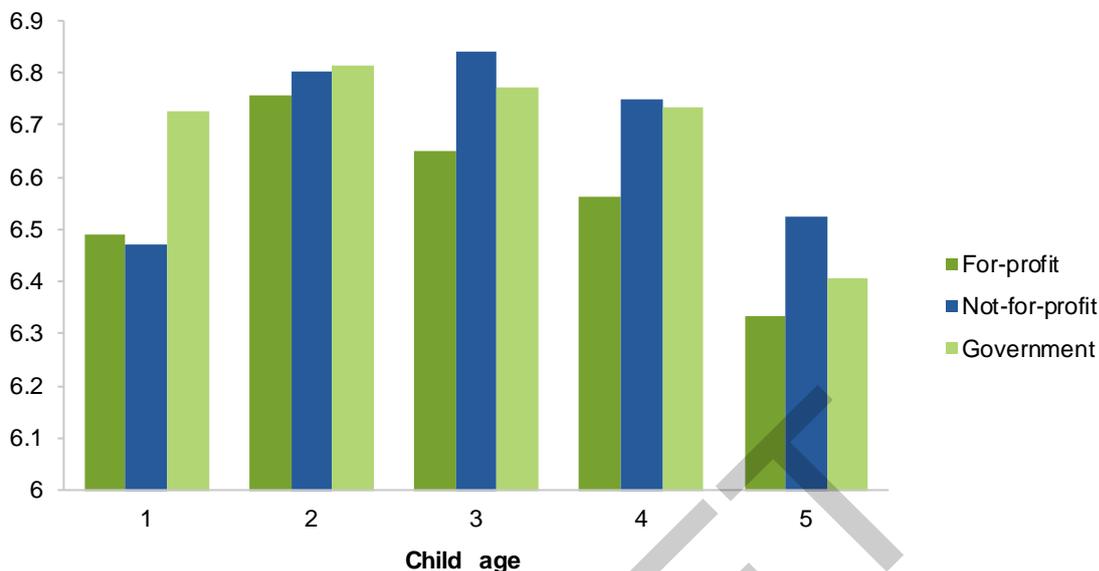
Figure 10.3 National Quality Standard ratings



Data source: Commission calculations based on ACECQA data (20 January 2014).

Figure 10.4 **Not-for-profit LDC fees are slightly higher on average**

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



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

Does competition improve quality?

Although vigorous price competition normally benefits families, when some aspects of quality are difficult for parents to detect, competition can reduce childcare quality (CCSA, sub. 305; Helburn 1995; Milgrom 1981; Mocan 2007; Xiao 2004).

However, a recent analysis of the Dutch childcare market found that, with appropriate regulatory safeguards, competition leads to improved quality outcomes and lower quality-adjusted prices (Akgunduz and Plantenga 2013).⁴¹ The authors concluded that more productive use of staff and management capability were the likely mechanism by which competition spurred quality improvement in the Dutch childcare market.⁴²

As discussed, the Commission found that the alignment of fees between competitors was associated with a larger number of competitors in a market. This may suggest price competition dominates over the differentiation of service quality. Equally,

⁴¹ The Dutch childcare market is, like Australia's, regulated through staff-to-child ratio and qualification requirements, with government subsidies paid to parents. Quality-adjusted prices were measured as the quality-price ratio, with quality assessed on a scale evaluating child-caregiver interactions.

⁴² The decrease in quality-adjusted prices was attributed to the cap on the hourly rate of government subsidy, such that providers do not consider the use of additional inputs to achieve higher quality to be viable strategy, since it would cause fees to rise above the subsidised rate.

however, competition might also increase the quality content of services for a given market price, which is consistent with the findings of the Dutch childcare market.

Using limited available data, the Commission analysed the relationship between the concentration of competitors within local areas and NQS quality ratings (figure 10.5). No clear relationship was found between the number of competitors within an area and the average quality of services. However, a large number of factors influencing childcare quality, such as locational convenience, were not controlled for in this simple analysis. A more detailed analysis of the relationship between service quality and competition is required before conclusions can be reached.

Figure 10.5 The relationship between quality and competition in major cities

Average number of competitors within 5 kilometres, by NQS rating for long day care centres in Australian major cities (n=1 662)



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

Can providers signal high quality to parents?

Because many aspects of childcare quality are unobservable, it can be difficult for providers to communicate aspects of quality to parents and hard for parents to judge service quality when choosing a provider. Such information asymmetry problems can frustrate quality-based competition and impede market functioning. In particular, poorly informed decisions of parents can lead to low quality services persisting in the market and reduce the incentives for ‘good’ providers to invest in raising the quality of their services — as stated by the OECD, ‘the belief that quality improvement can be left to market competition is naïve’ (2006, p. 126).

Because of this, and as was discussed in chapter 7, ACECQA enforces a minimum level of quality as defined by the NQS. NQS ratings also identify services that exceed minimum standards, creating incentives for providers to offer high quality services if demanded by parents.

However, NQS ratings cannot capture a complete range of service attributes contributing to a parent's choice of service. In particular, parents might prioritise a convenient location, or intangible factors such as signs that their child is settled or the rapport they develop with a particular carer or centre director above objective NQS quality criteria. Figure 8.6 showed that Australian parents tend to place a greater weight on the locational convenience of services than they do on quality, with nearly 50 per cent of parents choosing a long day care centre because it was close to home. Overseas studies similarly find that parents 'prefer care close to home and pay less attention to quality' (Berden and Kok 2009, p. vii).

As such, providers may seek to differentiate themselves by not only improving their performance against NQS ratings, but also by strategically communicating information to parents about the quality of their services, focussing on aspects of quality that:

- are highly visible to parents — for example, Mocan (2001) found that centres with very clean reception areas tend to produce lower levels of quality for difficult-to-observe aspects
- are highly valued by parents and reduce responsiveness to fees.

Berden and Kok (2009) found that 'with regard to quality aspects that are not noticeable to parents there is hardly any competition'.

There are emerging signs that strategically marketed and well-located providers are specialising in delivering premium childcare services. They use a variety of approaches to signal quality dimensions to parents, including providing access to elective health services such as occupational therapists and child psychologists, or through premium equipment such as iPads, handcrafted cots, European bed linen, onsite chefs, baby massage, and a concierge to help parents make medical and other appointments (Ginis 2012). For example, a long day care centre in Mosman Sydney charges up to \$158 per day and offers a range of extracurricular activities including a dance academy, computer labs, drama, sing-with-me classes and Zumba (Wilson and Cornish 2014).

Do providers have market power?

Weak competition in the delivery of services in some locations may result in a single provider gaining significant market power or in several providers coordinating to increase average prices.⁴³

Market concentration

Current market shares for long day care are less concentrated than in 2007–08 when ABC Learning accounted for over one-quarter of market revenue and employment in Australia (IBISWorld 2010) and, in Queensland, for 70 per cent of services.

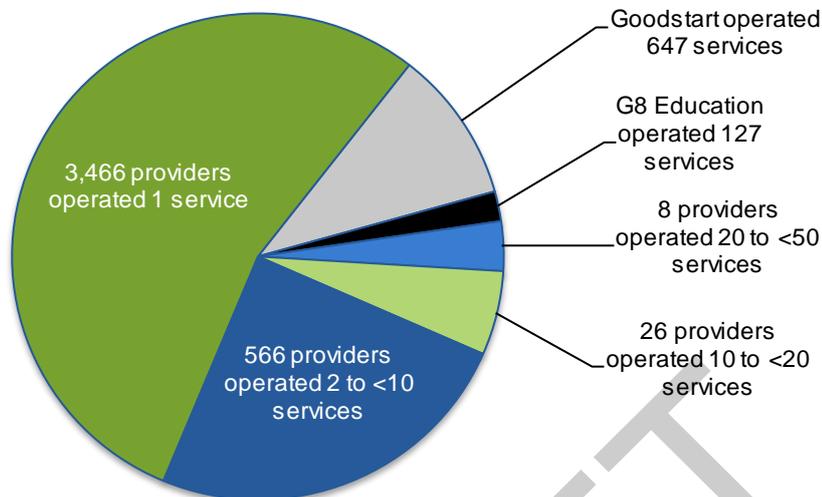
- The majority of long day care centres are independent centres that are not part of a network or group of services (figure 10.6). These are often family run centres or committee-managed not-for-profit services. A further 25 per cent of all centres are operated as part of a network of less than 10 centres.
- Goodstart Early Learning is the largest market participant, operating 647 centres or 10 per cent of the total number of long day care centres across Australia in 2012–13. G8 Education is the second largest participant operating 127 centres in 2012–13 (although G8 Education has recently been increasing its market presence).
- The next 12 largest market participants (those owning 20 or more services) collectively operated less than 6 per cent of long day care centres in 2012–13.

Outside school hours care is similarly delivered by chain or network providers, with Camp Australia being the largest single provider and operating around 10 per cent of services. However, the majority (58 per cent) of services are delivered through very small networks operating less than five separate services.

While overall market concentration is low, it is possible that clustering of ownership within a given local area may result in local market concentration being high and competition muted (though clustering ownership can also reduce costs for providers, particularly by enabling more flexible management of labour costs and reducing administration overheads).

⁴³ The ACCC addresses anticompetitive conduct and has the power to investigate the competitive consequences of takeovers. The last example of this was when the ACCC imposed conditions on acquisitions made by ABC Learning in 2006 (ACCC 2006).

Figure 10.6 Childcare market concentration is low
Share of long day care services (n=6387), by ownership 2012–13



Data source: Commission calculations based on Department of Education administrative data (2012-13).

Market acquisition activity

The Australian childcare market became more fragmented in 2008 with the exit of ABC Learning as the dominant and most rapidly growing provider of long day care services. This opened up the potential for providers with access to capital and having efficient and scalable operations to increase their market shares and profits.

G8 Education Ltd and Affinity Education Group are the two key market participants now acquiring a growing portfolio of established services. In particular, G8 Education has expanded significantly in recent months, more than doubling the size of its network since August 2013 by entering into agreements to own and operate a total of 395 centres across Australia (G8 Education Ltd 2014a, 2014b).⁴⁴

Various analysts identifying investment opportunities suggest that, in the present market, industry consolidation through acquisitions is attractive because:

- acquisition costs are low and there is little competition to acquire assets
- it avoids any delays associated with licensing and approval processes required for a new development, and avoids the vigorous and unprofitable competition required to gain market share as a new centre

⁴⁴ Rather than involving the purchase of the physical asset, recent acquisitions have primarily involved the purchase of business entities, including licensed places, planning approval and lease agreements.

-
- strategic purchases in prospective locations can deliver a market advantage (over not-for-profit services who may cross-subsidise unviable centres (see later))
 - when available, capital is relatively cheap (G8 Education has financed much of its acquisition activity through a combination of share market capital raisings and issuing bonds) (Henshaw 2013).

However, recent acquisition activity by G8 Education — along with reports of the extent of their profitability⁴⁵ and recently exceeded self-imposed purchase price threshold of four times earnings before interest and tax — has initiated some speculation about the potential to exercise market power in the future (AFR 2014; Vance 2014).

The Commission has not assessed the impacts on competition associated with individual market transactions, since this would require evaluation of particular local markets and is beyond the scope of this inquiry. Nevertheless, the Commission notes that:

- any exercise of market power is likely to be isolated and temporary, and ongoing monitoring of acquisitions by the ACCC should provide protection against any future exercise of market power
- rather than stemming from any exercise of market power, profits could be the payoff from productive efficiencies and cost-reflective pricing strategies in a rapidly expanding market.

More generally, profit margins are typically low in the sector — in recent years, profit margins in the childcare services sector have been between 2 and 3 per cent (IBISWorld 2013) — indicating that providers are constrained in their ability to raise prices significantly above costs.

The best safeguard against potential market power is ensuring that entry and exit barriers are not artificially high due to unnecessarily restrictive regulation of childcare quality, and planning and development assessment processes (chapter 7).

10.3 The responsiveness of childcare supply

Without responsiveness in childcare supply, increases in demand can result in an undersupply of services, ultimately leading to higher fees for parents or waiting lists.

⁴⁵ G8 Education (2013) reported a margin on its earnings before interest and tax of over 17 per cent across its network in 2013, which is higher than many of their competitors.

Supply can be increased either through the development of a new facility or the expansion of an existing facility, and has mainly grown through for-profit provision (box 10.2). Over the period from 2009 to 2012, there were 471 development applications for new childcare centres or significant expansions of existing centres. Approval was granted for 86 per cent of these at an average value of around \$900 000 (Cordell Information, unpublished).

Supply becomes unresponsive to price signals when markets are not competitive or when there are high barriers to entry and exit. Barriers to entry can occur naturally, such as when cost structures advantage larger players and start-up costs are ‘lumpy’ or when parents have a strong attachment to existing providers due to high switching costs. Barriers to exit, entry and expansion may also be policy-induced, including from regulations that might inefficiently drive up costs or increase risks for providers.

The responsiveness of supply increases with time

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

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

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

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

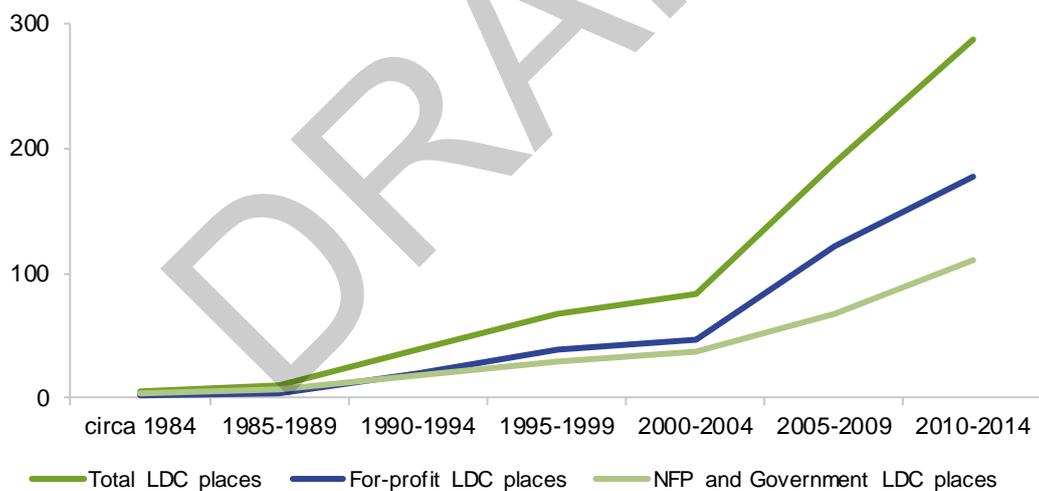
Box 10.2 Supply has mainly grown through for-profit provision

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

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

Breunig and Gong (2011, p. 4) said that the rapid growth of private provision over the last decade indicates that the availability of childcare in Australia responds to demand (more so than in many European countries). Where profitable, profit-motivated providers have strong incentives to offer the service features parents want including a convenient location.

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



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

Data source: Commission calculations based on Department of Education administrative data and ACECQA data.

Capital inputs are ‘lumpy’ and represent long-term investments

Participants have indicated that long day care premises are dedicated facilities with few alternative uses. Building a new childcare facility is a very large sunk cost that can run into millions of dollars, with some recent developments costing \$2 to \$7 million (Cordell Information (unpublished)). Further, scale economies mean that investments are ‘lumpy’, with local capacity jumping significantly with each new facility. To avoid low occupancy (and a low return on capital), investment may be delayed until supply shortfalls are acute and demand more certain. In contrast to long day care centres, home-based care arrangements have lower capital inputs, which reduces barriers to entry and may increase responsiveness to short-term mismatches between the demand for centre based care and lumpy increments in supply.

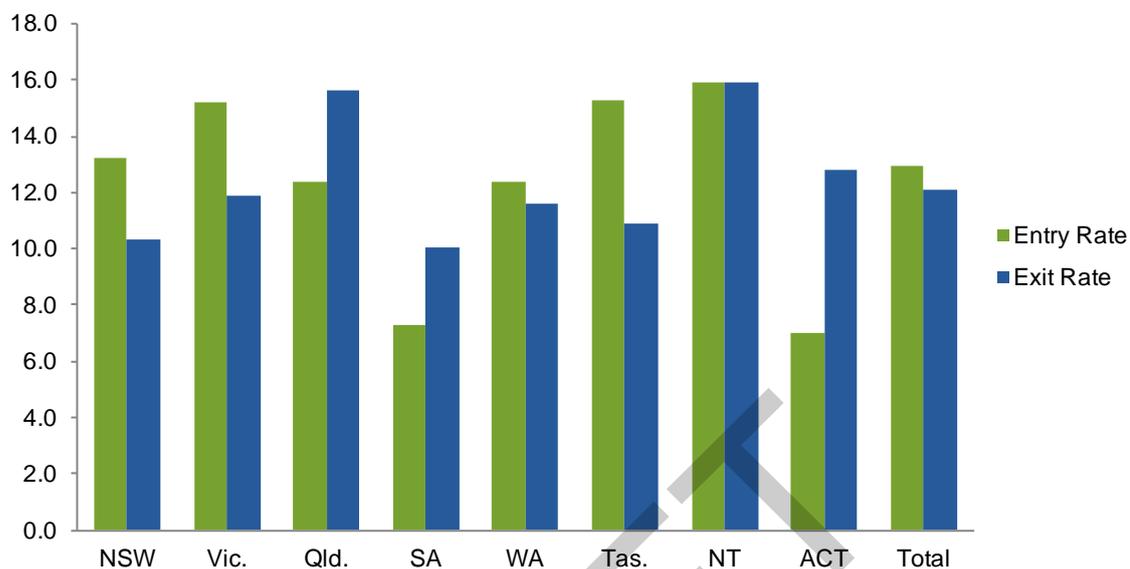
The Commission has been advised that most providers of long day care do not own the childcare facilities, and instead lease these from infrastructure investment funds, such as Folkestone, or from local governments. However, some providers own their premises, such as Only About Children, and have the capacity to raise capital and manage the development process.

Lease terms reflect the large upfront cost and associated risks of capital investments, with the typical tenure of a standard lease being 20 years. The Commission has been told, however, that some leases extend for a 30 to 40 year period, may include hefty penalties for breaking the contract and impose stringent conditions about the maintenance of the facilities and other periodic capital investments.

Sunk capital costs are a natural barrier to entry and exit. However, apart from traditional natural monopoly infrastructure, such as electricity network infrastructure, sunk costs are generally found to have a significant, but relatively small impact on the probability of exit and entry in most industries (Blanchard, Huiban and Mathieu 2010). Based on patterns of exit and entry over the period 2008 to 2012, the rate of exit in the childcare sector is around 12 per cent annually, which is only slightly lower than the average of other sectors (ABS 2013). Moreover, while the number of providers has increased over time (chapter 2), churn in providers can be many times greater than the net rate of increase in providers (figure 10.7) (Penn 2012).

Figure 10.7 **The rate of entry and exit in the childcare industry**

Per cent, based on counts of childcare services from 2008 to 2012, by jurisdiction



Data source: ABS (2013).

Government policies can dampen supply response

Uncertainty about the availability of government subsidies and regulation can affect the viability of childcare operations and investment decisions of providers (box 10.3).

While subsidies can improve the long-term investment case required to expand or invest in new facilities, uncertainty about the availability of government subsidies, or uncertainty about the impact of regulations, could weaken investment certainty.

When investment returns are uncertain, the expected return on any investment may be discounted accordingly. Any significant redirection of taxpayer-funded subsidies could generate sizable transitional costs for some market participants, especially providers that paid relatively high prices to acquire long-term assets on the expectation of future revenue from government subsidies.⁴⁶

⁴⁶ An outcome of subsidies is that the least elastic factor of production capitalises any economic rents. Because future owners of such factors pay higher prices to acquire assets on the expectation of a future revenue stream, the removal or lessening of the subsidy generates transitional losses (Steenblik 2006; Tullock 1975). While representing income transfers rather than efficiency losses, the risk of stranded assets may dampen supply side investment.

Box 10.3 Factors influencing the cost and viability of childcare services

A large range of factors influence the costs and viability of providers and, therefore, affect the supply of childcare services. These are discussed in appendix J and include:

- cyclical volatility in a centre's occupancy and enrolments, and the impact of this volatility on the management of fixed costs
- demographic factors within a local area and the impact of these changes on the demand for childcare services in that area
- a centre's wages costs, access to suitably trained staff, reliance on relief staff and annual rates of staff turnover
- building costs and rental expenses, and 'lumpy' expenditures for one-off repairs, maintenance and capital upgrades
- competition between providers within a local area, including with entry and exit decisions by local market competitors
- pricing strategies, including the pricing of expensive services for 0 to 2-year-old children and the age-mix of the children in a centre
- a commitment by not-for-profit services to operating unviable services — principally, by cross-subsidising fees — for the benefit of local communities or for particular groups in need of assistance
- government policies, including subsidy policies and regulations.

Uncertainty about the prospect of future regulatory changes can similarly affect the responsiveness of supply, especially given the pervasiveness of regulatory requirements in the sector and the sensitivity of costs, productivity and overall profitability to changes in ratio and qualification requirements. Labour-related expenses comprise upwards of 60 per cent of total costs (figure 10.8) and are sensitive to staff-to-child ratio and qualification requirements.

In particular, for some providers to attract additional, or better qualified, staff with the introduction of the NQF, wages in the sector may increase (chapter 11).⁴⁷ Ultimately, however, if a provider is to maintain their profitability, any real wage growth must be offset by increased productivity and/or price increases, for which either the taxpayer or parents must be prepared to pay.⁴⁸

⁴⁷ Overseas research reports elasticities of labour supply in the childcare sector with respect to wages as high as 1.9 (Blau 1993), suggesting high labour force responsiveness to increased wages.

⁴⁸ Current regulations limit the potential for productivity gains, which puts additional upward pressure on service costs and fees (Blau 2003; Breunig, Gong and Trott 2014; Chipty 1995; COAG 2009; Ficano 2006).

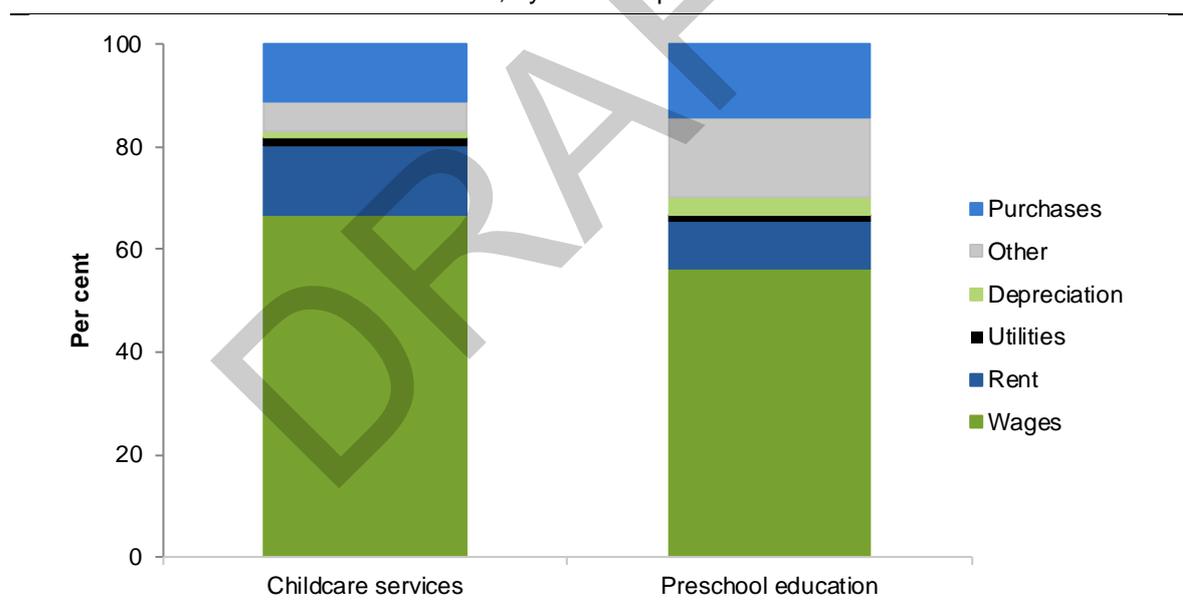
If governments and parents are not prepared to pay for regulatory-induced cost increases, investment returns in the sector could tighten for some providers (IBISWorld 2013), potentially dampening growth in the supply of services. For example, overseas studies have found that:

... the imposition of input regulations in the center-based sector of the child care market significantly reduces the number of operating child care centers, especially in lower-income markets. ... the gains [from improved quality] appear to accrue primarily to those living in higher income areas. (Hotz and Xiao 2005, pp. 34–35)

However, the Regulatory Impact Statement informing the decision by Australian governments to implement ECEC quality reforms concluded that:

... the majority of increased costs resulting from the NQA [National Quality Agenda] will be passed through to governments and consumers. ... in aggregate, it is not anticipated that supply will be impacted. (COAG 2009, p. 40)

Figure 10.8 Wages are the key cost for childcare service providers
Per cent of total revenue, by cost component

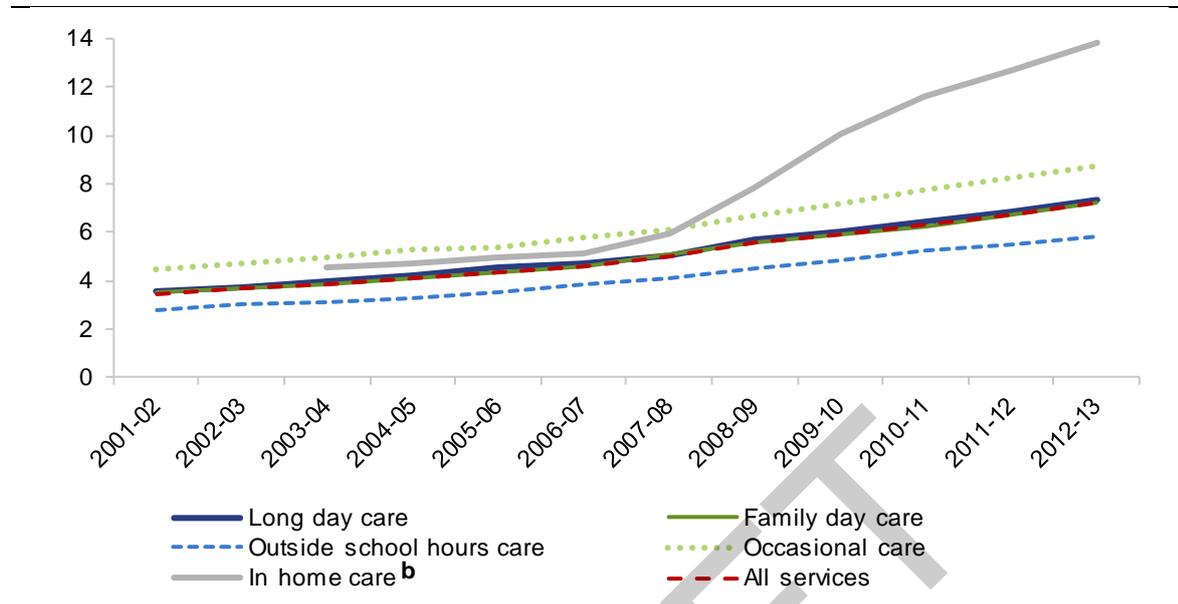


Data source: IBISWorld 2014, Industry Report Q8710, Child Care Services in Australia; IBISWorld 2014, industry Report P8010 Pre-school Education in Australia.

Are price signals failing?

A key question for assessing the functionality of childcare markets is whether changing market conditions explain price rises in recent years (figure 10.9). For example, weak competition, inefficient pricing practices or various policy interventions could have contributed to price rises or impeded an efficient supply response.

Figure 10.9 Fees have increased across all types of care

Average (gross) hourly fees (\$) ^a, by year and care type

^a Gross prices — fees received by providers — expressed as nominal values. ^b The average price of in-home care services reflects that the fully subsidised fee is \$29 per hour for ‘at risk’ children, which is 4 times higher than the fee for children not in receipt of special CCB.

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

Previous modelling undertaken by the then Department of Education, Employment and Workplace Relations found that regulatory changes associated with the NQF would cause fees to rise, of which parents and taxpayers would bear roughly half each (COAG 2009, p. 41).

Price rises may be an indication of a well-functioning market, correcting for any imbalances between supply and demand. For example, given lead times to expand capacity, price rises can efficiently match the limited number of available childcare places to any excess demand. Most importantly, however, price rises spur additional supply-side investment, reducing upward price pressures in the long term.

A lack of cost-reflective prices may lead to persistent shortages of childcare places. Many participants have suggested that there is a shortage of long day care places for popular weekdays; however, it is difficult to isolate whether there is a need for additional ‘peak’ capacity or greater scope for providers to adopt more flexible charging practices. For example, providers could discount fees on less popular days and add a premium to fees on the most popular days, providing incentives for investment in additional capacity where profitable.

Prices that do not reflect costs could be symptomatic of some providers behaving in a non-commercial manner and heavily cross-subsidising user fees.

Cross-subsidisation of fees is endemic

Cross-subsidisation involves the surplus from a profit-making service or activity being used to prop up a loss-making service. In effect, it averages fees across different users, and is an approach adopted mainly by not-for-profit providers to deliver more equitable access to childcare services across the community (box 10.4).

Box 10.4 Why do not-for-profit providers cross-subsidise fees?

Cross-subsidisation can allow services to exist where they are not economically viable and addresses family budget constraints, since cost-reflective prices would render services unaffordable to users. One organisation described the cross-subsidisation of fees across their services as an attempt to 'reach as many children as possible across a variety of demographics'. Others have characterised the practice as a 'social inclusion' supply model, which includes providing 'a developmental experience for children at a price that families earning moderate incomes can afford' (Cleveland and Krashinsky 2009, p. 446).

Such affordability issues are not generally a symptom of markets failing. Nonetheless, these are matters in which government and community-based or charitable organisations have chosen to take a keen interest. That, historically, childcare services existed to meet the needs of low-income, single parents or other disadvantaged groups may, in part, account for why social equity principles are etched into many providers' operating principles and pricing strategies.

Cross-subsidisation allows the delivery of services that a purely commercial provider would not. For example, average fees may not fully recover the cost of services:

- for children under 2 years in long day care, which cost more than double that of a child aged 3 to 5 years — primarily, driven by higher staff-to-child ratio requirements (figure 10.10)⁴⁹
- in some inner city areas where competition from other high value uses of real estate leads to high rent costs, or in some remote areas where low and highly variable utilisation can raise the cost of services
- for children with disabilities or developmental delays.

By delaying or preventing the exit of services in unprofitable locations or allowing unviable services to exist for children with disabilities, cross-subsidisation may be desirable from an access and equity perspective. Undesirably, however, cross-subsidisation can also allow inefficiently operated services to continue longer than

⁴⁹ This is likely to be driven primarily by regulated higher staff-to-child ratios.

might be optimal, including by taking the pressure off providers to seek out cost savings and price efficiently.

Figure 10.10 Children aged 0 to 2 cost roughly double that of 3 to 5 year olds in long day care

Average operating costs per child, by age of child^a



^a Operating costs include centre-based direct staff costs and some non-staff costs (such as nappies), but exclude many fixed costs (such as rent, maintenance, utilities and any non-centre based administrative overhead costs). Factoring in these costs, which are roughly equivalent across age groups, would reduce differences in costs across age groups somewhat. It should be noted that nationally consistent staff-to-child ratio requirements only apply to the 0 to 2 years age group.

Data source: Commission calculations based on industry provided data.

Widespread cross-subsidisation should not be sustainable in competitive markets

The Commission understands that many for-profit providers also cross-subsidise their services, particularly across child ages. Unlike not-for-profit providers, the incentive for a profit-motivated provider to cross-subsidise services is unlikely to stem from an implicit social goal. Rather, it may be that:

- competition is weak and has not forced providers to evaluate their pricing strategies
- the quality of services is not considered substitutable between providers.⁵⁰

⁵⁰ Some parents may have a preference for not-for-profit services (FIIG Research 2014, p. 3). For example, they may believe such providers are less likely to ‘price gouge’ or they are the beneficiary of cross-subsidies, which not-for-profit providers routinely administer. If so, it is possible that some parents consider a profit-motivated provider does not provide a substitutable service.

There may be other sound business reasons supporting some degree of cross-subsidisation — for example:

- accurately aligning fees with underlying supply costs (particularly apportioning fixed costs) can be time consuming and costly to implement. It also adds to pricing complexity, which could discourage some parents from using the service
- to optimise occupancy rates across multiple centres, especially given the fixed or sunk costs of a certain sized childcare facility and other overheads, such as the cost of breaking a lease agreement
- if switching costs are very high, it may be possible to lock parents in to the first service they choose by under-charging services for 0 to 2 year olds and recouping losses when children are older and their parents are less responsive to prices.

Some for-profit providers indicated to the Commission that their pricing strategies simply mirror those of dominant, not-for profit providers within the local market. However, unless there is a lack of competition or a provider is simply incurring transitional losses in exchange for a future gain,⁵¹ this would defy normal market dynamics. In particular, cross-subsidisation should not be a sustainable practice for providers operating in a competitive market. Any capacity to make a significant surplus within a local market (in order to cross-subsidise other services) should be bid away through new entry by suppliers not cross-subsidising their services.

That providers are able to cross-subsidise their services is likely to be an indication of broader market imperfections, including regulatory impediments to competitive entry and expansion activity (chapter 7). However, there are signs that competitive pressure may be reducing opportunities for providers to cross-subsidise services. For example, the Commission found that many long day care centres with flat fee structures across age groups, and therefore extensively cross-subsidising fees for 0 to 2 year old children, struggled to maintain viable occupancy rates among older age groups.

Cross-subsidies may result in a misallocation of childcare places

While short-run mismatches between supply and demand are likely to be unavoidable, persistent waiting lists should not arise with demand-driven subsidies, effective competition, low barriers to entry, low switching costs for parents and cost-reflective prices.

⁵¹ For example, providers could smooth long day care costs over time for parents by only partly recovering the cost associated with a 0 to 2 year old, and more than recovering the cost associated with the care of older children. Such inter-temporal transfers may be efficient if all families commence using a service when their child is the same age and each use the service to the same extent. However, many parents never use a service for their 0 to 2 year old, or they use such services, they do so for far fewer hours than they use a service when their child is 3 to 5 years old.

It is difficult to gauge the extent of any systemic ‘unmet demand’ for childcare services in Australia⁵². Appendix E analyses the issue and finds that many parents report being unable to recommence or increase their workforce participation because of problems with accessing services. A recent report on childcare affordability in Australia by AMP.NATSEM (2014) estimated that 11 per cent of long day care centres have no spare capacity.

However, no evidence is available to establish parents’ willingness to pay for additional services, including for more flexible and often more expensive services. Moreover, because there are often few⁵³, if any, costs for parents in placing their child on a waiting list for a service that may be only slightly preferable to an existing service they use, it is difficult to assess for what reasons and by how much demand is unsatisfied.

As some services will be under-priced with cross-subsidies, they clearly benefit some childcare users, which may cause an inefficiently high level of demand to develop (box 10.5).

Box 10.5 **Excess demand for under-priced services**

Many submissions and comments from parents suggest there is a need for additional places for 0 to 2 year-old children (chapter 8), but providers also acknowledge that, given current costs, the capacity to increase the supply of such services without increasing prices is prohibitive. As was stated by one not-for-profit provider:

The cost of staffing with regard to the educator to child ratio in 0-2’s is a factor in not increasing the positions in this age group, despite the obvious need for families and the community. (Merindah Children’s Centre, sub. 370, p. 2)

Given the reluctance of many providers to increase fees, and the limited extent to which a not-for-provider can cross-subsidise fees to deliver uneconomic services, waiting lists could persist.

If, however, fees reflected the high cost of long day care services for children under 2, those parents who value the use of such services most highly, such as when the return from their workforce participation is high, should be able to secure a place within a reasonable timeframe. Likewise, if fees reflected higher land costs in areas of inner Sydney, persistently long waiting lists would decrease. For example, the Gowrie Child Care Centre in inner Sydney indicated they have over 500 children on their waiting list, and attributed the ‘acute shortage’ to the higher cost of commercial rents (sub. 306).

⁵² For example, Yamauchi (2009) finds that reports of unmet need may actually reflect expectations of parents for unviable services rather than real gaps in quality, availability or cost.

⁵³ Some services charge fees to be placed on their wait list, typically, \$10 to 20 but occasionally \$100, with no guarantee of being offered a place (comment no. 25, 100, 142, users of ECEC services).

However, parents who use services that include a markup to fund cross-subsidies will be worse off and, because such services are overpriced, demand will be inefficiently low. Accordingly, cross-subsidisation implicitly penalises users:

- who cannot access under-priced services because of long waiting queues
- of lower cost, higher margin services — for example, many parents of children aged over 3 years in long day care — and particularly users for whom price is an important determinant of service use (Raneberg and Daubney 1991).

The Commission found varying degrees of cross subsidisation between different age groups of children in the long day care market. However, most centres appeared to make losses on their places for birth to 2-year-old children. In theory, increasing the fees for birth to two year old places to better match the costs of delivery could, in some cases, result in decreased fees for older age groups. In practice, the magnitude of any such changes in fees from more closely reflecting the costs of services would vary significantly across centres — in part, reflecting localised market conditions and different regulated ratio requirements.⁵⁴

It is unclear how parents would alter their use of childcare services if fees were adjusted to reflect the true cost of delivering services in their area and for the particular age of their child. That includes the extent to which parents would:

- be willing to pay more to access a nursery place at a centre and avoid long and uncertain waiting list arrangements
- use fewer childcare services for their child under 2 years if the price of such care were increased to reflect the high cost of this type of care
- use more services for their child over 3 years if the price of care were to decrease
- use more childcare services if the margin included in the price of services in some locations were to decrease..

If childcare use is unresponsive to prices, the allocative efficiency losses from cross-subsidies will be lower, and therefore may be of less concern to governments (unless there are large wealth transfers between parents that conflict with distributional objectives). While there is evidence that demand for ECEC services is relatively inelastic, parents still show responsiveness to price signals, particularly among mothers with lower levels of education, multiple children and lower household incomes (Gong and Breunig 2012).

⁵⁴ Staff-to-child ratio requirements currently differ across jurisdictions and are subject to varying transitional arrangements (chapter 7).

In conclusion

The cross-subsidisation of fees across groups of users allows the users of under-priced services to be financially assisted by other users, and an inefficiently high level of demand for these services and long waiting lists may develop.

To limit the potential for inefficient cross-subsidisation of services, governments should address regulatory barriers to entry and exit, promote (or remove impediments to) competition, and improve market information (including on waiting lists). However, any resulting changes to market dynamics, including the emergence of more effective competition and resulting changes to pricing behaviour, would take time to take effect.

Competitive pressures to unwind cross-subsidies in thin markets (where levels of competition are inherently weak or nonexistent) may continue to be problematic. In most cases, however, utilisation issues limit scope for providers to make a significant surplus, restricting their capacity to cross-subsidise user fees in such markets.

Affordability and access concerns may arise with the unwinding of cross-subsidies. The policy consequences of such issues are taken up in chapter 12, and depend on:

- the value that the wider community places on supporting access to affordable services for particular groups of children and parents
- whether such groups can be effectively identified and targeted when designing and administering government assistance.

10.4 The impact of government support on childcare markets

Governments intervene in childcare markets either directly or indirectly to meet community expectations regarding access to childcare services and to improve market functioning. As discussed in chapter 7, regulation applies pervasively across the sector and while supporting development outcomes for children and assisting parents in choosing providers, it can raise barriers to entry, constrain productivity and put upward pressure on prices.

In addition, a range of government assistance to users and providers can affect the functioning of childcare markets. This section assesses such effects, including from subsidies to parents, and tax exemptions and concessions to providers.

How do subsidies affect market functioning?

Subsidies are used to alter the behaviour of childcare users and providers and to address particular economic and social goals that deliver community wide benefits. Childcare subsidies directed to parents, such as the Child Care Benefit (CCB) and the Child Care Rebate (CCR), are intended to:

- reduce out of pocket costs for families to reflect any community-wide benefits or ‘externalities’ from childcare use, including those related to child development (chapter 5) and/or workforce participation (chapter 6)
- achieve desired distributional outcomes by increasing the affordability of childcare services for particular groups of parents and children.

Subsidies that reduce the ‘out-of-pocket’ cost of formal childcare services have both ‘income’ and ‘substitution’ effects. The income effect of subsidies can increase the use of formal childcare services and improve the incentives for parents to participate in paid work. However, by reducing the call on family budgets, childcare subsidises can also:

- facilitate replacement expenditure on other goods and services desired by families. Some mothers may even work less with subsidies, owing to the reduced call on employment earnings required to meet childcare expenses and support a chosen lifestyle
- allow parents to select their preferred (higher) level of childcare quality, without necessarily increasing their use of childcare and supply of labour.

Substitution effects arise because subsidies change relative prices, including between:

- formal and informal care options (for example, being unsubsidised, informal care options, such as nanny services, are made relatively dearer when subsidies are available for formal services)
- different types of formal services (for example, different rates of CCB currently apply across formal care types, which potentially preferences parents’ decision to use one form of care over another).

Another effect of current childcare subsidies is that parents (and particularly those whose demand for quality is high) have incentives to ensure their use of services does not exceed a few days per week. This reflects incentives to stay under the \$7500 CCR, after which the marginal price of childcare doubles. Although only 5 per cent of children exceed the \$7500 CCR cap, it is unclear to what extent a larger share of families reduce their use of childcare *to avoid hitting the cap* (chapter 9).

Subsidies may also have unintended effects on the behaviour of providers. For example, subsidies can reduce incentives for providers to minimise costs and set cost-reflective prices, especially if:

- markets are not competitive, with low barriers to entry, and there is a capacity to include a markup in the price charged for services
- subsidies establish an artificial benchmark or floor price on which providers base their prices and price rises over time.

The effects of subsidies, both intended and unintended, on markets for childcare services are likely to increase in proportion with the size of the subsidy relative to overall childcare costs (Davis and Connelly 2005; Davis et al. 2009; Murrufu, O'Brien-Strain and Oliver 2003). Moreover, some of the effects of subsidies may be in conflict as, for a given level of 'additionality' achieved, there may be a tradeoff between the administrative (and compliance) efficiency of a subsidy and the fiscal cost and losses to market efficiency. For example, targeted subsidies can possibly achieve 'additionality' with minimal losses to market efficiency, but can also generate significant compliance and administrative costs. Conversely, simple to administer, broad-brush subsidies can be very expensive for the 'additionality' achieved, principally because they 'crowd out' childcare use that would have occurred irrespective of subsidies.

The impact of government subsidies on childcare prices

Gross fees (the price that providers receive) are growing faster than the rate of inflation (figure 10.9). A range of factors are likely to have contributed to increases in user fees, including:

- higher quality standards, which increase supply costs, such as to employ additional staff, or to improve the training and qualifications of staff (chapters 7 and 11)
- growth in demand for services, some of which is induced by subsidies (chapter 3)
- potential issues with market functioning, such as the competitiveness of the market and the responsiveness of additional childcare supply (sections 10.2 and 10.3)
- the design features of subsidies (chapter 12).

The Henry Review of Australia's taxation system noted that childcare subsidies linked to out-of-pocket expenses 'may put pressure on child care fees and government expenditure, particularly if the supply of childcare is constrained' (2009, p. 590).

However, when other drivers of demand are accounted for, concerns about subsidies inflating prices may be unfounded, with overseas studies finding:

... the most important drivers of average child care prices are economic and demographic factors, such as income levels, employment rates rents and population, rather than childcare policy. Subsidy expenditures are one factor influencing childcare demand but they generally have not had a large impact on child care prices ... (Davis et al. 2009, pp. i–ii)

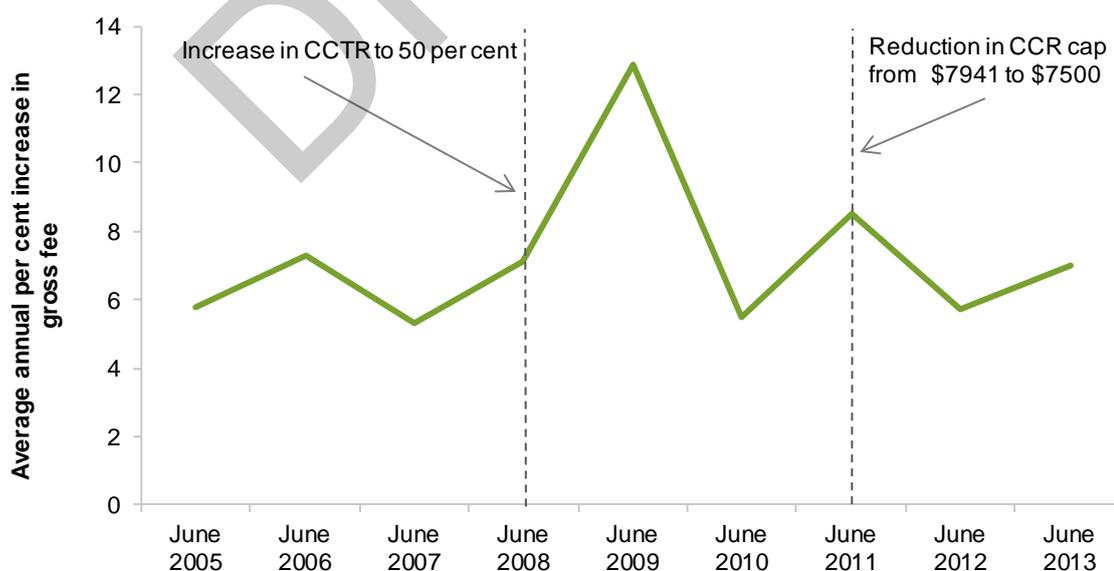
Do current subsidy arrangements lead to subsidy 'leakage'?

In the short term, following a change in a subsidy policy or other market change that increases demand, subsidy leakage — that is, the increase in price captured by providers as above normal profits or due to inefficient costs — is likely to be high because some input factors are fixed.

In the longer term, subsidy leakage should reduce. Leakage may be sustained, however, if markets are not competitive or regulations or other impediments inefficiently delay entry and expansion activity — chapter 7 discusses such impediments.

Following an increase in the rate of the CCR in July 2008 (from 30 to 50 per cent of a family's out-of-pocket expenses), the average annual per cent increase in long day care fees increased (figure 10.11). However, by July 2009, the rate of increase in fees slowed. Such an outcome is consistent with well-functioning markets, with the leakage of subsidies decreasing as the capacity of childcare providers to vary their supply decisions and new entry increases (section 10.3).

Figure 10.11 Annual increases in long day care fees



Data source: Department of Education (Department of Education 2014, p. 9).

For some childcare services, providers can respond relatively quickly to increased demand, which should reduce the potential for subsidy leakage. For example, centres

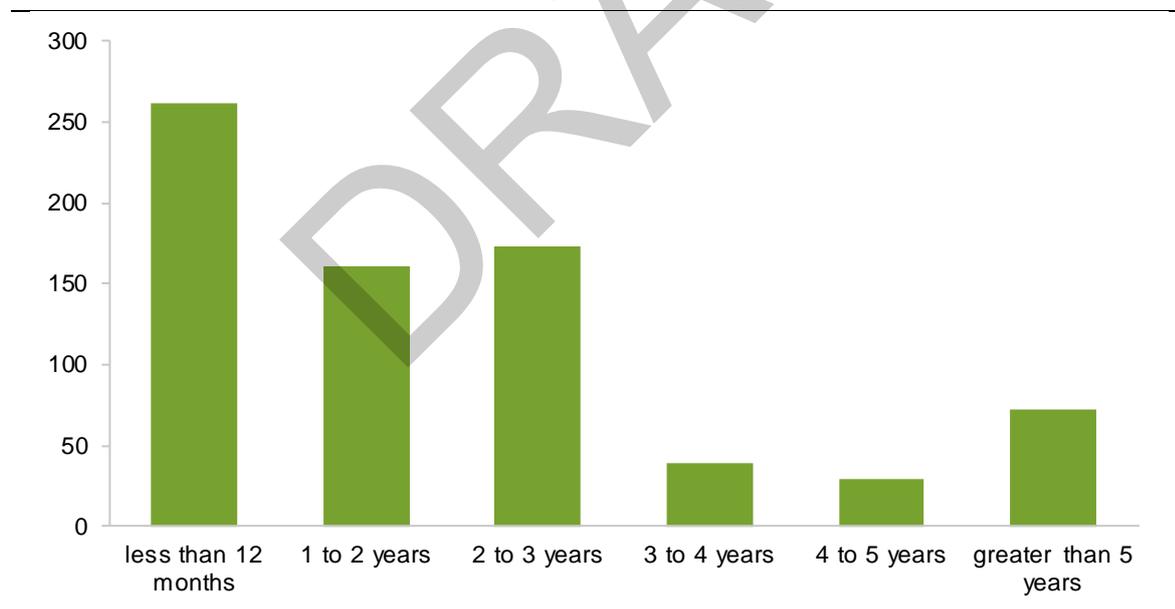
with spare physical capacity and access to additional staff, can readily ramp up services. Similarly, family day care providers may respond more quickly than centre-based care providers when financial incentives change. As stated by Davis et al.:

If the supply of childcare can respond quickly, that is, if providers expand capacity or new providers open in response to an increase in demand, then price effects will be moderated. The responsiveness of supply is likely to differ for centres and ... we would expect family childcare supply to be more responsive than centre-based supply. ... If demand increases, childcare prices are likely to rise more slowly in places where supply is able to increase quickly in response. (2009, p. 29)

Following a range of changes to government assistance arrangements, including the availability of Community Support Program funding to family day care agencies in 2004 and the removal of caps on approved places in 2007, the number of family day care services has expanded significantly — increasing from 387 in 2011–12 to more than 700 in 2014. Moreover, given a much higher rate of entry than exit, over 80 per cent of family day care services have been operating for less than 3 years (figure 10.12).

Figure 10.12 Family day care services have increased dramatically

Number of currently operating services, by age of service (as of June 2014)



Data source: ACECQA register of family day care approved services.

The prospect of subsidy leakage increases when demand for ECEC services is not responsive to price changes. Gong and Breunig (2012) found that an increase in childcare prices reduces demand for childcare among Australian families by a

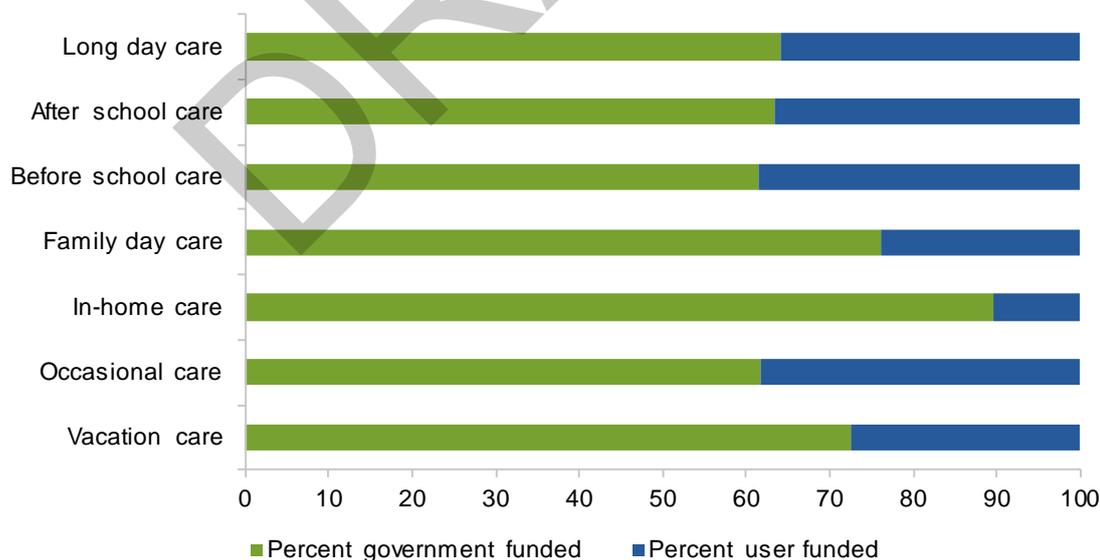
proportionally lower amount.⁵⁵ A low level of responsiveness to price changes can also arise when waiting lists or high switching costs prevent a parent from readily changing providers or when the size of a parent's co-contribution towards fees is small.

Current forms of government assistance cover the majority of fees set by providers (figure 10.13), but families receiving CCB and JETCCFA may have upwards of 80 to 90 per cent of their childcare expenses subsidised. In such cases, price signals are significantly muted and providers may be able to increase fees with minimal, if any, reduction in parents' use of services.

However:

- chapter 9 found that subsidies cover at least 90 per cent of fees providers charge for fewer than 10 per cent of families (table 9.1)
- the ability of providers to respond to any such weak demand side pressure, which would result in subsidy leakage, relies on such families being geographically co-located and using the same services. If such families are not co-located, those parents receiving fewer subsidies may continue to impose a competitive constraint on the majority of providers' charging practices.

Figure 10.13 **Government assistance covers the majority of fees**



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

⁵⁵ A 1 per cent increase in fees results in a 0.132 per cent decrease in childcare use and a 0.25 per cent decrease in hours.

To assess the prevalence of highly subsidised users accessing the same service provider, the Commission identified the number of providers who currently derive more than 90 per cent of their revenue from subsidies. (This threshold was chosen for illustrative purposes only.) The Commission found that:

- less than 0.5 per cent of providers of long day care receive more than 90 per cent of their revenue from subsidies (CCB, CCR and JETCCFA). Of these, there were more than 8 like services within 5 kilometres (and, in some cases, over 100 equivalent services)
- less than 9 per cent of family day care services receive more than 90 per cent of their revenue from subsidies.

These results suggest that, by far, for the majority of providers, there is a high likelihood of a demand response from a substantial increase in fees, which should help to limit subsidy ‘leakage’.

Accordingly, with effective competition and limited barriers to provider responsiveness, addressing concerns about subsidy leakage may not be a key concern when designing subsidy policies in practice. Still, where concerns about subsidy leakage and consequent price inflation might arise, governments should generally focus on:

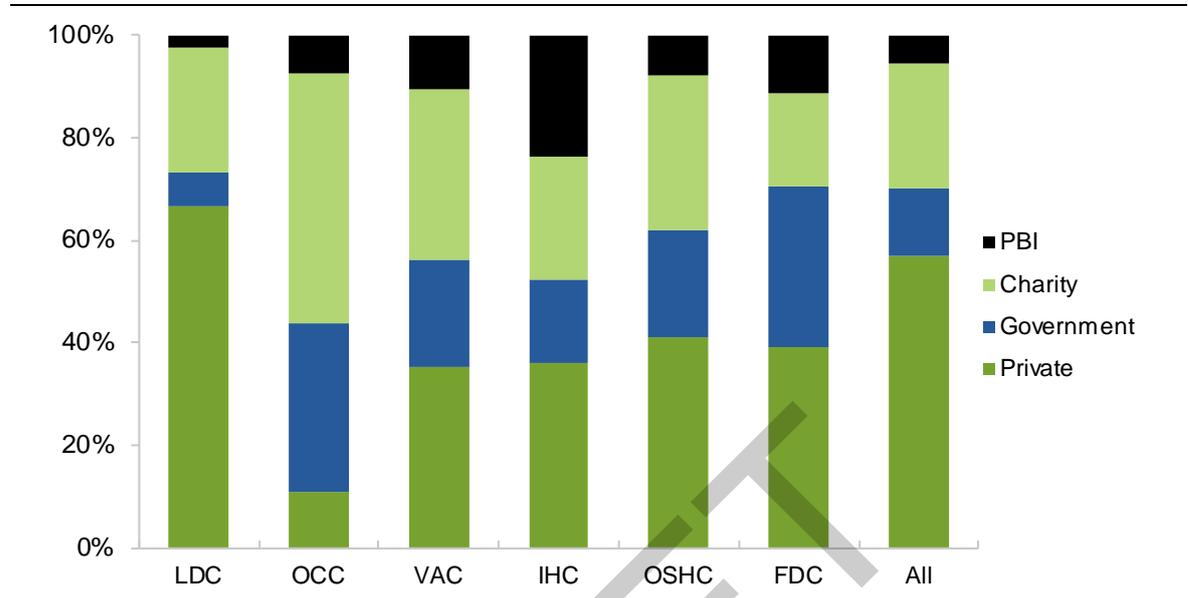
- addressing any regulatory-induced barriers preventing or delaying an efficient response from providers to demand and price changes (chapter 7). As stated in a review of competition and efficiency in publicly funded services published by the OECD, supply side initiatives should address entry and exit barriers, ensuring that changes in the volume of voucher subsidies results in capacity and services supplied rather than changes in price (Lundsgaard 2002, p. 90).
- ensuring the market structure is workably competitive and that parents’ costs of switching between providers are as low as possible.

What is the impact of tax and other concessions?

Around one-third of childcare providers receive tax concessions under Commonwealth legislation because they are either charities or Public Benevolent Institutions (figure 10.14).

Figure 10.14 **One in three childcare services receives tax concessions**

n=15 755 services



^a A service is endorsed as a charitable or PBI service provider for the purposes of accessing an income tax exemption under Commonwealth legislation. Other includes both for-profit providers and government services

Data source: Commission calculations based on Department of Education administrative data and ATO data.

As detailed in box 10.6, tax concessions subsidise the cost base of one group of providers relative to another, giving not-for-profit providers a competitive advantage over for-profit providers.

In some cases, not-for-profit providers may use such concessions to increase the quality of their services rather than to reduce prices and provide a greater quantity of services to the community. However, regardless of how the tax concessions are used by providers, they can still have a negative impact on the functioning of efficient markets. Likewise, local governments have traditionally assisted not-for-profit childcare providers — mainly, in the form of free or concessionary rent and access to facilities. However, the Commission believes the availability of assistance is diminishing as local governments review their fiscal sustainability and the competitive impacts of such arrangements (box 10.6).

Box 10.6 Concessions available to not-for-profit organisations

Since 2004, the provision of childcare services on a not-for-profit basis has been deemed (under the *Extension of Charitable Purpose Act 2004*) as a charitable purpose.

Concessions depend on whether a provider is classed as a not-for-profit provider, a registered charity or public benevolent institution (PBI) by the Australian Charities and Not-for-profits Commission⁵⁶ and, thereby, endorsed by the Australian Taxation Office to access concessions. A PBI receives a more generous concession than a not-for-profit childcare provider or a registered charity because its main purpose is classified as 'relieving poverty, sickness, suffering or disability'.

Under the *Income Tax Assessment Act 1997*, childcare providers who are not-for-profit, a registered charity or a PBI may qualify for a number of tax concessions including:

- exemption from income tax
- a rebate or exemption on Fringe Benefits Tax
- Goods and Services Tax concessions
- refunds of franking credits.

Under state and territory legislation, not-for-profit providers can access payroll tax exemptions. The value of these varies across jurisdictions, with different thresholds applying to the exempted payroll expenses. Typically, these are the primary source of tax concessions for many not-for-profit organisations, amounting to tens of millions of dollars for larger organisations.

Local governments also provide assistance to not-for-profit long day care providers, often in the form of free or heavily subsidised rents for premises, or in making land available at below cost. Similarly, in some jurisdictions, school facilities can be provided at a low or no rent to outside school hours care providers. However, with the growth in for-profit providers across all ECEC services, competitive neutrality issues, along with budgetary pressures, there is a suggested trend away from this in-kind type of support.

Source: <https://www.ato.gov.au>

Tax concessions available to not-for-profit childcare providers are a form of government spending. As such, public benefits emerging from them should be examined against alternative spending arrangements that could potentially achieve the same goals. This is consistent with the scrutiny and transparency required of all government expenditures under Australian budgetary processes.

Relevant questions when evaluating the impact of tax concessions on childcare provision include how:

- access to tax and other concessions changes the behaviour of eligible childcare providers, including pricing practices and decisions to operate unprofitable services

⁵⁶ Charitable status and access to concessions applies to the ITAA 1997, the FBTAA and other Commonwealth Acts.

-
- would providers change their behaviour in the absence of such concessions — namely, what ‘social goods’ would no longer be provided?

Because not-for-profit childcare providers are very close to the communities they serve, they may arguably be better placed to address community level issues than a Commonwealth or state funded and run program. In particular, governments can be slow to identify and respond to emerging community needs and, given bureaucratic structures, can be unwieldy.

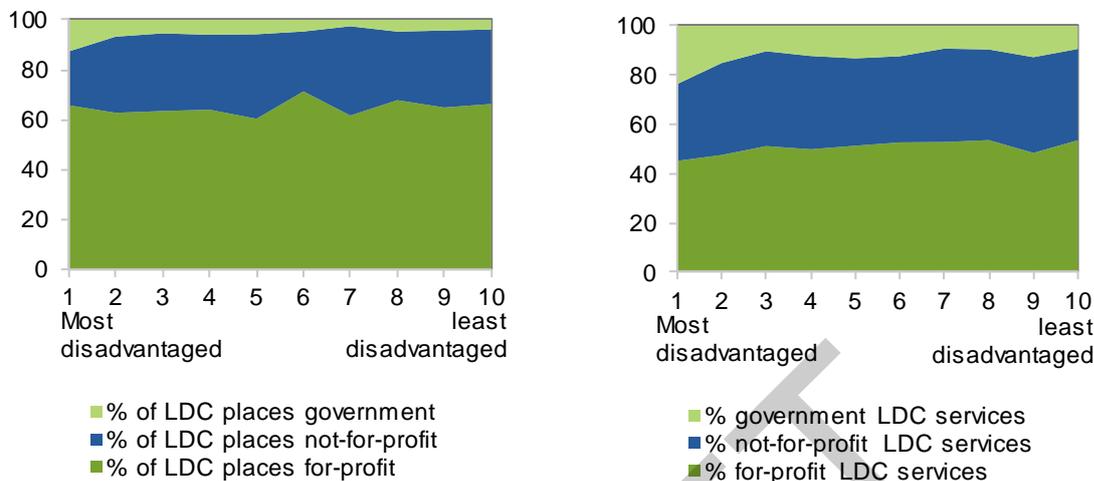
However, in some situations, the actions of not-for-profit childcare providers may not meet community-wide preferences and expectations. Moreover, childcare providers are not well placed to decide the appropriate tradeoff between efficiency and equity objectives, and charities will not take account of alternative calls on government spending. As such, concessions may impose unnecessary net-costs on society, unless the market efficiency losses and value of concessions are offset by the benefits such providers deliver to the community.

If not-for-profit providers strictly focused service delivery on areas of social need, concerns about the efficiency impacts of tax concessions would have little foundation. However, a large proportion of not-for-profit providers operate extensively in markets where the commercial provision of services is feasible.

It is not even apparent that not-for-profit providers systematically target the delivery of social goals, such as addressing socioeconomic disadvantage, with not-for-profit market shares within each local area being unrelated to measures of socioeconomic disadvantage (figure 10.15).

Figure 10.15 Not-for-profit long day care providers are no more prevalent in disadvantaged communities

Per cent of market share, by SEIFA decile (2011)

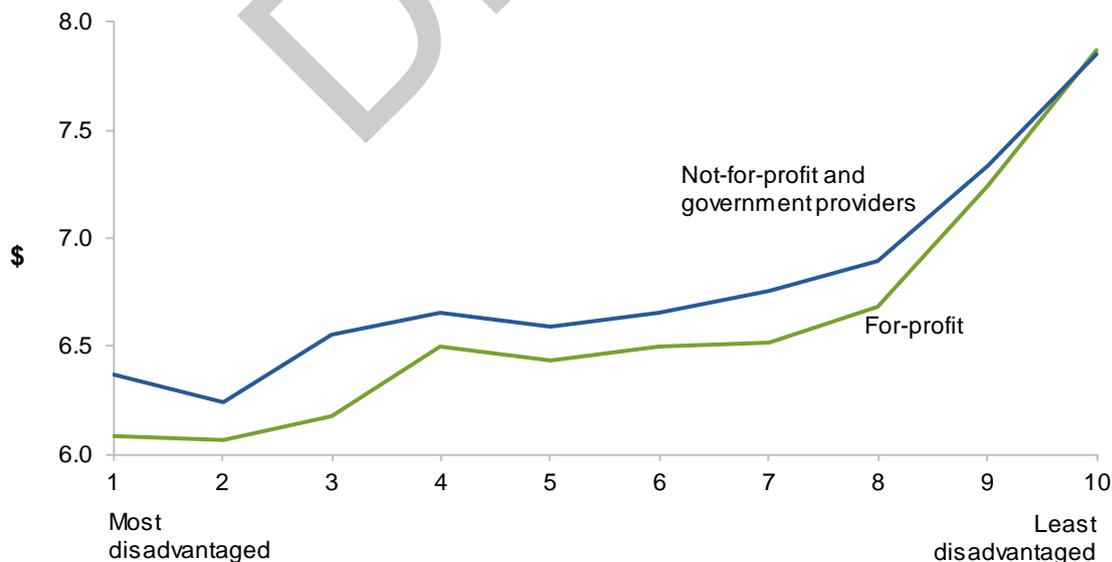


Data source: Commission calculations based on Department of Education administrative data (2011-12).

Further, the Commission found that, on average, not-for-profit and government long day care providers actually charge slightly higher fees than for-profit providers in disadvantaged areas (figure 10.16).

Figure 10.16 Not-for-profit long day care fees are slightly higher than for-profit fees in disadvantaged areas

Mean hourly fee, by SEIFA decile (socioeconomic index of areas disadvantaged, 2011)



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

As a result, tax concessions provided to not-for-profit providers are likely to be causing distortions to efficient market operation with uncertain benefits, because:

- it appears not-for-profit provision of childcare services is no more prevalent in disadvantaged communities (which tend to be less profitable)
- not-for-profit providers deliver services in markets where commercial provision of services is feasible and therefore directly compete with for-profit providers.

Not-for-profit providers have told the Commission, however, that they write-off large unpaid debts of a number of low income and disadvantaged families. Also, they may bridge any funding gaps relating to the care of children with disabilities and developmental vulnerabilities, such as where the Inclusion Support Subsidy is not sufficient to cover the hours of attendance and staff costs to support quality care.

Not all forms of tax concessions are equally distortionary

The exemption from income tax (which is a tax on profit) does not change the behaviour and decisions of not-for-profit providers about how many staff to employ or pricing strategies (PC 2010, p. 203). However, such an exemption may boost the viability of a not-for-profit provider, allowing them to deliver services that would otherwise be uneconomic.

Conversely, state-based payroll tax exemptions and Australian Government fringe benefit tax and GST exemptions are likely to bias input choices and generate efficiency losses.

Based on the confidential evidence the Commission has collected, the value of various tax concessions to childcare providers is relatively small overall — less than 5 per cent of revenue from childcare fees. However, because this is composed mainly of distortionary tax concessions (roughly three-quarters is payroll tax exemptions), the competitive impacts may not be trivial. For example, fringe benefit tax exemptions or rebates allow a not-for-profit provider to employ staff at below market rates (for their given qualification level).

Remove tax concessions and fund social goals more directly

The best childcare policies are compatible with both increasing community wide net benefits and addressing concerns about social equity or additional needs groups. Wherever possible, social and equity goals should be pursued in the least-distortionary manner and be well-targeted. Providing tax concessions to all not-for-profit providers is a blunt instrument to achieve social goals.

There are better ways to administer government assistance for social objectives. Rather than facilitating unspecified charitable activity by childcare providers, governments should systematically channel funds to achieve accepted social goals. For example, governments could target additional childcare assistance to disadvantaged or other groups with clearly demonstrated additional needs (chapter 12).

Ideally, in an established and competitive market, targeted government assistance should fill market gaps where:

- the commercial delivery of services is unviable
- there is a clearly defined social need and assistance would be of net-benefit to the community (or achieve desired distributional outcomes).

However, when contemplating the design of subsidies, governments should distinguish between efficiency and equity goals. As recognised by the UK Institute of Fiscal Studies:

The difference between market failure arguments and distributional concerns is often blurred, but it is important to distinguish the motives behind any arguments for subsidy. ... Society might wish to help enable mothers return to the labour market if they so desire, but this is a distributional concern regarding equality of opportunity for women and women's independent incomes, not a market failure issue. ...

... the role of the state may simply be to ensure a minimum standard of service from private childcare providers to protect children from undesirable carers. If we wish to suggest that government should have a greater role, either by providing or by subsidising childcare services, it must be shown either that the childcare market fails or that the outcomes of the free childcare market have distributional implications that society would prefer to avoid. (Duncan and Giles 1996, pp. 47–48)

It is important that any distributional measures are well targeted to intended beneficiaries, minimally affect efficient price signals for the majority of parents, and thereby reduce upward pressure on the average price of childcare services.

DRAFT RECOMMENDATION 10.1

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

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

11 ECEC Workforce

Key points

- As of 2013, there were over 150 000 individuals working in formal early childhood education and care (ECEC) services. Well over 90 per cent are female. Around half of the workforce are employed in long day care, 18 per cent in preschool and 12 per cent in outside school hours care.
- Since the introduction of the National Quality Framework (NQF) in 2008, there has been substantial growth in the proportion of workers with a qualification. Over 80 per cent of contact staff now have an ECEC related qualification, 16 per cent possess a Bachelor Degree and nearly two-thirds have an advanced diploma, diploma or Certificate III or IV qualification.
- There are shortages of childcare workers with appropriate qualifications, particularly in long day care. Shortages are most acute in New South Wales, in regional and remote areas, and for diploma qualified educators and for teachers.
- Wages are relatively low and job satisfaction is mixed across the sector with widespread concerns from within the sector that ECEC workers are undervalued and under paid.
- Pay and conditions are predominantly determined through awards and wages rarely exceed the award to any significant degree. Regulation, award dependency and other characteristics of the ECEC labour market are causing wages and conditions generally to be less responsive to increases in demand than might be expected.
 - However, a number of ECEC services advised the Commission that they pay some of their staff above award rates.
 - Many services are offering over award pay and conditions in areas where difficulties recruiting and retaining staff are most acute.
- Applications for Equal Remuneration Orders currently being heard by the Fair Work Commission, if successful, would increase the wages of all long day care workers and certain preschool workers, substantially increasing the costs of delivering services and putting pressure on fees.
- There are widespread concerns in the sector about the quality of some training received by graduates who have undertaken an ECEC qualification, particularly at the Certificate III and diploma level.

A professional and skilled workforce is critical to achieving quality ECEC services and consequent learning and development outcomes (chapter 5). The ECEC sector is also highly labour-intensive — labour costs are by far the largest cost for services (chapter 10) — and therefore increases in wages and other employment costs contribute very significantly to upward pressure on fees. For these reasons, workforce issues have a major bearing on the efficiency and effectiveness of the sector.

This chapter provides a brief overview of the ECEC workforce and examines various issues on pay and conditions; recruitment, retention and staff shortages; and training and development.

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

11.1 The ECEC workforce

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

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

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

How many and where do they work?

There were 153 155 staff employed in the formal ECEC sector at the time of the 2013 ECEC workforce census (table 11.1).

Table 11.1 Early childhood education and care workforce
2013

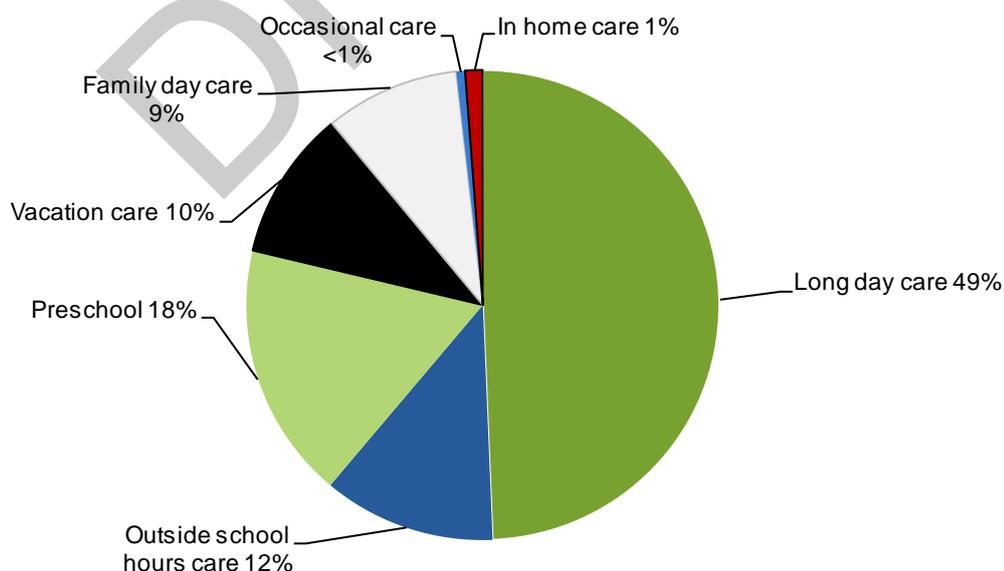
	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>	<i>Australia</i>
Long day care	24 792	17 490	18 260	5 388	5 533	1 477	734	1 972	75 646
Family day care	4 496	4 114	2 516	975	1 130	447	260	117	14 054
In home care	327	447	550	115	218	145	0	7	1 809
Occasional care	296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

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

Source: The Social Research Centre (2014).

Nearly half of these workers were employed in long day care. The preschool sector accounted for around 18 per cent, outside school hours care nearly 12 per cent, vacation care around 10 per cent and family day care just over 9 per cent. Occasional care and in-home care together accounted for less than 2 per cent of the workforce (figure 11.1).

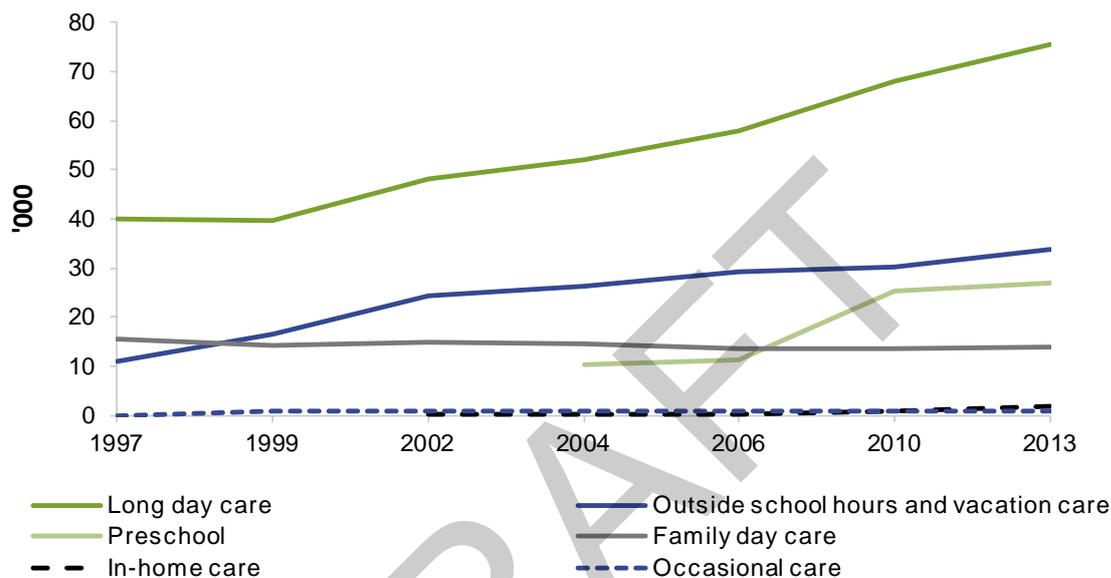
Figure 11.1 Workforce employment share by type of service
2013



Data source: The Social Research Centre (2014).

The formal ECEC workforce has grown rapidly. It has more than doubled in size between 1997 and 2013. This growth has been particularly strong in outside school hours care, long day care and preschool. Employment in family day care and in-home care remained flat or declined over the same period (figure 11.2).

Figure 11.2 The early childhood education and care workforce ^a
Number of employees



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

Data source: PC (2011); The Social Research Centre (2014).

Who are they?

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

The median age of ECEC workers was 36 years for women and 26 years for men. Older workers tend to be in family day care and preschools with almost two-thirds of the workers in each of these areas aged 40 and over. This was in contrast to the long day care services where nearly two-thirds of the workers were aged under 40 (table 11.2).

The Productivity Commission study of the *Early Childhood Development Workforce* (PC 2011) found that the ECEC workforce comprises two distinct groups. The first group are employed as directors, group leaders or teachers (around

30 per cent of the workforce) and a second group (around 70 per cent of the workforce) are employed as ECEC educators.

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

Table 11.2 Age and gender of the ECEC workforce
2013

<i>Age group</i>	<i>Pre-school</i>	<i>LDC</i>	<i>FDC</i>	<i>IHC</i>	<i>OCC</i>	<i>OSHC</i>	<i>VAC</i>	<i>Total</i>
	%	%	%	%	%	%	%	%
15-19	1.4	5.7	0.2	1.6	2.2	10.8	10.3	5.5
20-24	5.2	19.0	2.4	19.5	10.5	31.9	31.2	17.7
25-29	6.5	16.8	6.3	16.0	8.9	12.5	14.8	13.3
30-34	8.6	12.7	12.1	8.7	9.7	7.3	8.2	10.8
35-39	12.8	11.0	16.2	9.6	10.4	6.2	6.4	10.7
40-44	17.8	10.5	16.1	7.7	16.6	6.8	7.1	11.5
45-49	16.0	8.6	14.3	9.3	14.2	6.8	6.7	10.1
50-54	15.3	7.5	12.7	12.5	11.8	7.4	6.6	9.3
55 and over	16.4	8.2	19.7	15.3	15.7	10.2	8.7	11.1
<i>Gender</i>								
Male	2.7	2.7	1.1	2.3	1.5	16.0	17.0	5.7
Female	97.3	97.3	98.9	97.7	98.5	82.7	81.7	94.0
Intersex	0	0	0	0	0	1.3	1.3	0.3

Source: The Social Research Centre (2014).

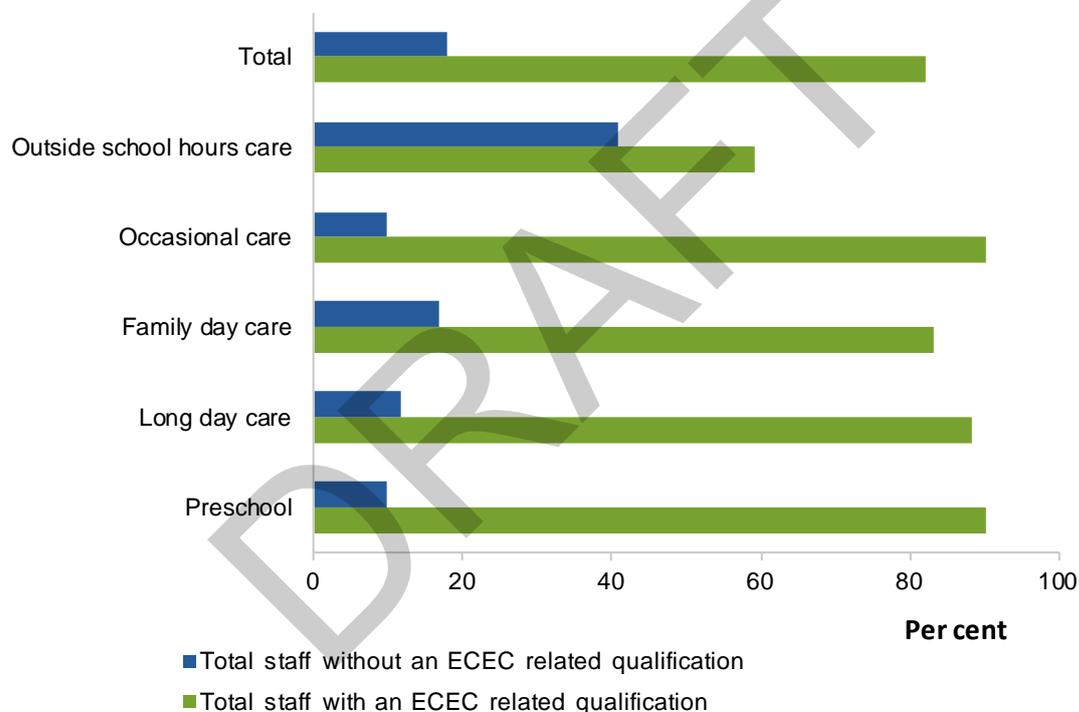
This first group of directors, teachers and group leaders receive higher wages than ECEC educators as their positions generally require them to possess higher qualifications. This reflects their need for a more detailed knowledge of child development and pedagogy, which allows them to effectively lead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

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

Education levels

Just over 80 per cent of the ECEC workforce had an ECEC related qualification in 2013 (figure 11.3). Around 16 per cent had a bachelor degree and nearly two-thirds (64.6 per cent) had an advanced diploma, diploma or a Certificate III or IV (table 11.3). The share of the ECEC workforce without an ECEC related qualification fell from just over 30 per cent in 2010, at the time of previous ECEC workforce census, to 18 per cent in 2013.

Figure 11.3 **Share of ECEC workforce with and without an ECEC related qualification^a**
2013



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

Data source: The Social Research Centre (2014).

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

By service type, preschool staff were more likely to have an ECEC related bachelor degree or higher, whereas those working in outside school hours care were more likely not to have an ECEC related qualification (table 11.3).

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

Table 11.3 **Educational attainment of the workforce^a**
2013

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

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

Source: The Social Research Centre (2014).

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

11.2 Pay and conditions

A common observation made in submissions to this inquiry and the Commission's previous study of the Early Childhood Development Workforce (PC 2011) is that the ECEC workforce is underpaid and undervalued. Many inquiry participants suggested that low levels of pay and poor working conditions are impacting on the ability of the sector to attract and retain staff and on the quality of services provided (box 11.1).

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

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

Box 11.1 Participant's comments on the pay, conditions and status of the ECEC workforce

The level of wages was a concern to a number of participants. For example:

As someone who has 20 years of experience working with children, as well as the Diploma in Children's Services, I can make more money working at K-Mart as a night filler than I do working in an industry that I am experienced and qualified to work in. (Jane Webb, sub. 121, p. 1)

In referring to a colleague:

... [who] left Early Childhood Education and Care to work at Woolworths, as working 25 hours per week in the supermarket gave her the same income as working 40 hours in Long Day Care. (Alison Butcher, sub. 138, p. 2)

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

For all levels of work in the ECEC, pay does not reflect the enormity of the importance and responsibility (for both children today and the future of Australian Society) involved in working with young children and their families. (Eastern Region Preschool Field Officer Group, sub. 96, p. 4)

Despite wide acknowledgment of the importance of this issue, educators continue to be poorly paid for the work they do. (Carewest, sub. 93, p. 5)

Some felt that ECEC workers were simply seen as 'glorified babysitters':

I believe that the outside world does see us as 'glorified babysitters' when using the term childcare worker. It does not adequately describe the nature of the job, nor the qualifications we need to receive — asthma and anaphylactic training, first aid certifications, working with children's check, as well as the minimum qualification of Certificate III in Children's Services. All of this just to step foot in the workplace! And rightly so. (Shannon McLeod, sub. 19, p. 1)

Not regarded as professionals:

With the average Child Care Educator earning just \$18 per hour, we are often considered mere babysitters, instead of being regarded as the professionals we are encouraged to be. (Margaret Cribb Childcare Centre, sub 244, p. 1).

And not taken seriously as educators:

Unappreciated for our role as educator. Not seen as professional. Treated as a nanny or a cleaner. Not taken seriously. (South Coast Baptist College School of Early Learning Childcare, sub. 114, p. 2)

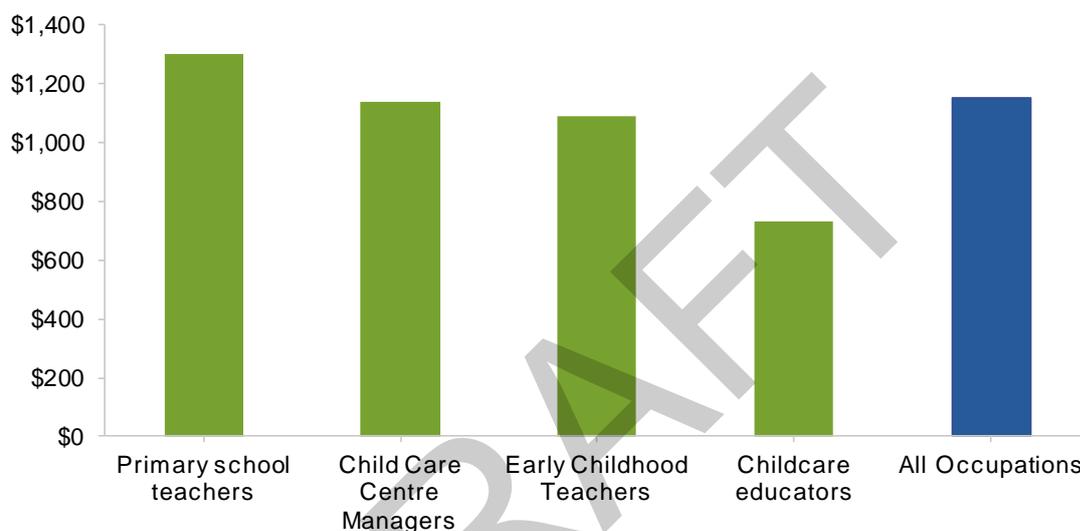
And because of the low wages only those passionate about their work stayed in the sector:

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

The ECEC workforce tends to earn less than the wider workforce

Median weekly earnings for full-time child care managers (\$1140) and early childhood teachers (\$1087) in 2012 were less than the median weekly full-time earnings for all occupations (\$1153). However, median weekly full-time earnings for child carers or ECEC educators (\$730) were significantly less (figure 11.4).

Figure 11.4 **Median weekly earnings for full-time employees by occupation, August 2012**



Data source: Information provided by the Department of Employment.

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

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

Disparity in pay and conditions with preschool and school sector

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

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

In most jurisdictions preschool teachers are paid similarly to school teachers. In Western Australia, South Australia, Tasmania, the Northern Territory and the ACT most preschool services are provided by government and non-government schools and teachers in preschools receive similar wages to primary school teachers. Although outside the school system, preschool teachers in Victoria and Queensland are paid similarly to primary school teachers.

However, in New South Wales, almost all long day care teachers and preschool teachers are employed on wages and conditions that do not compare favourably with those offered in the school system. Most preschool teachers employed by the New South Wales Government or by independent schools in New South Wales are paid at lower rates than teachers in the primary school sector (PC 2011).

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

Importance of awards

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

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

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

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

Fair Work Equal Remuneration Case

Unions representing ECEC workers have lodged applications to the Fair Work Commission for Equal Remuneration Orders to be made under the *Fair Work Act 2009* (box 11.2) on the basis of gender based undervaluation.

If the applications are successful, the Fair Work Commission could issue orders to increase the wages of all long day care workers and those preschool workers covered by the applications. Increases sought range from 39.5 per cent to just under 80 per cent depending on the classification. This would dramatically increase the costs of delivering long day care and preschool services and put pressure on fees. United Voice submitted:

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

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

Box 11.2 Equal Remuneration Cases

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

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

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

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

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

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

Source: Layton et al. (2013).

Calls for government subsidies to support higher wages

A number of participants, have suggested that the Government should provide subsidies to support increased wages in the sector with a view in particular to improving the retention of qualified staff. These calls predominately came from individuals working in the sector and groups representing the interest of workers. For example, United Voice, recommends the provision of ‘targeted funding for professional wages to ensure quality ECEC’ (sub. 319, p. 15). However, parents also posted comments arguing for government support of wages:

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

Wage subsidies are available to employers of workers with a disability or eligible Indigenous workers and the previous Government had a commitment to subsidise the wages of some ECEC workers via access to an Early Years Quality Fund (EYQF) (box 11.3).

The EYQF was discontinued by the current Government, after a Ministerial Review. Funding commitments made by the previous Government were partially honoured, but all conditional offers were revoked.

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

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

- universal subsidies available to all staff and services in the sector (and therefore necessarily lower, with any overall funding constraint) may fail to offer adequate support to ECEC services that face the most substantial recruitment and retention challenges, such as those operating in rural and remote locations (see section 11.3 below), while at the same time inefficiently directing funds to services that are competing successfully in the labour market
- a more targeted approach to wage subsidies *may* be beneficial in supporting recruitment and retention in priority hard-to-staff locations.

Box 11.3 Early Years Quality Fund

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

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

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

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

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

Sources: PwC Australia (2013); Department of Education (2013a).

However, before governments intervene with measures to support wages, even on a targeted basis, it must be clearly demonstrated that: (i) there are structural impediments preventing the sector from appropriately responding to shortages (by

paying higher wages or offering other incentives or better conditions); and (ii) government action can reasonably be expected to improve on market outcomes.

While there are various characteristics of the ECEC sector and the labour market for ECEC workers specifically, that make wages somewhat less responsive to demand pressures than in some other markets (box 11.4), there do not appear to be any major regulatory or other barriers preventing services from offering over award wages and conditions where they consider it is necessary in order to attract or retain workers. The market has demonstrated a capacity to respond where workforce shortages have been most acute and importantly, services are not constrained by regulations in the fees they charge families and therefore in their ability to pass on higher labour costs (chapter 10).

Job satisfaction

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

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

Reflecting the high levels of job satisfaction overall, only a small proportion of the respondents to the survey (11.2 per cent) indicated that they would leave the sector today if they could. Those employed in family day care (14.8 per cent), long day care (12.8 per cent) and occasional care (11.8 per cent) were the most likely to want leave the sector. Staff generally entered the sector because they wanted to work with children (83.4 per cent) and only 15 per cent entered the sector because it was their only employment opportunity. Around two-thirds of ECEC workers (66.2 per cent) would recommend a career in the sector to others and over 60 per cent expressed an interest in furthering their career in the sector (The Social Research Centre 2014).

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

The impact of the NQF on job satisfaction

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

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

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

It appears that their autonomy in decision making for the process, to gain the best outcomes for children, has been overtaken by the National Law and the National Regulations giving practitioners no power to negotiate – just adherence to the rules. (Australian Childcare Alliance sub. 310, p. 43)

Career pathways

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

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

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

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

What factors constrain improvements in pay and conditions?

The Commission has previously observed that ECEC services have largely continued to pay award wages despite persistent shortages of staff and significant waiting lists. It observed that the predominance of award wages suggested a highly regulated and managed sector in which market forces are moderated. The Commission identified a number of factors that may restrain growth in the wages of the ECEC workforce, causing them to be less responsive to demand and quite rigid around the levels set by awards (box 11.4).

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

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

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

- the level of fragmentation of the ECEC sector and large number of small services, which makes large scale enterprise bargaining impractical
- the large number of workers that are female and/or from an ethnic/non-English speaking background which tends to increase vulnerability in bargaining
- many businesses operate on tight profit margins and where this is the case cost increases arising from increased staffing costs are more likely to be passed onto parents in the form of higher fees.

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

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

Box 11.4 Why are ECEC wages not more responsive to demand?

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

- Staff-to-child ratios restrict the scope for services to achieve productivity gains and real wage growth.
 - As ECEC workers' incomes are directly linked to the number of children in their care, staff-to-child ratios that limit the number of children in an ECEC worker's care also limit that worker's income.
- That small community run organisations may lack the expertise to negotiate enterprise-level bargaining arrangements or performance-based agreements and find paying award wages less complex.
 - As a result, award wages become the default wage-setting mechanism for a large number of ECEC workers.
- That ECEC workers feel constrained in asking for pay rises when they have to face parents who will bear the impact through fee increases.
 - This may mean that ECEC wages only increase as relevant awards increase.
 - This may also explain why waiting lists emerge as a means of rationing excess demand. ECEC services are not required to, and in general do not seem to, increase the fees paid by parents to clear waiting lists (chapter 10).

Source: PC (2011, pp. 66–67).

11.3 Recruitment, retention and workforce shortages

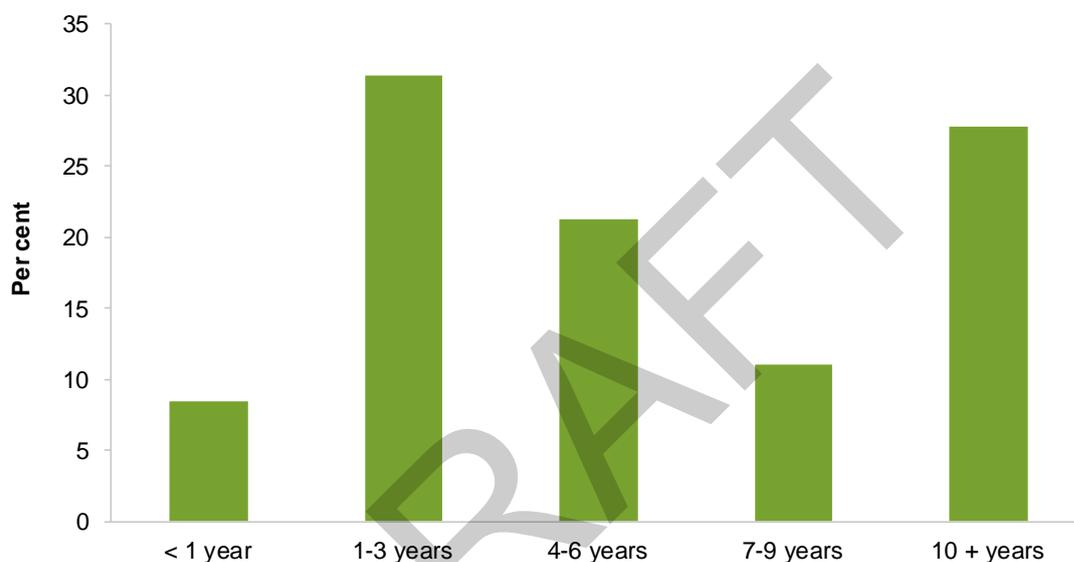
Around 60 per cent of the ECEC workforce (not including those working in the preschool sector) employed as paid contact staff have 4 or more years' experience in the sector. Around one quarter have 10 or more years' experience and around 8 per cent have less than one year's experience in the sector (figure 11.5).

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

Drawing on the ECEC workforce census (The Social Research Centre 2014), around 20 per cent of paid contact staff had less than one year's tenure with their current employer, 44.4 per cent had 1 to 3 years and 10 per cent had more than 10 year's tenure (figure 11.6).

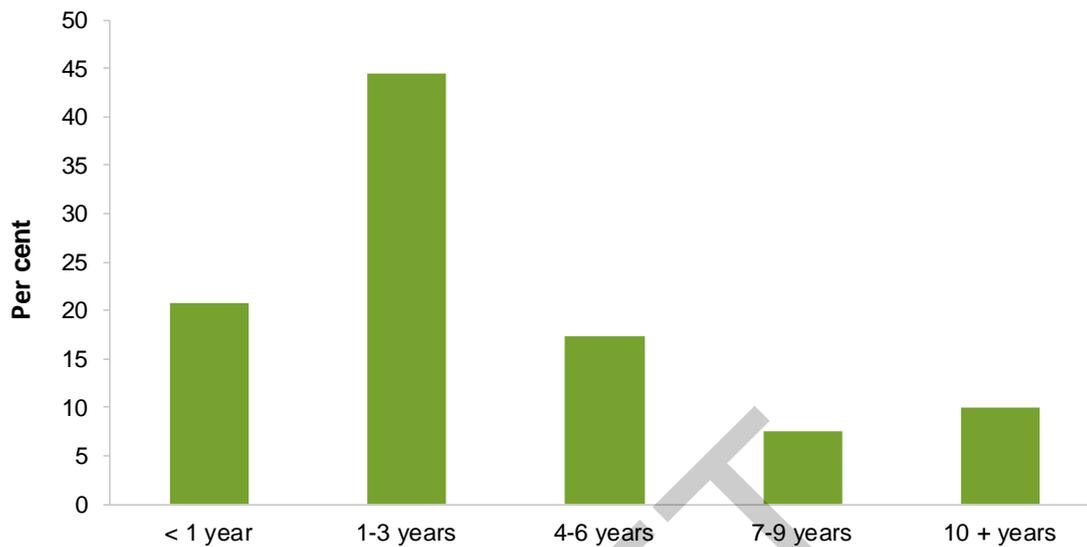
The 2013 National ECEC workforce census staff survey found that most workers (80.4 per cent) expected to be with the same employer or business in 12 months' time (The Social Research Centre 2014). The main reasons why staff thought they may finish their current job in the next 12 months were to seek work outside the sector (30.2 per cent), dissatisfaction with pay and conditions (28.5 per cent), return to study, travel or family reasons (22.4 per cent) and the job was stressful (20.5 per cent) (figure 11.7).

Figure 11.5 Years of experience of paid contact ECEC staff



Data source: Social Research Centre (2014).

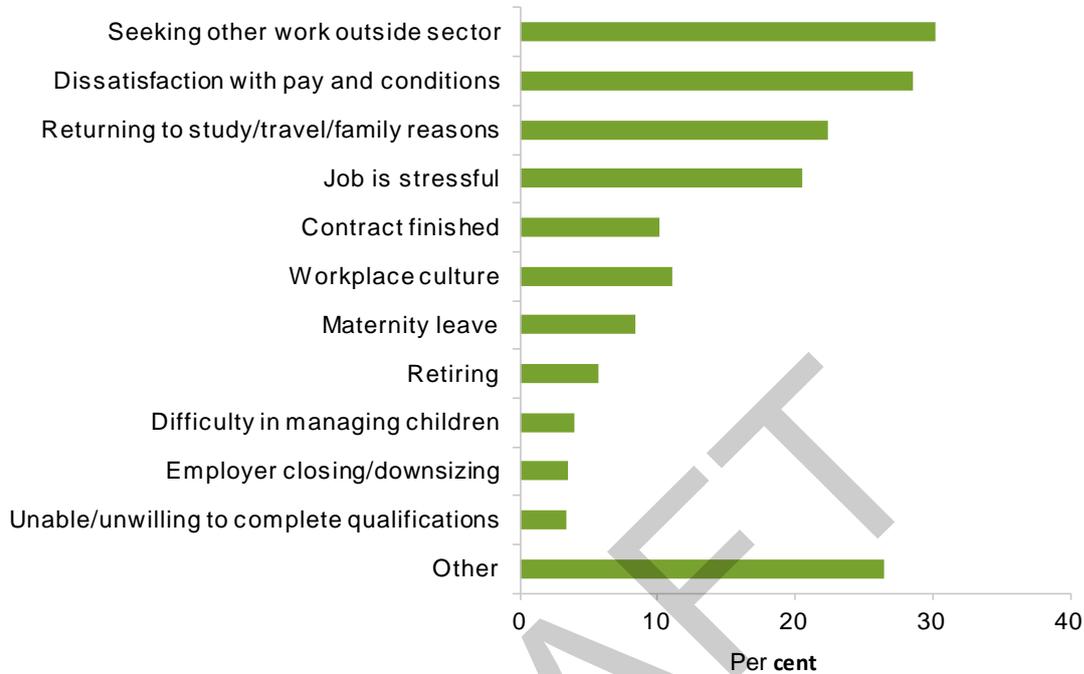
Figure 11.6 Tenure of paid contact staff with current employer



Data source: Social Research Centre (2014).

Submissions expressed concerns about the rate of turnover of ECEC staff (for example, ACTU, sub. 167 and United Voice, sub. 319). While staff turnover for the ECEC sector as a whole, at 15.7 per cent per year, is only slightly above that for the rest of the workforce (PC 2011), turnover appears to be a particular issue for certain classifications of staff (especially diploma qualified educators and teachers — see below) and in particular areas.

Figure 11.7 Main reasons why ECEC staff may finish their current job in the next 12 months



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

Data source: The Social Research Centre (2014).

Staff shortages

The Commission has been presented with substantial evidence in submissions of widespread staff shortages in the ECEC sector, particularly in long day care. A selection of comments from submissions about the difficulties attracting and retaining suitably qualified staff are included in box 11.5.

Box 11.5 **Participants comments on difficulties attracting and retaining qualified staff**

The City of Sydney said:

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

The Guardian Early Learning Group's experience was:

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

A small service told Child Care NSW:

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

Family Day Care Australia commented:

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

Australian Childcare Alliance found that:

In rural, remote and some regional areas it is almost impossible to recruit qualified educators. ...

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

SNAICC noted:

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

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

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

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

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

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

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

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

The Australian Government Department of Education commissioned a workforce review to inform governments of the progress of the children's education and care

sector towards meeting the new qualifications requirements and to identify any gaps or areas requiring attention and additional support.

Recruitment of ECTs a particular challenge

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

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

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

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

The extent of these challenges varies between jurisdictions and may vary between providers. For example, a sole operator may find it significantly harder to recruit

suitable staff than a large, well known provider — indeed, during consultations with the sector, a number of large providers indicated to the Commission they have no issues finding suitable staff due to their position as an ‘employer of choice’ for workers in the sector. In addition, although occasional care services are not included in the NQF, they maintain a similar workforce to long day care services and are likely to face increased competition for staff as a result.

Workforce shortages are particularly prevalent in regional and remote areas.

Workforce shortages are particularly prevalent in regional and remote areas. Services in these areas find recruitment especially challenging, both due to a lack of qualified staff in these areas and difficulty attracting staff from metropolitan areas (box 11.6).

Box 11.6 Rural and remote services struggle to find appropriate staff

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

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

In remote areas, qualified teachers are extremely difficult to access — relief teachers are rare. (Queensland Catholic Education Commission (QCEC), sub. 364, p. 9)

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

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

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

How is the sector responding?

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

For example, the University of New South Wales was noted in submissions as having little difficulty in attracting staff for its services:

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

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

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

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

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

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

What can governments do?

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

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

The selective use of targeted wage subsidies, which were discussed in section 11.2, is also a strategy for improving the attraction and retention of qualified workers where shortages are most acute. However, such subsidies may be ineffective and/or inefficient:

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

To ensure that the sector can attract and retain the workers required to provide appropriate services to children with additional needs, it is essential that sufficient government funding is available for inclusion support programs (chapter 12).

Governments should also consider other measures to increase the supply of workers in areas or for particular classifications, where shortages are acute. This includes measures to encourage more young people to consider a career in ECEC, incentives for retired teachers to re-enter the workforce, various training incentives (section 11.4) and perhaps measures to make it easier to recruit workers from overseas.

In relation to overseas recruitment, the Commission recommended in chapter 7 that ACECQA explore ways to make the requirements for approving international qualifications simpler and less prescriptive in order to reduce obstacles to attracting appropriately qualified educators from overseas. Some participants have also called

for diploma qualified ECTs to be added to the list of professions that qualify for 457 visas. Guardian Early Learning Group, for example, submitted:

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

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

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

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

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

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

The Commission's view is that any recruitment, retention and workforce shortages issues in the ECEC sector are most effectively addressed by allowing the sector to respond through higher wages, better conditions and improved career opportunities. The use of wage subsidies to attract and retain qualified staff in areas of acute

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

11.4 Training and development

The implementation of the NQF has greatly increased the demand for qualified ECEC workers and this has had a flow on effect on demand for vocational education and training (VET) and higher education degree courses.

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

Concerns about training quality

Numerous submissions raised concerns about the quality of training received by graduates who have undertaken an ECEC qualification, particularly at the Certificate III and diploma level (box 11.7).

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

The Commission (2011) has previously noted that unless concerns about poor training quality are addressed, much of any increased investment in vocational education and training could be wasted.

Box 11.7 Concerns raised about training quality

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

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

The Australian Childcare Alliance commented:

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

KU Children's Services noted:

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

The Australian Skills Quality Authority (ASQA) is currently conducting a review into early childhood development workforce training, including audits of Registered Training Organisations (RTOs) delivering relevant Certificate III and diploma qualifications, prompted by concerns raised by the Commission (box 11.8).

Box 11.8 ASQA Strategic Industry Review

Preliminary data (unpublished) from ASQA's ongoing Strategic Industry Review of Training for the Childcare and Early Learning Sector shows that over 80 per cent of the 46 RTOs that have completed the audit process were found to be not compliant against the continuing standards for registration at the initial audit assessment.

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

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

DRAFT RECOMMENDATION 11.1

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

Government support for training

The Australian Government has funded a number of programs with the aim of lowering the cost of obtaining qualifications and assisting with the workforce development needs of the ECEC sector. This includes subsidising Certificate IIIs, waiving diploma fees, scholarships and supporting early childhood teachers with their HECS debts.

Under the National Partnership Agreement on TAFE Fee Waivers for Childcare Qualifications, state and territory TAFE institutes and other government providers of vocational education and training agreed not to levy regulated course fees on students undertaking eligible childcare courses (childcare diplomas and advanced diplomas). The Australian Government has provided funding to the states and territories for all regulated fee revenue foregone, but funding has not been extended beyond the agreement's scheduled expiry on 31 December 2014.

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

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

However, governments can also help address workforce shortages and improve the quality of services provided by continuing, in a selective and targeted way, to provide assistance to facilitate access to training. Priority should be given to

programs that will increase the supply of qualified workers where shortages are most acute, for example in regional and remote areas and for diploma qualified workers. As previously recommended by the Commission, governments should also:

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

Professional development and support

Ongoing learning through professional development is important for ECEC workers in order to maintain and improve their skills and ensure they remain up-to-date with the latest information and research about children's learning and development.

Professional development for most ECEC workers has been delivered through the Australian Government's Professional Support Program (chapter 4). As part of the program, Professional Support Coordinators organise advice and training for ECEC workers on a variety of topics.

Details of a new time-limited professional development program, exclusively for long day care services, were announced in May 2014 (box 11.9).

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

Trainees and on the job training

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

Box 11.9 Long Day Care Professional Development Program

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

All Child Care Benefit approved long day care providers were eligible to apply for the \$200 million available under the program, with the exception of providers that entered into a written funding agreement with the Commonwealth under the Early Years Quality Fund. However the window for receipt of applications was limited to less than one month (applications opened on 19 May and closed on 13 June).

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

Source: Department of Education (2013b).

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

When ECT’s have worked within a long day care service during or prior to completing their university studies, they appear a better fit for long term employment than an ECT straight out of University with no practical, hands on experience in the LDC sector. ...

The apprenticeship model where the student is trained whilst working in a long day care centre proves a better outcome for the student, the children and employers. The student’s future workforce participation and value as an Educator is enriched (sub. 310, pp. 40, 42)

In New Zealand, PORSE Education and Training, which is an in-home child care service and accredited private training body with a focus on ECEC, operates a successful Nanny Intern Program for young adults interested in working in ECEC (box 11.10).

Box 11.10 New Zealand Nanny Intern Program

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

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

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

Source: PORSE Education and Training (2014).

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

Recognition of prior learning

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

However, the gains of retaining experienced employees and removing unnecessary training costs need to be balanced against the aim of ensuring minimum quality standards are maintained for the ECEC workforce.

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

In principle, the Commission sees considerable value in recognising, wherever possible, existing skills and experience as an alternative to requiring the acquisition of formal qualifications, including those older more experienced workers who may have left the sector. It is important that the focus is on capacities to deliver outcomes, rather than purely on the qualifications obtained. Anecdotal evidence suggests many experienced workers are leaving the sector because they do not want to make the investment of time and money to upgrade their qualifications to meet NQF requirements. But it is important that the right balance is struck and that objective and consistent assessments are able to be made of the competencies and capacities of workers where prior learning is recognised.

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

12 Funding options

Key points

- The Commission's proposed funding system aims to maximise *additional* child development and workforce participation outcomes, with different approaches for mainstream ECEC services, services for children with additional needs, and preschool services.
- ECEC services will continue to be funded mainly through a demand-based system on a per child basis. The Early Care and Learning Subsidy (ECLS) will:
 - be available for approved centre based care (including long day care, occasional care and outside school hours care) and approved home based care (including family day care and nannies)
 - apply to the hours of care charged for, up to 100 hours of care a fortnight
 - be based on family income and meeting an activity test
 - apply (on a percentage basis) to a deemed hourly cost that is sufficient to fully cover the cost of a service satisfying the NQF, be updated annually, and vary between the types of ECEC service and age of child
 - be paid directly to the parents' choice of provider, and transparently passed on to families as a discount in the fees charged.
- Viability assistance will be available to some services in rural and remote areas that would otherwise not be financially viable due to fluctuating demand.
- Children with additional needs ('at risk' of abuse or neglect, with a diagnosed disability, or from communities with a higher rate of developmental vulnerability) will be supported to attend suitable ECEC services through:
 - child-based funding for their additional needs through Special ECLS (SECLS)
 - block-funded programs in their communities (particularly for Indigenous children)
 - grants to providers to build capacity to meet additional needs.
- Block-funded programs should aim to transition to child-based (ECLS and SECLS) funding, with their funding freed up to support new programs that will also transition.
- Funding will promote integrated approaches to providing services in disadvantaged communities, with block funding for their coordination made available.
- The allocation of funding for, regulations applying to, and delivery of, preschool services will remain the responsibility of the states and territories. The Australian Government will contribute funding for each child attending a state and territory funded preschool program (sufficient to support preschool attendance of children for 15 hours for 40 weeks in the year prior to them starting school).
 - If state and territory governments do not direct funds to preschool delivered in Long Day Care (LDC) settings the LDC service will receive Australian Government funding for these hours, and payments to the states and territories will be adjusted accordingly.

This chapter assesses options for taxpayer funding of ECEC services and sets out the Commission's recommended approach, drawing on the key messages from earlier chapters. The impacts of the Commission's preferred model are considered in detail in chapter 13.

12.1 Commission's approach to evaluating funding options

In evaluating options for funding ECEC services, the Commission has sought to identify options that are likely to generate the biggest improvement in the welfare of the community as a whole, including people not using ECEC services. As parents are generally best placed to judge what is in the interests of their child, and make their own workforce decisions, the Commission's aim is to design an ECEC funding system that enables and encourages choices that are good for the family and the community.

Achieving the Australian Government's objectives of child development and workforce participation has 'spillover' benefits to the community as well as 'private' benefits for the children and families who receive support. Maximising these benefits requires that policies and programs are, to the extent possible, efficient — that is, not only are the costs of delivering quality services minimised, but public funding is also allocated in a way that delivers the greatest net return to the community.

The role of Australian Government funding for ECEC services is mainly about improving affordability of these services to families who would otherwise not be able to access the child development opportunities and/or participate in the workforce.

Consideration needs to be given to funding some ECEC services that the market will not provide due to the cost of providing the service relative to the willingness (and ability) of the families to pay. High costs per child may be due to location and/or low numbers of children, or due to the additional needs of the child. There are also some parents who, for affordability or other reasons, do not access ECEC services that would benefit their child and the wider community. The funding model for ECEC should address these issues, as well as empower parents to make choices that are in their child's, as well as their own, long-term best interests. Public funding can be justified if it delivers positive outcomes (in excess of the value of the funding) to the community, such as improved productivity and higher economic growth, lower social welfare costs, and enhanced social capital (appendix K). But it

is also about improving opportunities for children to fulfil their potential, and about giving mothers more opportunity to participate in the workforce.

An efficient use of public funds would maximise:

- additional child development outcomes — which are most likely to come from universal preschool education, and ECEC for children with developmental vulnerabilities and those with additional needs (chapters 8 and 5)
- additional workforce participation — out-of-pocket childcare expenses can be a major impediment to workforce participation as most people are reluctant to work for a low net wage, even if they recognise the effect of their choices on their future income (chapter 6).

Trade-offs in achieving these ideals are, however, inevitable.

The funding system should be easy to use for both families and providers. Improvements that might otherwise enhance allocative efficiency do not enhance overall efficiency if the design of the system results in an increase in administrative or compliance complexity and the associated costs outweigh the gains from a better allocation⁵⁷.

While the terms of reference require the Commission to recommend funding options within the Government's existing budgetary commitments to the sector, the starting point is to design an efficient system that achieves the Government's objectives and achieves the highest community wellbeing for the funding available.

The proposed funding model is designed so that governments can scale up (or down) the funding provided.

The main concerns about current funding arrangements

There are a number of concerns with current funding arrangements that have been well documented in other chapters.

- While there are a multitude of programs targeted at children with additional needs (at least 20 funded by the Australian Government and many more by state and territory governments), establishing eligibility to access services is often

⁵⁷ Economists distinguish between improvements in allocative efficiency, which comes from allocating resources to produce things that people value more and productive efficiency, which is producing the most output for any given level of inputs. Getting better at doing things that people don't value does not contribute much to community wellbeing, so allocative efficiency is as, if not more, important than productive efficiency.

complex, assistance and hours of use are capped, and continuity is uncertain for programs relying on annual appropriations.

- Workforce participation (both entry to the workforce and hours worked) can be discouraged under current funding arrangements. Childcare costs, along with additional income tax and loss of Family Tax Benefits (FTB) and other welfare payments as income rises, can reduce the net wage from working to below even a low reservation wage⁵⁸ (chapter 6). In addition, the Child Care Rebate (CCR) cap is typically reached by using three full days of childcare per week over a year. This may encourage mothers to work part time (and in some case for both parents to work part time to share two days of parental care).
- The child-based assistance measures are complex and costly to administer. While the Child Care Benefit (CCB) can be transferred to providers to pass on as a fee discount, the CCR is a rebate to families. There is anecdotal evidence of overdue accounts and of families claiming government support for ECEC and then not meeting their fee obligations to providers. The CCB formula is complicated, making it difficult for providers to advise families on what their out-of-pocket costs will be. Arrangements for the payment of benefits to registered carers are especially costly for the Australian Government to administer (chapter 9).
- Providers do not compete on a level playing field, as not-for-profit providers are able to access Fringe Benefits Tax (FBT) exemptions and other concessions depending on their charitable status (chapter 10). Employer provided childcare can be FBT free for their employees, although, as they are then not eligible for CCB or CCR, take up of this has been much lower than before CCR was introduced.
- Fees (both before and after assistance) often do not reflect the full costs of care. In some cases families pay a small fixed co-payment (particularly when receiving Jobs, Education & Training Childcare Fee Assistance (JETCCFA)) that is unrelated to the cost of care and in some services there is a flat fee structure such that families of younger children are substantially cross subsidised by those of older children. In general, an efficient decision about how much ECEC to use requires families to face cost reflective pricing, even if they do not bear all this cost.
- Public subsidies can go toward funding a quality of care beyond what is needed to satisfy the NQF, as the current CCR applies to the total expenditure on approved ECEC by the family. If families use ECEC services for only a few

⁵⁸ The reservation wage is the hourly return after tax, any loss of tax benefits, and out-of-pocket expenses associated with working (notably childcare), that someone has to get to induce them to work (see chapter 6 for details).

days a week (and hence stay under the cap), this arrangement means that the public will fund 50 per cent of the cost of even very expensive services (chapter 9). Public funds are likely to be better spent increasing access to services or supporting children with additional needs rather than subsidising higher end services.

- The fiscal sustainability of the current ECEC system is uncertain. Among a range of influences, the design of the CCR has contributed to fee increases and rapid growth in the cost to taxpayers which is expected to continue. The costs associated with the Special Childcare Benefit (SCCB) and JETCCFA have been growing rapidly, with some evidence of questionable claims that, at a minimum, warrant some tightening of eligibility criteria (chapter 9). Not all states and territories pass on the Australian Government preschool funding to services providing preschool in Long Day Care (LDC) centres and these children's preschool costs are also subsidised through the CCB and CCR (below).

To the extent that the proposed funding scheme resolves some or all of these problems (and does not create new ones) it should deliver a more efficient and equitable funding system than the current arrangements.

12.2 Different funding models

A wide variety of funding options, often in combination, have been adopted in OECD countries, including Australia. While the quantum of funding can affect which models are possible, the Commission's aim is to design a system that is efficient at most foreseeable levels of funding.

The key features of a funding model are whether the funding is child-based (demand side) or provider based (supply side) and the mechanism through which assistance is provided — grants, subsidies, rebates, tax credits, tax concessions, or loans. Countries differ greatly in the extent to which they use any or all of these ways of assisting ECEC services (appendix I), suggesting there is no one 'right' option.

Demand-based or supply-based funding?

Demand-based funding

The main feature of demand-driven funding models is that the payment follows the child. Payments can be made directly to families, who may sign these payments

over to providers, or be paid directly to providers. Payments to providers could also be on the basis of actual use or on projected use and adjusted for actual use once this is known.

The main advantage of parent-directed funding is that it facilitates choice, which encourages supply to respond to the preferences of families, including about where centres are established and the type of care provided. This provides a source of (allocative) efficiency if providers are responsive to demand. However, if the fees families pay do not reflect the cost of supply the demand signals may not be efficient (chapter 10). For example, if providers cross subsidise infants by charging a fee based on the average cost across all ages in the service, families will demand more services for infants and fewer for preschool children than would be the case with cost-reflective pricing.

How well the market functions depends in part on the ability of families to exercise choice. This requires that alternative providers are available and that families can observe the quality of care provided. Lack of information can mean that parents are not well placed to assess the quality of ECEC alternatives (chapter 10). Concerns have also been raised that families may not appreciate the importance of quality to their child's development (for example, Cleveland and Krashinsky 2004; Guardian Early Learning Group, sub. 274; National Out of School Hours Services Association (NOSHSA), sub. 371). Quality standards are a response to such concerns (chapter 7).

Demand-based funding can be provided through the:

- tax system as rebates, tax credits or deductions — while tax deductions can be applied as part of the regular income tax payment, leaving families with higher post tax take-home pay, rebates and credits are usually paid annually on completion of a tax return
- social security system as subsidies to actual expenditure, or as a dollar entitlement for use of ECEC services — the frequency of payments is a question of the design of the system. Payments can be made directly to the families who use this to pay providers, or 'signed over' to providers.

Supply-based funding

The alternative to demand-based funding is to fund some or all providers to supply ECEC services, usually to particular client groups. For the allocation of such funds governments usually set quality criteria and eligibility requirements for use of the services. In most supply-based systems families pay a fixed co-payment, and the government is effectively the purchaser of the services. This is the way dedicated

preschools are funded in Australia. Families using supply-based services can still have choice of provider, but choice is limited to the providers funded by government.

Efficiency will depend largely on the governance arrangements to ensure quality and cost-effective supply, and in the allocation of places to services. Some submissions (such as Cox, sub. 189) argued that ECEC services are more efficiently delivered under government purchasing (or provision) arrangements. This is not without basis as an OECD review concluded that supply-side funding mechanisms may lead to better outcomes for children and families:

The evidence suggests that direct public funding of services brings more effective governmental steering of early childhood services, advantages of scale, better national quality, more effective training for educators and a higher degree of equity in access compared with parent subsidy models. (Family Day Care Australia, sub. 301, p. 6)

Supply-based funding is a feature of a number of international ECEC funding models such as in Ontario, Finland, Italy, and several Scandinavian countries (appendix I). In general, the model is used where services are provided at low or no cost to families. Hence, the OECD conclusion could be more due to the quantum of funding than the funding mechanism, although the government role in ensuring quality in the services that it pays for clearly matters. There may also be scale advantages in public provision of services, although supply-based funded services can, and often are, delivered by private and not-for-profit providers. In addition, the arrangements for awarding the contract will affect the costs for both providers and government. In assessing the efficiency of any supply-based option, the costs of running and responding to a competitive tender need to be set against the improvement in efficiency arising from the competitive process.

Supply-based payments to providers can be linked to projected demand, but most systems aim to make the service available at some defined scale. They may cover all or part of the provider's funding requirements (with the rest covered by co-payments or in some cases charitable funding), and are made usually under a contract with the relevant government agency.

From a provider view point, a supply-based funding model can give a more reliable cash flow as providers are usually paid for a certain number of places whether occupied or not. It also largely overcomes the problem of bad debts from parents (although making government payments directly to providers in demand-funded models can achieve the same outcome). However, supply-based funding may be more susceptible to government budget pressures.

A single demand-based payment mechanism is more efficient for mainstream services but some supply-based programs are still needed

There is no compelling case to shift from a demand-based to a supply-based model for mainstream ECEC funding in Australia, notwithstanding possible productive efficiency advantages. The current demand-based system has proved to be highly responsive to the demand for services. The diversity it offers is appreciated by families and any shift to a predominantly supply-based system would likely result in less variety in service provision, reducing the choices available. In addition, a shift to a supply-based system would be highly disruptive, even if government contracts with the private sector for the provision of services.

While the bulk of current Australian Government funding is demand-based, there are some supply-based or block-funded programs that fully or partially fund ECEC services. As the Department of Education noted in their submission:

In practice, many of the supply-side programmes were created to address specific policy issues and have tended to become increasingly complex for government to administer and for providers to navigate as those specific issues have evolved. (sub. 147, p. 27)

In the Commission's view, a more flexible demand-based funding system, where the subsidy provided relates to the cost of actually providing the service, should resolve many of the specific issues that supply-based funding was developed to address. Nevertheless, there will continue to be some types of services where supply-based arrangements will be a more efficient way to deliver ECEC services to target groups. Where possible, the funding arrangements should encourage a shift to child-based funding, and block funding should be supplementary, and designed to be transitional rather than permanent.

Multiple funding systems tend to raise the overall administration cost to Government and providers, particularly where families have discretion about which way they receive their subsidy. They can also make it difficult for families to work out what their subsidies would be. So clarity on what services are available and how they are funded, as well as simplicity in the funding formulas where possible, is important for the efficient and effective functioning of the system. While the Commission supports the consolidation of the current child-based funding arrangements, there are a number of ways this can be done other than through direct use-based subsidies (section 12.4).

Tax deductibility and tax credits

Some participants to this inquiry have advocated tax deductibility of ECEC out-of-pocket costs as a mechanism for delivering support to families (for example, The Tax Institute, sub. 166; National In Home Childcare Association, sub. 365; Dial an Angel, sub. 135). Other participants did not favour this option or expressed reservations because of the regressive nature of the approach (for example, Shop Distributive and Allied Employees Association, sub. 74; Guardian Early Learning Group, sub. 274; Australian Childcare Alliance, sub. 310).

While childcare costs are fully or partly tax deductible in some countries (for example, Canada, Austria and Belgium) this is not the case under Australian tax law. An employee is entitled, under section 51(1) of the *Income Tax Assessment Act 1997*, to claim a deduction for expenditure incurred in gaining or producing assessable income. However, this does not include any expenditure of a capital, private or domestic nature, irrespective of whether that expenditure is necessary in order to earn income. Childcare expenses have been determined to be private and domestic in nature (*Lodge v. F.C of T.*; *Martin v. F.C of T.*, Taxation Determination TD 92/154). Reversing this determination may give rise to calls for other expenses, previously considered to be of a private and domestic nature, to be allowable deductions, which would further narrow the income tax base.

The main advantage of tax deductibility is that it increases the incentives for high income mothers to work more hours. As the Tax Institute argued:

Tax deductions for the costs of child care, if appropriately targeted, would encourage highly educated women who bear the primary responsibility for domestic duties to return to work. (sub. 166, p. 3)

However, the corollary that the tax deduction would be offset by tax revenue from higher income, as argued by Louise McBride, Sophie Grace Pty Ltd and Sophie Grace Legal (sub. 431), is unlikely (box 12.1).

The main disadvantage of tax deductibility is it provides relatively higher benefits for higher income earners. In addition, to the extent that high income mothers are more likely to work, additionality is low. Recent modelling by AMP.NATSEM found that not only would a shift to tax deductibility make most families worse off than under current arrangements, but it makes low and middle income families considerably worse off (Phillips 2014).

As an additional complication, allowing out-of-pocket ECEC costs as a tax

Box 12.1 **The fiscal implications of tax deductibility of ECEC expenses instead of CCR**

While mothers working more is likely to bring a fiscal benefit to the Australian Government (in terms of increased tax revenues and reductions in welfare payments), it is extremely unlikely that allowing ECEC out-of-pocket costs to be tax deductible would 'pay for itself'. This is for several reasons:

- Mothers in high income families already working full time would only want to switch from current CCR assistance if their income was over \$57 000, which is where the value of the tax concession exceeds the current CCR. Dependent on family income and, hence, on how much CCB they also receive, the income switch point will be higher, but those that do switch will end up increasing rather than decreasing the fiscal cost (they will not switch unless the effective subsidy is more generous).
- Early Childhood Australia estimated that family income would have to be \$185 000 for the tax deduction to be worth more than the current policy (based on one child in LDC at \$366 a week) (sub. 383).
- A shift to tax deductibility would benefit mothers on high incomes (raising their share of ECEC costs paid for by Government from 36 per cent to 45 per cent for women on incomes greater than \$204 000) at the expense of low income mothers with low family incomes.
- For mothers already working part time, an increase in their hours worked is only worthwhile if the tax concession is worth more than what they would receive from CCR/CCB assistance. As the top marginal tax rate (45 per cent) is below the 50 per cent rate of CCR, only those families who have hit the cap would prefer a tax deduction. For many mothers a switch from CCR/CCB assistance to tax deductibility would reduce rather than increase their hours worked as it would reduce their net wage.
- The Commission has estimated that for there to be a net fiscal improvement, mothers' wages would need to increase by at least twice the amount of childcare fees over \$15 000 per year before income tax revenue exceeded the savings in expenditure on the CCR.

Under the Commission's draft recommendations, high income families would receive lower rates of subsidies than under current arrangements, which would make tax deductibility more attractive for many families.

Source: Commission estimates based on current arrangements and tax rates.

deduction could see a rise in FTB payments unless the deduction was added back into family income for these means tested benefits. A further concern raised by the Shop Distributors and Allied Employees' Association is that tax deductibility could potentially lead to 'stratification' of the ECEC system:

Wealthy parents would pay more, knowing they could claim such costs on their tax. Over time, this would lead to the children of high income families being grouped

together in certain centres and the children of lower income families being grouped together in other centres (sub. 74, p. 12).

Recognising the income regressive nature of tax deductibility, several participants suggested it should be considered in conjunction with other support measures that would assist lower income families (for example, The Tax Institute, sub. 166). However, the Henry Tax Review (2009, section F4-2) highlighted the administration and compliance costs that would be associated with a dual system of tax deductions and transfer payments, noting that it is likely to be simpler to provide assistance through a single mechanism in the transfer system. The Henry Tax Review concluded that child care assistance is more effectively provided through the payments system rather than through a tax deduction.

The Commission agrees with this assessment and does not support tax deductibility as a funding model. It also notes that tax deductibility (at least of out-of-pocket expenses) does not address the limitations of the CCR in restraining growth in high end or premium services, as these additional costs are effectively shared with the tax payer.

Tax rebate/credit

Tax rebates and credits to offset the cost of ECEC are designed to be less income regressive than tax deductions. While tax credits only provide support if the worker pays more tax than the credit, a flat rebate (such as the original Child Care Tax Rebate) or refundable tax offset provides the same benefit to all taxpayers for a given ECEC outlay regardless of their income levels. However, with a relatively high income free tax threshold, a tax offset is of no or little value to workers who have no or a very low tax liability.

Tax credits are fairly commonly used to improve the affordability of ECEC services, for example, in the United States, the United Kingdom, the Netherlands, France and New Zealand. In France the fully refundable tax credit was recently doubled (OECD 2012). The tax credit in the United Kingdom is available for up to 70 pence for every pound spent on childcare costs up to a limit.

In principle, tax credits can be designed to be progressive, paying a higher dollar rebate or offset to workers on lower incomes. They could also include a means test so that once an individual's income exceeded a certain threshold, they would no longer be eligible to claim the rebate. However, this largely equates to using the tax system as a payment vehicle for a means tested subsidy scheme. The main difference is that linking to the tax system limits payments to those people who file

tax returns. In addition, the frequency of payment is likely to be annual, reducing the value of the rebate for managing the costs of ECEC services.

Employer-provided childcare and Fringe Benefits Tax exemption

A model very similar to allowing tax deductions for childcare is to exempt employer provision or purchase of childcare for their employees from the assessable income of these employees. Currently an exemption from Fringe Benefits Tax (FBT)⁵⁹ applies for use of child care services provided for the benefit of employees *on the employer's business premises*. Employers can allow employees to salary sacrifice the cost of childcare when using these facilities (which provides a benefit to the employee that is similar to that afforded by allowing expenses as a tax deduction).

As accepting this arrangement precludes the family from accessing CCB and CCR, it is mainly used by full time employees on high incomes (Early Childhood Australia, for example, estimate that with one child the income flip point from moving to employer based arrangements is \$180 000, sub. 383, p. 54). It may also be possible for families to use the employer provided services on an FBT exempt basis once they have reached the CCR threshold, although the extent to which this is the case is not known. What evidence there is suggests that the current employer provided FBT exemption scheme is not widely used. For example, McMillan Shakespeare's survey of 100 large companies found only 2 per cent have sought FBT exemption. As McMillan Shakespeare conclude:

The transfer system has also developed to the point where it actively provides a disincentive to any parent other than those on high incomes to incur childcare costs on a before tax basis. (sub. 439, p. 3)

Participants (Australian Childcare Alliance, sub. 310; ANZ, sub. 125; Australian Industry Group, sub. 295; Australian Chamber of Commerce and Industry, sub. 324; MacMillan and Shakespeare, sub. 439) suggested other reasons why the scheme is not popular. They noted that many employers outsource the operation of their 'on-premise' LDC. Also, parents prefer LDCs in their local area because they facilitate pick up by either parent and for the social contacts for the children and

⁵⁹ Section 47(2) in the *Fringe Benefits Tax Assessment Act 1986* Act exempts from FBT childcare services provided for employees by employers in a facility that is located on the business premises of the employer (which has been interpreted by the High Court as premises leased by the employer, even if services are then contracted out). Section 47(8) of the Act gives FBT exempt status on contributions made by employers to approved programs to obtain priority access for the children of their employees.

families. Further, employers can find it difficult to meet the legislative requirements for the FBT exemption.

A number of participants have called for FBT exemptions to be extended to any childcare services purchased by an employer (for example, Australian Childcare Alliance, sub. 310; Australian Industry Group, sub. 295; Australian Chamber of Commerce and Industry, sub. 324; Institute of Chartered Accountants, sub. 369; McMillan Shakespeare, sub. 439). While this would correct the inequity of the current system for some employees, not all employers are likely to be able to provide, or purchase, childcare for their employees. Moreover, as set out in the above discussion of tax deductibility, this approach affects people on low incomes more than those on high incomes and involves potentially large tax expenditures.

The one advantage of this approach over tax deductibility is that it will involve employers in assisting their workers to access ECEC services. This may influence employer and employee attitudes about workplace flexibility that is important for increasing workforce participation of parents (chapter 6). Given the other problems noted with the approach, however, other ways of encouraging employers to support their employee's access to ECEC services should be encouraged. This includes retaining FBT 47(8), which enables businesses to obtain priority access for children of their employees without this being considered an expenditure subject to FBT, and clarifying what constitutes legitimate business expenditures for tax purposes.

One issue to be considered if the employer provided ECEC tax exemption is retained is what might happen under an alternative approach to providing mainstream support. Any move to make the funding system less generous to higher income workers would be likely to lead to an expanded use of this provision. Given case against the use of tax concessions, the scope for greater use under different funding arrangements, and the apparently low current use, the Commission concurs with recommendation (101) of the Henry Tax Review (2009) to remove the FBT exemption on employer provided childcare. As the Henry Tax Review (Henry Tax Review 2009, p. 594) pointed out, '[T]he FBT exemption is now a remnant of an older system of support largely overtaken by an alternative system of direct support.'

DRAFT RECOMMENDATION 12.1

The Australian Government should remove section 47(2) from the Fringe Benefits Tax Act 1986, that is, the eligibility for Fringe Benefit Tax concessions for employer provided ECEC services. It should retain section 47(8), which enables businesses to purchase access rights for children of their employees without this being considered an expenditure subject to the Fringe Benefits Tax.

Income-contingent loans

An alternative funding option involves the use of income-contingent loans. This has been raised before.⁶⁰ Government loans could be offered to families to meet out-of-pocket expenses (after receipt of any government assistance under other arrangements) or such arrangements could be introduced as a substitute for other forms of ECEC assistance.

An income contingent loan is an arrangement for the repayment of a loan that commences only when the income of the borrower exceeds a threshold. This type of deferred repayment arrangement was introduced in Australia for university student loans in 1989.

The main justification for the Australian Government to subsidise a loan for tertiary education is to finance investment that will generate an income sufficient to repay the loan and interest. Maintaining attachment to the workforce, including minimising time away from work after the birth of a child, may also be viewed as an investment as it is likely to contribute to higher earnings in the future (appendix K). The other main reason for taking a loan is ‘consumption smoothing’ over time. Many families might reasonably expect their incomes to be higher in the future and their expenses lower as children reach school age. Home mortgages are an example of consumption smoothing.

The case for an income-contingent loan scheme depends on whether access to finance is a significant barrier to the family’s preferred utilisation of ECEC services. While this may be the case for some families, many more have home mortgages suggesting that they can access finance. In any case, ECEC is needed in order to be able to work, and would only be difficult to finance (and fund) if the costs of working (including childcare costs) exceed the after tax and transfer adjusted wage. That is, the net wage is negative.

There are some additional concerns with the income contingent loan approach:

- Any interest rate differential between home mortgages or other debt and the loan offered by the Government will provide an incentive to take the loan and use it to reduce other borrowings.
- Repayments would only commence when, or indeed if, the relevant parent’s income reaches the threshold level (this was \$51 309 for the Higher Education Loan Program in 2013-14). If this is the income of the mother, this adds to the effective marginal tax rate (EMTR) of returning to work or increasing the hours

⁶⁰ Higgins and Withers (2009), in a survey of Australian attitudes to income-contingent loans found very low levels of support for the use of income contingent loans for ECEC expenses.

of work, and hence is an additional disincentive to any work effort that takes income beyond the threshold for repayment.

- If the loan repayment threshold is imposed on family income, then a decision on how to allocate the loan obligations across the two parents is required. If family income is used as the base, repayment is likely to start immediately.

Low income families may benefit if they normally only have access to high cost credit. However, unless lower income thresholds are applied, the scheme may end up closer to a grant than a loan scheme for some of these families.

The cost to taxpayers of such a loan scheme will depend on the specific design of the scheme, including effective interest rates and income thresholds for repayment. While in theory the cost is likely to be lower than grant-based schemes, this assumes a high rate of repayment. If take up rates are high, the repayment rates are likely to be much lower and/or over much longer terms, both of which raise the cost of the scheme.

Given these concerns the Commission does not support the adoption of an income contingent loan for ECEC expenses.

Tax and other concessions for providers

Australian governments provide a range of tax concessions to eligible not-for-profit organisations. At the Australian Government level these include exemptions from income tax and FBT, refunds of franking credits on investments, and some GST concessions. At the state and territory level, specific concessions and eligibility criteria differ between jurisdictions, but can include, for example, exemption from payroll, land tax and other input taxes, as well as municipal rates (chapter 10).

Participants representing the for-profit sector (for example Dial an Angel, sub. 135) have raised concerns about the competitive advantage various tax concessions afford not-for-profit providers. Previous work by the Commission (PC 2010) found that FBT exemptions are also inequitable — usually higher paid employees of not-for-profit organisations and those from higher income families who can afford to reallocate their income to expenditures (such as mortgages) can make the greatest use of FBT exemptions. The Commission concluded that the system of tax concessions is ‘complex, inefficient and inequitable, imposing substantial administrative costs on both not-for-profit organisations and governments’ (PC 2010). The Henry Tax Review (2009) also recommended that FBT concessions for not-for-profit organisations should be phased out over ten years and replaced

with direct government funding (recommendation 43) — a recommendation also supported by the National Commission of Audit (2014).

The Commission supports this approach and does not agree with the suggestion by some participants of extending the same concessions to all ECEC providers. As the current funding arrangements do not distinguish between for-profit and not-for-profit providers, such concessions should not be required for financial viability. Moreover, supporting not-for-profit organisations through tax concessions is less transparent than providing direct subsidies or grants. Extending concessions would create further distortions as other sectors competing for resources with the ECEC sector would be disadvantaged.

For not-for-profit providers that supply services to children with additional needs, the tax concessions may be important for financial viability. Moving to a model that better funds the costs of meeting additional needs should remove any case for retaining FBT concessions to these providers. Indeed, should such a model be adopted and tax concessions not removed, the Government will effectively be paying twice for services offered by not-for-profit providers. As all ECEC funding is being reviewed in this inquiry, this is an ideal opportunity to make the adjustment away from a reliance on tax concessions as a source of funding, and the draft recommendation is made in chapter 10 that tax concessions to not-for-profit organisations should be phased out.

12.3 Managing the cost to government

In supply-based subsidy systems governments can fix price and quantity based on the budget they have available. Shortfalls are managed through rationing. In demand-based systems, where rationing is not an option, various other approaches have been used to limit the fiscal exposure of governments. These options include the use of limits on subsidies, use of a deemed cost rather than the actual fees charged by providers, means testing (which rations subsidies rather than use), and other eligibility limitations, such as activity tests. This section considers the various options for managing fiscal cost, while also promoting the objectives of child development and workforce participation.

Use of caps

The easiest way to limit government expenditure on ECEC is to provide a fixed annual subsidy to eligible users of ECEC services. Unless the fixed subsidy

distinguishes on the basis of the characteristics of the family, it is unlikely to promote the goals of child development or workforce participation.

If the CCR cap was binding for most families, this would be a major issue. Anecdotal evidence suggests that many families already vary their working hours or make other arrangements to avoid the need to pay the full fees for ECEC services to stay under the \$7500 cap. As a result the cap acts to restrain the hours that the second income earner, or even both parents, are willing to work. For example, a parent who uses ECEC services commented:

The capped rebate is anti-full time employment and anti-career. It primarily affects women as secondary earners, so is also inherently misogynistic, and achieves the opposite of what was spouted - it drives women back home, depriving them, their families and the community of independent, industrious workers. (comment no. 49, people who use education and care services).

Another asked:

... why is it capped at \$7,500 a child? Is this to limit the amount of hours we are working? (comment no. 205, people who use education and care services).

The Commission regards a cap on the amount of subsidy per child to be a crude means of cost management for government, which could have unintended consequences. The freeze on the cap means more families will find it harder to avoid 'hitting the cap' in the future and have potential adverse impacts on the affordability of ECEC services and hence on workforce participation. This type of threshold effect should be avoided (as should sharp shifts in eligibility for FTB, which also creates threshold effects — chapter 6 and appendix G).

Caps on the number of hours of eligibility for subsidies can also create a threshold at which the net wage falls dramatically. This is a problem if the hours are less than those required by a mother's employment (as is currently the case for Inclusion Support Subsidy assistance for children with disabilities). As very long hours of ECEC for young children is usually not advocated (chapter 5), the Commission considers that the current 50 hours per week is adequate to enable workforce participation of parents and to avoid unduly long times in formal ECEC for young children.

However, to ensure that a 50 hour a week cap does not constrain work arrangements (for example for workers with variable shifts), it is suggested that the cap on hours be imposed on a fortnightly (rather than weekly) basis. A fortnightly cap on the hours of use means that parents receive the same subsidy for full-time working hours (although to the extent their income rises they may receive a slightly lower subsidy rate). This approach would remove the disincentive to increase hours of

work, and is more equitable for parents working full-time and hence needing 100 hours of care a fortnight.

Adopting a ‘deemed cost’ for ECEC services

In demand-based systems, the subsidy provided for ECEC can be based on the actual fees for the care or on a ‘deemed cost’ of care (which can be set in a variety of ways). The current system has elements of both with the CCR paid as a percentage of actual fees paid, and CCB on the basis of a fixed subsidy (that depends on the number of non-school children in approved care). Fixing the deemed cost per hour of care is one way that governments have sought to manage expenditure. There are both advantages and disadvantages to basing subsidies on a deemed cost.

On the advantage side, applying a high subsidy rate to actual fees reduces the incentive families have to make cost/quality trade-offs for aspects of a service that can be considered additional to those required to satisfy the NQF. A deemed cost based on what is required to satisfy the NQF removes this cost-sharing opportunity for families who want premium services. It also means that families will push back more against fee increases, as they will bear the full increase until there is an adjustment in the deemed cost. Hence the incentives facing providers will be to pass on only those increases in costs that affect all providers.

On the disadvantage side, the deemed cost can act as the ‘floor price’. As well, there is potential for the Australian Government to use it as a mechanism for limiting its subsidies (as is the case with the CCB where the deemed cost is often well below the actual fees). This means the deemed cost should be set at a level that reflects the actual cost of providing a service that meets the NQF, and that it is indexed or regularly updated.

Several participants recommended this kind of approach. For example, Brennan and Adamson argued that:

Rather than being an arbitrary figure as CCB appears to be, the maximum hourly rate for ELS [Early Learning Subsidy] should be designed to reflect reasonable costs of delivering a high quality service. (sub. 420, p. 3)

There are various ways to set the deemed cost to avoid both the incentives for the Government to inflate fees (and costs) by adding additional services, and the temptation for Government to use it to lower its contribution to total ECEC expenditure.

One option is to adopt a benchmark price. This would set the deemed cost to the actual level of fees charged by a representative sample of services (or all services). The benchmark could be set at the median level of fees (or a lower level, such as the 25th percentile) making the deemed cost more representative of the fees charged by a service that satisfies the NQF. An advantage of the benchmark price approach is that it can be easily updated annually as long as data on the fees charged is collected. In addition, if fees vary substantially with locations, for different types of ECEC services, or for different ages of children, then loadings on the benchmark price could be based on revealed fee differences. As long as these markets were reasonably competitive the variations in fees should reflect differences in the cost of supply.

Problems arise with the benchmark price approach if markets are not sufficiently competitive to ensure that prices reflect the costs of supply. This will be the case if families are not responsive to the fees, or if there are few provider options for families. As informal care is an option for many families, for at least some of the hours they require, there should be some discipline on fees and hence on the benchmark price. Moreover, as the subsidy only pays a share of the benchmark price for most families they have some incentive to resist fee increases, particularly if not matched by quality improvements.

The alternative to a benchmark price is the 'efficient-price' approach, which is estimated using a cost model. This would require a significant investment of resources to determine the cost for an efficient provider to deliver a service that satisfies the NQF (including return on capital), again potentially with some variation for the type of ECEC service. This method penalises less efficient providers whose costs exceed the efficient price. Cost differences for different standardised services (by location, age of child, and type of service) can be used to determine loadings.

The efficient-price approach allows the Government more influence over growth in fees than the benchmark price approach.⁶¹ The cost model could be updated annually, to reflect the changes in the prices of the various elements that drive the cost. Alternatively the deemed cost could be indexed to the award wage for ECEC workers (as the highest share of total costs), with the cost model fully updated every 5 years. What matters most is that there is a credible and independent annual adjustment mechanism that reflects reasonable cost increases so that indexation (or lack of indexation) is not used as a way to control the cost of the program.

⁶¹ Although, governments should be cautious about hindering fee rises when growth in capacity is needed and profit margins are low.

Regardless of whether a benchmark price or an efficient-price is used to determine the deemed cost, the more categories of deemed cost (or loadings to a base deemed cost) allowed the greater the complexity, administrative costs, and scope for distortions and inequitable outcomes (for example, neighbouring centres either side of a boundary between two deemed cost zones). Hence there is a need to trade-off the gains from greater differentiation with the costs of the additional complexity.

There can be improvements in allocative efficiency if a distinction is made in the deemed cost between services that providers currently tend to cross subsidise. Not only will the deemed cost give families a better understanding of the cost differentials — for example in providing services for children under 2 years with those of preschool age — but the different out-of-pocket costs will affect their demand for these services. A shift to this approach would see a higher cost for infants and toddlers and a lower cost for preschool aged children. This would tend to reduce demand for places for the youngest children and increase demand for places for older children. From a child development perspective this may be desirable as the greatest benefits from ECEC have been found to be for children in the 3 to 5 year age range (chapter 5). Higher fees for younger children should discourage long hours and encourage parental care for babies (less than 12 months). The Commission sees this as a desirable outcome as excessive time in childcare can be detrimental for young children, particularly babies (chapter 5).

Similarly, services offering different mixes of ‘care’ and ‘education’ could also be costed accordingly, allowing families greater choice. New Zealand takes this approach (appendix I). Ultimately, whether care and education loadings should be used comes down to how different the actual costs of providing services are across locations, age of child, service type, and education/care mix.

Supply-based payments can also be made based on actual cost or a deemed cost. However, competitive tender or negotiated pricing may be more suitable ways to establish the cost of, and the price for, an agreed quality of service in supply-based payments.

Co-payments as a way of managing demand

It can be important that families face some cost for the ECEC services they use. This out-of-pocket cost plays a role in managing the demand for services and hence the fiscal cost. If the out-of-pocket cost reflects the cost of service provision, it can play a role in a more efficient allocation of services (as noted above). It can also give families a perceived right to demand a quality of service commensurate with

that cost. Hence for a range of reasons, in a demand-based system out-of-pocket costs should vary with the price (and cost) of the ECEC service used (box 12.2).

Box 12.2 The case for co-payments in ECEC

Some level of co-payment — through an out-of-pocket cost — is generally considered desirable for a number of reasons:

- Co-payments can reflect the private benefit that accrues to the child and family. This is particularly true for add-on services and quality beyond the standard, but also where ECEC enables workforce participation and has child development outcomes that benefit families as well as the community as a whole.
- Some co-payment provides an incentive for families to consider their usage decisions and reduces the risk that parents will take up places when they are not needed (work/study tests can also mitigate this risk)
- Co-payments are a way of controlling government expenditure on ECEC. This can be because there is a direct substitution between what families pay and what government pays, and because higher co-payments can reduce the demand for childcare and hence the total cost of subsidies.

There can be situations where even a low copayment would be likely to discourage high priority (from a community wide perspective) child participation in ECEC or workforce participation. In such situations, such as where the child is at risk, a zero co-payment may be appropriate.

Fixed co-payments, because they do not reflect the actual cost of the service, can be problematic as they do not send families any signal about the cost of ECEC. Where families relate their out-of-pocket cost to the service quality they tend to demand quality commensurate with what they pay. A fixed co-payment means that families may disconnect price and quality. They may also be less concerned about cost and price increases. For this reason, fixed co-payments are more common in supply-based systems, where government dictates quality, or where use of services needs to be encouraged because it provides community net benefits. The advantage for families is that they know what they will be required to pay.

A fixed subsidy, whether expressed as a dollar amount or share of the fees paid, exposes families to changes in prices, which should help moderate fee increases. However, given the importance of the relationships children build with their carers and other children in care, families can be reluctant to change provider, which might reduce their resistance to fee increases. This is more likely where the subsidy meets a relatively high share of the cost, and the out-of-pocket increase does not exceed any cap that applies.

Means testing as a targeting mechanism

Both the subsidy rates and the income thresholds in a means test provide the Government with policy levers to manage the cost of the ECEC system. They are also critical in encouraging families to use ECEC services that may be beneficial for their child, and achieving the workforce participation objective.⁶²

Clearly, the lower the subsidy rates and the lower the income thresholds where they apply, the lower the direct cost to government of the ECEC system. But fiscal cost also takes account of the tax-transfer effect of the ECEC funding on income taxes (which rise with increased workforce participation) and welfare payments and FTB (which fall with workforce participation).⁶³ From a fiscal cost perspective the aim is to find the ‘sweet spot’ where any further increase in the level of ECEC assistance is just offset by a rise in taxes less transfers. (This ignores the hard to measure longer-term fiscal impacts of child development outcomes and wages growth from higher participation rates — appendix K.) The Commission’s preliminary modelling investigates the fiscal impact of a mix of subsidy rates and income thresholds (chapter 13). This modelling depends critically on assumptions about how families respond to changes in out-of-pocket costs.

While there are many factors affecting parents’ decisions to work, the out-of-pocket cost of childcare is a major consideration for many mothers and single parents (chapter 6). Mothers will return to work as long as the net wage (wage post tax, any change in family income due to loss of income tested benefits, and net of out-of-pocket childcare costs) exceeds their reservation wage. The reservation wage varies considerably across women, both independent of and as a result of their family situation. For example, a recent survey (CareforKids.com.au 2014) suggested that a significant share of mothers must have a reservation wage close to zero as they report that after childcare costs they are often not better off financially, but other research has identified a low take-home pay from return to work as a major barrier for low wage mothers (Phillips 2014). The Parenthood (sub. 407) cited their survey results that ‘[T]hree in four parents reported they would reduce hours (43 per cent) or stop working altogether (33 per cent) if the childcare rebate was reduced or means-tested’ (p. 11). If this was the case, it suggests that many mothers have a reservation wage only just below their net wage.

⁶² Chapter 5 set out the case for universal access to and, hence funding of, preschool for children in the year prior to commencing school.

⁶³ There are also second round effects as the change in the supply of labour and demand for labour in ECEC services work their way through the economy.

Targeting workforce participation requires providing greater subsidies (lower out-of-pocket costs) to those people whose net wage currently falls below their reservation wage. If a mother's reservation wage rises with the hours worked (the opportunity cost of longer hours increases with hours worked) increasing the net wage will induce longer hours. Hence lowering out-of-pocket costs can induce both higher workforce participation and longer hours. Conversely raising out-of-pocket costs will lower participation for mothers whose net wage was only just above their reservation wage and lower hours for those mothers who are sensitive to their net wage.

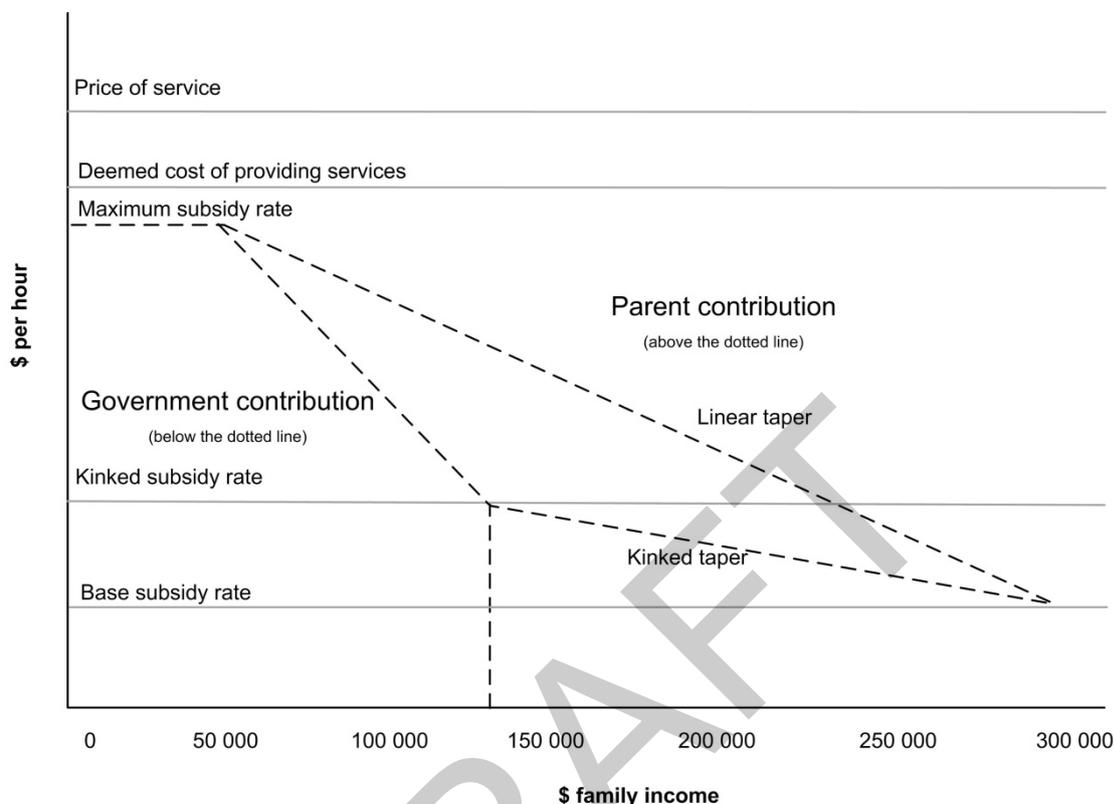
As working can substantially improve the current and future standard of living for mothers and their families, funding to families below or close to the poverty line can be an efficient allocation of public subsidies.

Means-tested subsidy rates

A critical variable for controlling ECEC expenditure is the subsidy rate. The more generous the subsidy rate the lower the out-of-pocket costs to the family and the higher the cost to Government for a child using ECEC services. As workforce participation tends to rise with more generous subsidies, the total out-of-pocket expenditure of families could actually rise despite a higher share paid by Government. This quantity response also means that government expenditure on ECEC rises for both price and quantity reasons.

Subsidy rates usually vary between a base or minimum rate for higher incomes and a maximum rate for the lowest income level. Between these two rates is a taper that can be linear, kinked at an income threshold, or have some other profile. A linear taper is the simplest to understand. Depending on the profile, these may offset or add to the compound effects of multiple means tests. Figure 12.1 illustrates the way the means test is applied. It shows both a linear taper and one that is kinked as a middle income threshold. If the kink is convex, this allows the system to be more generous than a linear taper would allow to lower income families, for the same budget. But, depending on the income at which the kink is applied, it can exacerbate the compound effect on effective marginal tax rates. Hence, setting the threshold for the 'kink' above thresholds for other means tested payments reduces the effect of the kink on effective marginal tax rates.

Figure 12.1 An illustration of the way that subsidy rates and thresholds works to determine the hourly out-of-pocket cost for families



Various base and maximum subsidy rates have been suggested in submissions and by other reviews (for example, table 12.1). The current subsidy rates are not straightforward. They range from 100 per cent for some children (children with families that get SCCB and with grandparent carers who are on income support), to around 30 per cent (for a child who is in full time LDC at \$100 a day (reflecting the 50 per cent CCR for a family that does not qualify for CCB)). On average, families on incomes below \$40 000 get a subsidy of 89 per cent, families between \$60 000 and \$100 000 get a subsidy rate of 71 per cent, and families on incomes over \$200 000 get a subsidy of 36 per cent of the total cost of ECEC services (chapter 9).

As discussed in box 12.3, there is a case for families paying some of their ECEC fees. Hence, other than in exceptional situations (such as where a child is at risk), the Commission considers that the maximum subsidy rate should not be 100 per cent. With LDC costs for most families at around \$6 to \$8 an hour, a subsidy rate of 90 per cent for low income families would reduce the current family co-payment to 60 to 80 cents an hour⁶⁴. With a minimum wage of \$16.87 an hour,

⁶⁴ The current out-of-pocket ranges from 90 cents to \$2 an hour for this group depending on the type of service they use and number of children. The out-of-pocket estimates will also depend on whether the family chooses a service that charges more than the deemed cost.

this subsidy rate is likely to be affordable (although the net wage will be lower after taxes and any loss of transfer payments).

Table 12.1 Some suggested subsidy rates

	<i>Maximum</i>	<i>Base</i>	<i>Comment</i>
	%	%	All based on family income
Henry Tax Review (2009)	90	35	Fee-based, rate set by marginal tax rate for average income
National Commission of Audit (2014)	80	30	Fee-based, capped at \$12 000 for those on maximum rate declining to \$7500 for those on base rate
Brennan and Adamson (sub. 420)	100	35 to 50	Based on 'reasonable' cost
Brotherhood of St Laurence (sub. 208)	90	35	Fee-based, 100% for at risk children and those facing multiple disadvantages. Capped at \$5250 for base rate
AMP.NATSEM (2014)	80	30	Fee-based

Sources: AMP.NATSEM (2014); Henry Tax Review (2009); National Commission of Audit (2014); Phillips (2014); Submissions.

A more challenging issue is the minimum subsidy rate, and whether it should be zero for high income workers. (Threshold income and the basis on which it is determined are also challenging and are discussed below). The efficiency case for a zero rate is that high income working women are less likely to change their workforce participation even if they have to pay more for ECEC than they currently do. For this group in particular, there is a longer term monetary return to work from higher wages growth. There is also a vertical equity case, as high income mothers (and families) should be able to afford to pay for ECEC services, and it may be poor use of taxpayer money to subsidise their use of ECEC.

If high income mothers do not change their workforce participation, then reducing the subsidy they receive translates to a lower fiscal cost. However, although women with a higher educational attainment are more likely to return to work, they can still be sensitive to the cost of childcare (chapter 6). Currently, many mothers who work part time (and so deliberately stay below the cap) receive a 50 per cent subsidy. Reducing this subsidy rate may see them reduce their working hours, which could lower average labour productivity. The net impact of changes in the funding arrangements on the labour supply and its average productivity is ultimately an empirical question (chapter 13).

A number of participants argued that some assistance with ECEC costs should be provided to all families irrespective of income levels. A recent article by Andrew Podger summarised the view that a ‘universal entitlement’ was justified:

Rather than means testing every payment, we should appreciate that family payments are there for horizontal as well as vertical equity, recognising that at all family income levels, the cost of children, and the costs (direct or indirect) of their care, affects parents’ capacity to pay tax. (Podger 2014, p. 43)

A non-zero base rate can be seen as recognition that:

- childcare costs are a cost of producing income for many mothers and single parents
- women have a ‘right’ to participate in the workforce to the same extent as men
- even at high income levels, the tax (if not the transfer) system reduces the benefits of working relative to not working, acting as a bias against paid work.

While these arguments have merit, the case for providing a higher level of assistance needs to be balanced against the benefits from providing assistance to children with additional needs or to those children who would not have any access to services in their area. Hence while the funding system should be designed to allow for a base subsidy the rate should be determined by the size of the funding envelope that the Government makes available.

Should subsidy rates vary with the number and age of children?

The current CCB rate calculations take into account the number of children as well as family income (appendixes C and G). School age children are only entitled to 85 per cent of the standard cost. These adjustments make for a highly complex formula, which is one reason why it is difficult for providers to explain the likely subsidy to families.

Some participants have argued for increasing funding assistance for families with multiple children. There are, however, some ECEC options that are more affordable as the number of children rises. As Guardian Early Learning commented:

... as it is expensive having multiple children in care and work becomes marginal and the economics of nannies more attractive the more children you have. (sub. 274, p. 5)

Expanding the scope of the ECEC subsidy to include nannies should assist some larger families (chapter 8). The Commission considers subsidy rates should not vary with the number of children or the age of the child (but the deemed cost will vary with the age of child and type of service).

INFORMATION REQUEST 12.1

The Commission seeks views on the effect on families of having a per child subsidy rate that is not adjusted for the number of children in a family accessing ECEC services.

What income base should be used for the means test?

To target workforce participation for mothers (or the second income earner in a family) it is the effect of the subsidy on the mother's net wage that determines her workforce participation. This suggests that applying the means test to the mother's income would have a greater effect on incentives to work than applying the test to family income. However, the association between income and work incentives is not straightforward for a number of reasons.

First, there is a significant difference between families that derive an income of say \$120 000 from two parents working full time and each earning \$60 000, and a family that has one parent earning \$110 000 and the other \$10 000 from one day a week of work (Peter Apps, sub. 414). The need for ECEC services to enable the family to earn that level of income is clearly greater for the first of these two families. Using family income as the means test would treat these two families the same (which could be seen as inequitable), but basing subsidies on the second income would see the second family receive a substantially higher subsidy rate (although for fewer hours). This highlights the need to apply a second income earner test to the hourly wage (or potential full time annual income) rather than to the annual income to maximise impacts on workforce participation. This is complex to implement.

Second, as FTB Part B is means tested on the second earner's income as well as family income, an additional means tested payment on the same base would raise the effective marginal tax rate for mothers in families eligible for FTB Part B. This compound effect is higher than using a family income means test.

Third, family income tends to be more stable than the income of the second earner (as the primary earner tends to work full time and second income earners are often part-time, with a higher rate of casual work, Abhayaratna et al. 2008). A highly fluctuating income would require regular adjustment of the subsidy rate to ensure that the family is not left either under or over compensated relative to the subsidies they would receive based on annual income.

Fourth, and perhaps most importantly for understanding the workforce participation incentive effects, as the second earner's income is generally much lower than family income, a much lower threshold income would be needed to start the taper, which implies a steeper taper to a lower threshold for the base rate subsidy. A steeper taper has the potential to further exacerbate the high effective marginal tax rate faced by mothers as they expand the hours that they work. This would also impact adversely on single parents.

Finally, the family income is a better indicator of a family's capacity to meet ECEC out-of-pocket costs. It is a better proxy for a child's socio-economic circumstances, which are related to the benefits for the child of attending ECEC services. The probability that the family will use ECEC services is also positively related to family income so, from a child development objective perspective, a family income means test is to be preferred.

For these reasons, the Commission favours the use of family income for the means test. However, there may be scope to use a combination test with subsidy rates declining with both family income and with the mother's hourly wage.

INFORMATION REQUEST 12.2

The Commission seeks feedback on the impact of adopting the income of the second earner, family income, or some combination as the basis for the means test. If a combination is preferred, the Commission seeks information on how this should be applied and what it would mean for effective marginal tax rates facing most second income earners in a family.

The choice of thresholds

The setting of the income thresholds, as well as the base and maximum subsidy rates, are policy levers that the Government can use to allocate the funding available. To minimise the impact on effective marginal tax rates the best option is to stagger the tapers for each payment a family might be eligible for, and failing this to have a very gradual taper/withdrawal of benefits as incomes rise (appendix G). This, however, would be a higher cost option for any given set of maximum and base subsidy rates as it means that support is not withdrawn totally until a very high income is reached. Modelling is required to assess the impact of the choice of thresholds and subsidy rates. The estimates reported in chapter 13 are preliminary, and more work will be done to improve the modelling for the final report.

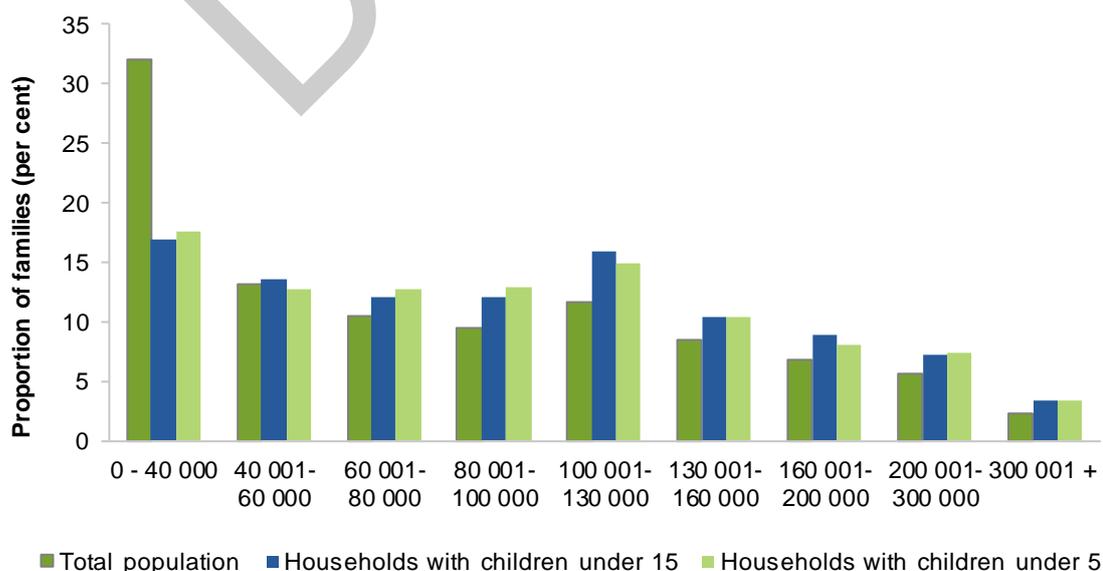
The choice of thresholds for the modelling is challenging. Both the threshold for the maximum rate and where the base rate commences will affect the subsidy rates for

other income levels. The higher both thresholds, the more generous the subsidy rate will be for middle income families. So while there are relatively few families with young children on high gross incomes (exceeding \$300 000), the upper threshold, along with the lower threshold (and any mid subsidy rates and thresholds for kinked tapers), will determine the subsidy for families on half this income.

The current CCB threshold for the maximum subsidy rate is \$42 997, while the income limit for CCB depends on the number of non-school aged children in approved care. For a family with two such children the upper threshold is \$155 013. These thresholds are indexed to the CPI. As families with an income just above the CCB upper threshold can still access CCR, most would be getting a subsidy rate of around 50 per cent. Families below this income are getting a higher subsidy rate, but with few exceptions even families below the lower threshold would have some out-of-pocket costs. For example, with one non-school aged child in an approved service that charges \$7 an hour, a family on an income of \$40 000 would have an out-of-pocket cost of \$1.50 per hour (50 per cent of \$7-\$3.99), which implies a 79 per cent subsidy rate.

The majority of families with young children have a gross family income of under \$150 000. Figure 12.2 provides estimates of the distribution household income for families with children aged under 5, families with children under 15, and the overall population.

Figure 12.2 **The distribution of gross household income**
2011-12, per cent of households in each income groups



Data source: ABS (2012).

The thresholds chosen will affect the cost of the ECEC system for Government as well as families. The Commission modelled four options (chapter 13) to gain an understanding of the implications for the cost of the ECEC system and impacts on families. A lower threshold gross family income of \$60 000 for the maximum subsidy rate of 90 per cent is used in all four options. This level was chosen to offer the greatest inducement to workforce participation for lower income families and is above the current rate. The upper threshold level of \$300 000 was chosen for base subsidy rates of 0 and 30 per cent. Two of the options use a kinked or step taper, with a mid-level threshold of \$130 000 for a mid-rate of 50 per cent. Given the non-linear nature of the current system (appendix G), for the same lower and upper thresholds, a linear taper will be higher cost as it provides a relatively higher rate of subsidy for families in the upper end of the middle income distribution.

The choice of thresholds (along with the base and maximum subsidy rate) affects the realised subsidy rate for any family and hence workforce participation. As a result, the fiscal cost of the ECEC system can vary from the impact on government ECEC expenditure.

Eligibility requirements

Apart from a means test, the Government expenditure on ECEC can be managed by restricting the eligibility to the subsidy. Requiring a work test would ensure that the link between the subsidy and workforce participation is maximised. The National Commission of Audit, for example, recommended a work test for access to ECEC subsidies. The nature of the work test can affect workforce participation.

The Commission supports an activity test for access to subsidies (work, education, training and/or looking for work). One option suggested by Peter Apps (sub. 414) was that only hours of care above some minimum number of hours (20 per week was suggested) would be eligible for a subsidy. This would require accurate reporting of hours of work and would be problematic for casual workers whose weekly hours can vary considerably over the year. Given working even a day a week is a pathway to greater workforce participation, the Commission favours applying a less restrictive activity test.

The current CCB allows families that qualify (on an income means-tested basis) to access 24 hours of subsidised care a week without a work/study test. There are mixed views about this among participants, with comments from some families stating that they cannot access care for work related reasons due to demand from families where mothers are not working (for example, Users of ECEC, comment no. 146, 210; Workers in ECEC, comment no. 99). Other participants pointed to the

benefits of this access to ECEC for children or their parents (Users of ECEC, comment no. 24). Given the taper rate of CCB, and that access to CCR requires an activity test (of at least 15 hours a week of work or study for each parent), subsidies for use of ECEC services for reasons other than work are highest for the lowest income families.

To the extent that rates of developmental vulnerabilities are higher for children from lower socio-economic families this may be appropriate targeting. Moreover, for some families, particularly single parent families, such access may be important for the wellbeing of the parent and the quality of parenting that they can provide. But so too, encouraging these parents into the workforce can have beneficial effects, and requiring an activity test works in this direction.

The challenge is to set an activity test that is simple to implement and does not negatively impact on work incentives. An activity test that sets a threshold number of hours can interact with the tax system and welfare payments in a way that can provide a major disincentive for mothers to work only a few days a week. For example, if a two day a week test is set, a mother who works one day will have to pay the full cost of the ECEC service for that day as well as losing FTB from the increase in income. If she works two days, then both day's fees are eligible for the subsidy (substantially reducing her effective marginal tax rate). This is a major inducement to work two days, but not all mothers will be able to get two days work. While the best approach is to provide subsidies for the hours actually worked (plus a travel time), this may not be simple to implement.

Although the Commission considers that access to ECEC subsidies should be subject to an activity test (with some important exceptions below) there may be good reasons for allowing some non-activity tested use of ECEC to be subsidised. This could arise if families found it difficult to access the broad range of early learning opportunities outside of the formal ECEC system provided by playgroups, crèches and 'new mothers' groups which provide support for new mothers and their children.

INFORMATION REQUEST 12.3

The Commission seeks information on who is using ECEC services on a regular basis but working below the current activity test of 15 hours per week, or not actively looking for work or undertaking work, study or training. Views are sought on the activity test that should be applied, how it could be implemented simply, and whether some means tested access to subsidised care that is not subject to an activity test should be retained. If some subsidised care without an activity test is desirable, for how many hours a week should it be available, what should the eligibility criteria be, and what are the benefits to the community?

12.4 Proposed funding arrangements

In developing its preferred funding model the Commission has relied on a set of guiding principles (box 12.3). These principles aim to enhance the role of parents as decision makers by encouraging more cost reflective pricing and removing barriers to providers responding to parental demands (thereby improving allocative efficiency). The principles also reflect the need to maximise community wide benefits from public funding.

Based on these principles, the Commission proposes that Government funding be allocated into three categories:

- ECEC funding to promote workforce participation and provide a safe supportive service that contributes to child development
- funding to assist children and families with additional needs to access suitable ECEC services
- funding to support universal access to preschool education to promote child development.

The starting point for funding each of these three categories is to ask what level and allocation of funding within each category would maximise the net benefits from the services funded. This forms the ‘optimal’ funding level. However, given resources are scarce and costly to raise, the available budget envelope is likely to be lower than this optimal level. With a fixed funding envelope, as additional funding in one category must come at the expense of funding in the others, a balance is needed. Within each of these funding categories prioritisation will be required (chapter 13).

Box 12.3 Guiding principles for government funding of ECEC services

Funding and associated systems and processes should:

- be fiscally sustainable and consistent with objectives of other government programs
- encourage diversity and not unnecessarily distort the choices families make — support should be available to any service meeting appropriate standards and treat families, children and providers in equivalent circumstances equally
- support provision of services in areas where the market would not otherwise deliver appropriate services (subject to a net social benefit test)
- incentivise providers to be responsive to the preferences of families, innovate with respect to services they deliver, and impose a discipline on cost and fee increases
- ensure most families have to meet at least a proportion of their ECEC costs, reflecting the private benefit that accrues to the child and family and to ensure they consider costs in their usage decisions
- reflect differences in the cost of supplying an ECEC service (including to meet additional needs), but funding should not cover additional ‘premium’ services
- impose no unnecessary administration or compliance costs — processes should be streamlined, transparent, accountable, and simple to navigate.

To support learning and development objectives, funding should:

- contribute to the achievement of desired learning and development outcomes and ensure the safety and wellbeing of children
- promote inclusion and participation by all children, but give priority to children with additional needs and children in the year before starting school, where community benefits from ECEC participation are greatest
- generally support participation in ECEC for children preferably over six months old (and not for children where the family is in receipt of paid parental leave payments).

To support workforce participation objectives funding should:

- be focused on increasing participation and hours worked (‘additionality’)
- be subject to a work, training or study activity test
- minimise any work disincentive effects created by the design of support payments and their interaction with other family payments.

To maximise the social and economic benefits funding should:

- be targeted at those parents whose increased workforce participation is most likely to:
 - alleviate family poverty and associated social costs and government outlays
 - promote employment choices that empower mothers and contribute to stronger future income growth.

Mainstream ECEC services

Mainstream ECEC services comprise all approved centre-based care (LDC, OSHC and vacation care, and occasional care) and approved home-based care (FDC, and approved nannies, incorporating in-home care). Approved providers must meet the NQF.

Many participants called for the combining of CCR and CCB, in large part to simplify the system (for example, Brennan and Adamson, sub. 420; ACOSS sub. 332; Early Learning Australia, sub. 271; Early Childhood Australia, sub. 383). The National Commission of Audit (2014) and Henry Tax Review (2009) also both recommended that CCR and CCB be combined. The Commission agrees and proposes introducing a single means-tested subsidy to replace CCB and CCR. A suggested name for this new subsidy is the *Early Care and Learning Subsidy* (ECLS). The subsidy would fund both *centre-based care* (CBC) and *home-based care* (HBC).

DRAFT RECOMMENDATION 12.2

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

The subsidy should be based on a deemed cost of care ...

Of the two options discussed for determining a deemed cost, the Commission favours the benchmark price approach, mainly on the basis of the ease of indexation and avoiding the deemed cost getting out of line with the actual cost of providing a service that meets the NQF. However, in the initial years of the new funding system it may be appropriate to calculate an 'efficient price' which is estimated using a cost model. Clearly the deemed cost must fall well within existing fee ranges to be considered sensible.

The Commission sees merit in using a range of benchmark prices, each set at the relevant median price, to reflect the cost of different types of service and ages of children (and hence cost of supply). This will allow price to play a greater role in guiding choice. A deemed cost that differentiates by age of child (0 to 2 years, 3 to 5 years, and school age) would provide greater incentive for ECEC services to vary fees with age groups.

While the Commission considers that a benchmark price will be more suitable than relying on a cost model, there may be other alternatives that could be considered.

INFORMATION REQUEST 12.4

The Commission seeks information on the best approach to setting and updating the deemed cost of ECEC services. In addition, information on the cost premiums of providing services in different locations, to different ages, and in meeting different types of additional needs is sought.

Mainstream ECEC subsidies will not be provided for babies while the mother is receiving Paid Parental Leave (PPL), but receiving PPL will be an activity for assessing the eligibility of older children for subsidies.

... with the subsidy rate determined on family income ...

The case was made above for the rate of subsidy to be determined on the family income as it is simpler, more equitable, and because of problems with effective marginal tax rates when the second earner's income is used, is likely to be more effective in influencing workforce participation decisions.

The case was also made for the maximum subsidy to be lower than 100 per cent. The Commission considers 90 per cent to be reasonable. A base rate subsidy of 30 per cent would keep the effective rate of subsidy roughly the same for women who currently work full time, so should not see them withdraw their labour supply with a shift to this option. A base rate of 30 per cent would be less generous to second income earners from high income families who work part time or use more expensive ECEC services for fewer hours. However, given that subsidising high income families can be contentious, the impact of a zero subsidy for very high income families is examined as an option.

The effect of changing the taper rate, the base and maximum assistance rate, and the income thresholds on the estimated fiscal cost and workforce participation is described in chapter 13. As these parameters will interact with the current tax system and other family payments, they need to be set in a way that reduces the effect on the effective marginal tax rates facing workers in families with children.

... and an activity test required ...

An activity test of work, looking for work, training, or study is required for subsidy recipients. In removing the current 24 hours a week of subsidised ECEC without the need to meet the activity test, the Commission suggests lowering the number of

hours of activity required from the current 15 hours per week to 24 hours per fortnight. Families using parental leave to care for a new baby will satisfy the activity test, but only for their older children to attend ECEC services.

Families where both parents are not working should meet the activity test if they are assessed as able to and looking for work (on Newstart benefits). Families where parents are studying (on AusStudy, ABSTUDY or Youth Allowance) will also satisfy the activity test. The JETCCFA program recognised that the cost of childcare can be a barrier to women acquiring the skills to rejoin the workforce. However, the current system treats low income families differently, based on whether they were low income and in employment or low income and out of employment families. Hence, the proposed model of funding will apply to all families, although those whose children have additional needs will also be eligible for additional subsidies (see below).

... but not for all families

There are several groups of families where both parents are not working which should be exempt from the activity test. Families where both parents, or the sole parent, are receiving a disability pension (where by definition they are unable to work for more than 15 hours a week) should be exempt from the activity test. Similarly, where a parent in a jobless family is receiving a Carer's Payment and so is unable to work due to caring for a child, partner, or elderly parent, they should be exempt from the activity test.

Similarly, grandparents who are the *primary* carers for their grandchildren should be exempt from the activity test.⁶⁵ They will, however, be subject to the means test in assessing their rate of subsidy. This is a change from current policy which meets the full cost of childcare fees for up to 50 hours a week for grandparents who receive an income support payment and meet the CCB eligibility requirements. The basis for this change is to treat families equally on their ability to pay. In practice, the change will only have a small effect on most families where grandparents are the primary carers for children, as the vast majority would be eligible for the highest subsidy rate on the basis of their income. For example, grandparents living on the aged pension who use LDC at \$80 a day would have to pay \$8 a day, where they currently get this service for free. However, the Commission understands grandparents also receive parenting and other family payments when they take on the primary care of their grandchildren.

⁶⁵ There may be other family members or carers who take on the primary carer role, and they should be treated the same as grandparents.

DRAFT RECOMMENDATION 12.3

The Australian Government should exempt non-parent primary carers of children, and jobless families where the parents are receiving the Disability Support Pension or Carer Payment, from the activity test. These families should still be subject to the means test applied to other families.

INFORMATION REQUEST 12.5

The Commission seeks information on the impact that removing the current free access of up to 50 hours a week to ECEC services for eligible grandparents will have on them and the children for whom they care.

Table 12.2 summarises the ECLS.

Table 12.2 Overview of the proposed Early Care and Learning Subsidy

Subsidy rate	Maximum of 90% base rate of 30% Thresholds; lower — \$60 000, upper — \$300 000
Means test	Family income used for FTB, adding in non-taxable income and transfer payments
Eligibility	Activity test (work, study, looking of work) of 24 hours a fortnight This includes parents on parental leave, but ECLS is not available for the new baby. Exemptions for grandparents, jobless families on DSP or Carer Payments, at risk children
Applies to deemed cost of care	Set at the efficient price (cost model) moving within 3 years to a benchmark price based on median actual fees, updated annually Varies with child age (0-2, 3-5, primary school age) Varies with provider type – CBC and HBC Maximum rate is the lower of 100% of deemed cost and the actual fees
Hours of ECEC	Up to 100 hours a fortnight
Service providers	Approved CBC and HBC providers (meet the NQF)
Other eligibility	Must demonstrate that the child has received all their scheduled childhood immunisations
Payment	Paid directly to the ECEC provider of choice on report of the fees billed for hours of care used on a fortnightly basis.

DRAFT RECOMMENDATION 12.4

The Australian Government should fund the Early Care and Learning Subsidy to assist families with the cost of approved centre-based care and home-based care.

The program should:

- ***assist with the cost of ECEC services that satisfy requirements of the National Quality Framework***
- ***provide a means tested subsidy rate between 90 per cent and 30 per cent of the deemed cost of care for hours of care for which the provider charges***
- ***determine annually the hourly deemed cost of care (initially using a cost model, moving to a benchmark price within three years) that allows for differences in the cost of supply by age of child and type of care***
- ***support up to 100 hours of care per fortnight for children of families that meet an activity test of 24 hours of work, study or training per fortnight, or are explicitly exempt from the criteria***
- ***pay the assessed subsidy directly to the service provider of the parents' choice on receipt of the record of care provided.***

Children living in rural and remote areas

The recommendations in chapter 8 to improve the flexibility and reduce the cost of meeting the NQF should enable most children living in rural and remote areas to access an approved ECEC service. Nevertheless, there will be some locations where the provision of ECEC services is not financially viable due to small numbers of children (often in remote locations which raises the cost of service delivery). Australian Government programs to help address the ECEC needs of the children in remote areas are currently primarily funded under Budget Based Funding (BBF). While a majority appear to be targeted at Indigenous children, some are more general, such as mobile preschools.

The Community Support Program (CSP) is also intended to target rural and remote communities. It provides capital grants and some funding for operational costs to ECEC providers that would not otherwise be viable (sustainability funding of \$22 million in 2012-13 was 17 per cent of the CSP). However, as very little of the \$128 million CSP funding is actually directed to rural and remote services the Commission has made a draft recommendation that the CSP be closed (chapter 8). This raises the question of whether any assistance to maintain viability, or establish a service, is a priority use of ECEC funds.

It is difficult to make a case for funding services that will never be financially viable unless there is a clear community benefit. While many of the children living in rural and remote areas are Indigenous, they usually benefit more from programs tailored to their needs (below). Children in rural and remote areas are currently well served by state and territory preschool programs, which is the other area where there is a clear community benefit (chapter 4).

Nevertheless, fluctuating populations of children can make it difficult for providers to only rely on fees to cover the costs of service provision. To avoid the stop-start nature of ECEC service provision in rural and remote areas, the Commission proposes that centre-based and mobile services that have the potential to be viable under child-based funding should have access to viability funding. This means that they will not be able to rely on a block grant to meet an ongoing gap between their fee income and their costs. Rather, support will be available, on a three years in seven basis, to viable providers to allow them to continue to operate while experiencing a temporary reduction in demand. If a provider has had two years of viability funding, then they will be assessed as to whether they can return to viability, and a third year of funding provided only on production of an agreed strategy to become viable or to facilitate an exit strategy for the provider and allow families using the service to find alternative arrangements.

Moving to a deemed cost that takes into account the higher costs of some locations should reduce the need for providers in such areas to seek additional funding. In addition, payment direct to providers, and higher subsidy rates for those families on the lowest incomes, should increase the flow of funds to some providers.

DRAFT RECOMMENDATION 12.5

The Australian Government should establish a capped ‘viability assistance’ program to assist ECEC providers in rural, regional and remote areas to continue to operate under child-based funding arrangements (the Early Care and Learning Subsidy and the Special Early Care and Learning Subsidy), should demand temporarily fall below that needed to be financially viable. This funding would be:

- accessed for a maximum of 3 in every 7 years, with services assessed for viability once they have received 2 years of support***
- prioritised to centre-based and mobile services.***

Some rural and remote communities may lack the resources to establish new mainstream ECEC services. While fees should cover the capital costs as well as operational costs for mainstream ECEC services, capital costs may be higher in rural and remote communities. Moreover, ECEC service providers may find it more

difficult to access finance to establish an ECEC service where financial viability is more fragile. Fund raising in poorer communities, which has often been the traditional way to set up a community owned service, may also have limited potential. Hence some support for establishing an ECEC service may be appropriate (for example to set up OSHC in the local school). In addition, there may be some services that provide a high value to the community that may never be financially viable.

INFORMATION REQUEST 12.6

What is the case for the Australian Government funding start-up capital or on-going operational support for mainstream ECEC services in rural, regional and remote communities?

Funding for children with additional needs

Some children have needs that are inherently higher cost to supply. For the purposes of allocating funding, the Commission has identified three groups of additional needs (chapter 3):

- children at risk of abuse or neglect
- children with a diagnosed disability that requires additional support in order to make use of ECEC services
- children who have a higher probability of being developmentally vulnerable because of their family, cultural or environmental situation. This groups covers Indigenous children, refugee children, other children from culturally and linguistically diverse (CALD) backgrounds where English is not spoken at home, and children who have parents or siblings with a disability.

A case for providing children with additional needs with a supplementary subsidy that allows them to access ECEC services can be made because of the community benefit that arises from giving these children a better start in life (McLachlan, Gilfillan and Gordon 2013; PC 2011). However, there is a point at which further funding comes at a higher cost than the benefits it delivers. In addition, for the benefits from ECEC to be fully realised, many of these children will require a more comprehensive set of services than just ECEC. Indeed, for some groups of children and their families, ECEC should be seen as part of an integrated system involving health services, parenting skill development, and access to sport and other community activities (chapter 8).

There are a number of programs funded by the Australian Government that target children with additional needs (chapter 8). However, the actual level of funding going to support these identified groups of children with additional needs is uncertain, as is the extent to which needs are being met. In particular, the current Inclusion Support Subsidy provides the same support regardless of need.

There are also a range of Australian and state and territory government programs, as well as community sector programs that provide services to children with additional needs that complement ECEC services. While the focus here is on Australian Government funded programs, opportunities to better coordinate and ensure that all government services complement and do not crowd out each other should be pursued (chapter 8).

Meeting additional needs can require a once-off fixed cost such as an investment in facilities, equipment and/or staff capabilities that enable the provider to provide a service to one or more children with similar additional needs. In other cases, the additional cost is ongoing and related to the child, such as where the child requires a higher staff to child ratio, or staff with specialist skills who require higher wages. For some children, servicing their additional needs to a suitable level will require both kinds of funding. It is also important to recognise that the cost of providing reasonable ECEC services to these children varies with the nature and extent of their additional needs so a one size fits all approach is not appropriate. As Children with Disability Australia (sub. 424) pointed out, children with disabilities can have very different needs, and a uniform approach is ‘a blunt policy solution to a complex issue’ (p. 12).

Three funding models are proposed to meet the varying additional needs:

- *Special Early Care and Learning Subsidy* (SECLS) will provide per child funding for, ideally all, the additional cost of meeting the ECEC needs of eligible children.
- *Disadvantaged Communities Program* (DCP) will provide block funding for providers to deliver ongoing services to children in highly disadvantaged communities. It will have three types of block-funding to:
 - support transition to the mainstream funding (ECLS and SECLS) as a provider works toward the NQF in locations where there is a viable labour market
 - where there is not a viable labour market, fully fund the provision of services with funding based on projected demand and the efficient cost of meeting this demand

-
- play a coordinating role in integrating services to the target community, which may already access or be transitioning to mainstream funding (chapter 8).
 - *Inclusion Support Program (ISP)* will provide once-off grants to assist ECEC services to build the capacity to service the needs of specific groups. This could be for capital investments, equipment, or for professional development. This grant program will:
 - be open to mainstream ECEC providers of CBC and HBC
 - require applicants to state why they need additional capacity and demonstrate sufficient demand for services by children with additional needs
 - require applicants to provide a costing for acquiring the additional capacity
 - have two rounds of applications a year, allowing services to reapply in later rounds if unsuccessful
 - set priority criteria to guide the assessment of applications
 - be a capped program with the adequacy of the budget reviewed annually (to see if worthy applications are having to be rejected and that the funding allocation reflects priorities).

Additional support for a child could be provided by any or all of these programs. SECLS is part of the mainstream child-based subsidy arrangement and, other than for at risk children, is a ‘top-up’ to ECLS (SECLS will meet 100 per cent of the deemed cost for at risk children). With the exception of the at risk children, families of additional needs children will be subject to the same means test for ECLS as children without additional needs. ISP is in addition to ECLS, but there will be some DCP programs where the children attending will not be able to access mainstream ECEC funding.

DRAFT RECOMMENDATION 12.6

The Australian Government should establish three capped programs to support access of children with additional needs to ECEC services.

- ***The Special Early Care and Learning Subsidy would fund the deemed cost of meeting additional needs for those children who are assessed as eligible for the subsidy. This includes funding a means tested proportion of the deemed cost of mainstream services and the ‘top-up’ deemed cost of delivering services to specific groups of children based on their needs, notably children assessed as at risk, and children with a diagnosed disability.***

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- *The Disadvantaged Communities Program would block fund providers, in full or in part, to deliver services to specific highly disadvantaged community groups, most notably Indigenous children. This program is to be designed to transition recipients to child-based funding arrangements wherever possible. This program would also fund coordination activities in integrated services where ECEC is the major element.*
 - *The Inclusion Support Program would provide once-off grants to ECEC providers to build the capacity to provide services to additional needs children. This can include modifications to facilities and equipment and training for staff to meet the needs of children with a disability, Indigenous children, and other children from culturally and linguistically diverse backgrounds.*

Government needs to allocate sufficient funding to meet the reasonable need for ECEC services for children with additional needs. Funding does, however, need to be capped to manage the fiscal risk of the programs. In estimating the size of the funding required and in allocating the funding Government will need to determine:

- who is eligible and how this is assessed
- the range of costs above the ECLS deemed cost for delivering a service to children with different disabilities and for eligible Indigenous children
- how the available funding should be prioritised across the three programs and within each in a way that maximises the return to the community.

While the Commission has attempted to estimate the funding required to support reasonable ECEC services to children with additional needs (chapter 13), any estimates of the funding requirements are highly uncertain due to lack of data on the number of children, the extent of their needs, and the cost of meeting those needs.

With the exception of at risk children, where SECLS will meet the full deemed cost of the service, the SECLS program is designed as an additional payment to the means tested ECLS. SECLS will cover the higher cost of a mainstream service to children with a diagnosed disability or Indigenous children in disadvantaged communities. The additional payment or ‘top-up’ will be based on a deemed cost. For children with disabilities, this deemed cost will be on the same basis as the NDIS, where possible. The provider will apply on behalf of the family and may do so for children before they enter the service (the subsidy applies to the hours of care the child receives so it does not start until the child does).

The Commission is in favour of this ‘top-up’ payment covering the full additional cost, however, if budget funding does not permit this, then rationing is required. There are several ways that the SECLS could be rationed:

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- limits on the number of places
 - capping the number of hours of services per fortnight for which additional payment is provided
 - families could be asked to pay a share of these additional costs based on their subsidy rate for the mainstream component
 - a cap could be placed on the additional payment either per hour, or an annual limit.

The DCP will absorb and build on the current BBF program. Where services transition to mainstream funding arrangements (chapter 8), the funding can be reallocated to support new services. Services that are fully block funded under the DCP should face a three to five yearly review cycle where they may be discontinued, so those that can transition to mainstream funding should have an incentive to do so. The reviews should also consider the scope for co-payments for families using these block funded services. Although some BBF services will remain block-funded for some years, in principle all should aim to transition to mainstream ECEC funding where there is a viable labour market. This will free up program resources for new services to be established in areas of need.

Services will be able to reapply for grants under the ISP, but have no guarantee of receiving funding, as this will be allocated based on a ranking of proposals for support. The details required in the grant applications, and the accountability requirements, should vary with the size of the grant sought. Assessment criteria need to be developed that will allow prioritisation of grants to those services where the funding will bring the greatest benefit to the identified groups of children with additional needs.

INFORMATION REQUEST 12.7

The Commission seeks views on the best way to allocate a fixed funding pool to support the ECEC access of children with additional needs and deliver the greatest community benefit. This includes views on the best option for allocating the Special Early Care and Learning Subsidy payments for children with disabilities to ensure that the program enables as many children with disabilities as possible to access mainstream ECEC services.

The proposed funding model for children at risk of neglect or abuse

Risk of neglect or abuse may be a short-term problem due to changing family circumstances such as major health problems in the family, or a longer-term problem, where children may be known to, or managed by, the state or territory

child protection services. Out-of-pocket costs may present a barrier for these children to access services, so the subsidy should meet the full deemed cost of the service (that is, SECLS will meet 100 per cent of the deemed cost including for any additional need the child may have).

While the current SCCB can support unlimited hours (and in some cases has amounted to complete 24/7 care — chapter 8) such emergency ‘respite’ care is and should remain the responsibility of state and territory governments. To prevent this ‘mission creep’ the SECLS will be limited to 100 hours a fortnight.

The proposed support for at-risk children would:

- provide 100 per cent mainstream ECEC funding for up to 100 hours per fortnight that is not subject to an activity test
 - to the extent that these children require services that are inherently higher cost, the need for a ‘top-up’ payment should also be assessed
- be available for children assessed as ‘at risk’ by a qualified child care worker, social worker, teacher or medical professional
 - providers will need to seek approval for funding through the SECLS on behalf of the families within a week of the child accessing the service for the funding
 - children determined to be ‘at risk’ should be referred immediately to a social worker who would remain involved with the child until the child is determined to no longer be ‘at risk’
- be available initially for 13 weeks, and then for 26 weeks as long as the child continues to be assessed as at risk by the relevant state and territory department, with final approval of each period of assistance by the Department of Human Services (DHS).

Providers supplying services to populations with ‘at risk’ children can apply to the ISP to build their capacity to provide suitable services to these children.

DRAFT RECOMMENDATION 12.7

The Australian Government should continue to provide support for children who are assessed as ‘at risk’ to access ECEC services, providing:

- ***a 100 per cent subsidy for the deemed cost of ECEC services, which includes any additional ‘special’ services at their deemed cost, funded from the Special Early Care and Learning Subsidy program***

-
- *up to 100 hours a fortnight, regardless of whether the families meet an activity test*
 - *support for initially 13 weeks then, after assessment by the relevant state or territory department and approval by the Department of Human Services, for up to 26 weeks.*

ECEC providers must contact the state or territory department with responsibility for child protection within one week of providing a service to any child on whose behalf they apply for the ‘at risk’ Special Early Care and Learning Subsidy. Continuation of access to the subsidy is to be based on assessment by this department, assignment of a case worker, and approval by the Department of Human Services. The Australian Government should review the adequacy of the program budget to meet reasonable need annually.

The proposed funding model for children with a disability

ECEC support for children with a disability who have additional needs is to be limited to reasonable access to ECEC services and should not replace the support that will be provided to many of these children through the National Disability Insurance Scheme (NDIS). Nor should it replace specialised centre-based services to children with disabilities that are currently funded by other jurisdictions.

Anecdotal evidence suggests that a share of the current in-home ECEC services are provided to children with disabilities under SCCB. As these children gain access to the NDIS at least some of these services should be replaced with NDIS services. A transition strategy is needed, however, so that these children are not left without services.⁶⁶

In addition to means-tested mainstream ECLS funding, children with a diagnosed disability will be eligible for an additional payment that reflects the higher cost of providing their ECEC service. This would mainly cover the additional costs of higher staff to child ratios, staff that have specialist skills that attract higher wages than other ECEC workers, and any other higher on-going operational cost associated with providing the service. As discussed, this additional cost is ideally fully met out of the SECLS program but, given the need to cap the program funding, access may need to be rationed (information request 12.8).

⁶⁶ The generosity of the current SCCB in-home care arrangements can hamper the transition to NDIS which has a ‘no disadvantage test’. This is because the NDIS uses a ‘deemed cost’ of care while under the SCCB the program will fully meet the actual fees charged. Under the proposed arrangements the ‘top-up’ subsidy will be based on a deemed cost, reducing the incentive to rely on ECEC services where a child qualifies for NDIS.

Reflecting the different cost of providing services, the additional deemed cost will vary according to the age of the child and the nature of the disability. Average costs of ECEC services for different classes of disabilities will be applied using the deemed cost from NDIS where relevant. The Commission recognises that for any individual child these may under- or over-estimate the actual cost of providing a service. For services with more than a few children receiving SECLS funding, these under and over compensations relative to cost should average out.

While this approach may disadvantage some services with very few children with disabilities (and advantage others), the advantages for cost control and relative simplicity over the alternatives (meeting the full fees, or a complex funding formula based around needs) are considerable. Moreover, it is unlikely that it will be cost effective for mainstream ECEC providers to deliver ECEC services to only a few children with very high ongoing additional needs. While the Commission recognises that this will restrict choices available to families, some concentration of capabilities in ECEC providers should ensure that families can access a more suitable and affordable service.

The ISP program is aimed to build the capacity of mainstream providers to cater for the needs of children with disabilities as well as other additional needs children. To be eligible for ISP and for children to receive SECLS the provider must meet minimum quality standards for the additional services. Providers may apply to the ISP to build capacity for children with disabilities in their service, and for children who intend to use their service. The allocation of ISP in each twice yearly funding round should be prioritised to those service providers demonstrating the greatest unmet demand for specialist services.

To summarise, children with a disability can access funding for ECEC services:

- if they are assessed as eligible on the basis of a diagnosed disability (by a specialist paediatrician or they qualify for support under the NDIS)
- from ECLS, under the same conditions as other families
- from the SECLS, which provides a ‘top-up’ subsidy to meet the per hour deemed cost of the additional services required by the child
 - at a deemed cost for the additional service elements based on the nature of the disability and age of the child.
 - where the ‘top-up’ would ideally meet 100 per cent of the additional cost of providing these services for up to 100 hours a fortnight, unless budget funding does not permit this in which case a rationing system will be applied
- from the ISP through the support it gives to providers to build their capacity.

As discussed above, there may be a need to ration the SECLS funding. As the assistance that some children will require may be considerable, a trade-off between assisting high needs children to attend a mainstream ECEC service and the number of children who are able to be assisted may be required. Further information is sought on the best way to allocate the funding that is made available. Similarly, criteria for prioritising ISP funding for providers seeking grants to increase their capacity to meet the needs of children with disabilities will need to be established.

DRAFT RECOMMENDATION 12.8

The Australian Government should continue to provide support for children who have a diagnosed disability to access ECEC services, through:

- ***access to the mainstream ECEC funding on the same basis as children without a disability and up to a 100 per cent subsidy for the deemed cost of additional ECEC services, funded from the Special Early Care and Learning Subsidy***
- ***block funded support to ECEC providers to build the capacity to cater for the needs of these children, funded through the Inclusion Support Program.***

The relevant Government agency should work with the National Disability Insurance Agency and specialist providers for those children whose disability falls outside the National Disability Insurance Scheme, to establish a deemed cost model that will reflect reasonable costs by age of child and the nature and extent of their disability. Based on an assessment of the number of children in need of this service, and the costs of providing reasonable ECEC services, the Australian Government should review the adequacy of the program budget to meet reasonable need annually.

INFORMATION REQUEST 12.8

The Commission seeks views on what types of services (that are not the funding responsibility of the National Disability Insurance Scheme) should be provided for children with a diagnosed disability attending ECEC, and how best to prioritise available funding. It also seeks information on the range of needs and the costs of meeting these needs for children of different ages and by the nature and extent of their disability.

The proposed funding model for children from groups that have a higher probability of being developmentally vulnerable

There is strong support by participants for free access to ECEC services for children from families that are vulnerable to persistent disadvantage (for example, Australian Childcare Alliance sub. 310, p. 38).

Children can be developmentally vulnerable for many reasons. What is important is early identification and intervention to address vulnerabilities before they develop into problems. Mainstream ECEC services can be useful in flagging some vulnerabilities and in guiding families to access appropriate services. For some children just being in a safe and structured educational environment can help.

While children who are developmentally vulnerable are spread across the socio-economic profile, many will be in families who can afford to pay for ECEC services, and those who recognise the value of such services will do so. While ECEC services can assist families in identifying developmental problems in their child, there is little governments can do to force families into using these services. What government can do is to enable ECEC services to be affordable — particularly for low income families for whom expenditure on ECEC may be less of a priority — so that developmentally vulnerable children can be identified. For these reasons the Commission proposes concentrating additional needs funding on children who can be identified as at risk of being developmentally vulnerable because they belong to specific groups with higher rates of vulnerabilities rather than children who are from lower socioeconomic families.

Children who have language, cultural, or other developmental needs can benefit from access to mainstream ECEC services, but also may need services that have specific skill sets that are not always available in these services. There are several clear groups:

- Indigenous children in rural and remote areas and those in urban areas who have cultural, language, and health needs and where the population may have higher rates of disadvantage
- children from refugee families, who have language and cultural needs and may also benefit from targeted services as a result of their refugee status
- children from other CALD backgrounds who may have language and cultural needs that mainstream ECEC providers cannot easily provide without some additional assistance
- children whose parent and/or siblings have a disability.

INFORMATION REQUEST 12.9

The Commission seeks information on whether there are other groups of children that are developmentally vulnerable, how they can be identified, and what the best way is to meet their additional needs.

Where these groups are geographically concentrated in highly disadvantaged communities it may be sensible to have targeted services. The BBF Programme currently block funds services in rural and remote areas, with around 80 per cent providing services for Indigenous children. The DCP will provide the main source of funding for ECEC providers in these communities while they transition to mainstream funding arrangements (where they can).

As discussed in chapter 8, child-based mainstream funding is a more sustainable long term funding model for many ECEC providers. In principle, all providers who receive block funding will transition to the mainstream funding. However, in some areas families will find it difficult to meet the activity test due to the lack of a labour market in their area. Hence it will be challenging for some services, particularly those in remote communities, to transition to mainstream arrangements. Such services should continue to receive block funding, but be subject to review, and some co-payment by families introduced where possible.

In addition to the activity test, for families to receive ECLS and SECLS they must use the services of an approved provider. The BBF services are diverse and some would not fit into the current provider types supported by the NQF (for example Indigenous play groups). However, with the relaxation on the hours a service must operate in order to receive Government assistance, the NQF could be applied to a much greater range of services (chapter 7). Services are likely to need some block funding support while they transition to mainstream ECEC funding arrangements.

One of the advantages of transitioning providers from block funding to mainstream funding is that it frees up funds for new services to be established in highly disadvantaged communities where there is a major need. Hence the transition strategy should be seen as an important part of any new application for block funding under the DCP.

As discussed in chapter 8, integrating ECEC services with other family and community services can be a more efficient approach to service delivery. Such services can be a useful introduction into a service environment for some families, while for others it may be other services that provide an entry point for accessing ECEC services. Access to mainstream funding arrangements offers greater financial stability for integrated services, although some block funding (for the integration

‘glue’) may be needed. The DCP will be able to fund coordination of services where ECEC is a core component of the services.

Some providers who have made the transition to mainstream funding will continue to need regular additional funding due to the need to build and rebuild capacities. These providers will have access to the ISP for this purpose.

Table 12.3 sets out the proposed funding sources for service providers providing ECEC services to children with additional needs.

Table 12.3 Proposed funding programs to support children with additional needs^a

<i>Funding program</i>	<i>'at risk' children</i>	<i>Children with a disability</i>	<i>Highly disadvantaged communities</i>	<i>Indigenous children</i>	<i>Other additional needs</i>
ECLS	x	✓	✓	✓	✓
SECLS	✓ Covers full deemed cost	✓ Top-up only	x	✓ Top-up only	x
DCP – transitional	x	x	✓	✓	x
DCP – start-up and and sustainability ^b	x	x	✓	✓	x
DCP – integration	x	x	✓	✓	x
ISP	✓	✓	✓	✓	✓

^a This does not include Viability funding that will be available to rural and remote service providers. ^b Such block funded programs will not be able to access ISP or SECLS funding, and will still be able to charge parents fees, but not more than they would have to pay under ECLS.

Preschool program funding

Total spending on preschools is estimated to be around \$1 041 million in 2012-13, of which \$447 million was funded by the Australian Government under a National Partnership Agreement (NPA).

The rate of pre-school expenditure per child by governments, and the share funded by the Australian Government varies considerably across the states and territories (chapter 4, table 4.3). For example, the total expenditure per child attending preschool ranges from \$1929 in Queensland to \$12 561 in the Northern Territory (chapter 4, figure 4.7). While the Australian Government provides around \$1 500 per eligible child per year, the actual level of subsidy depends on the share of children attending preschool.

While preschool is a state and territory responsibility, the involvement of the Australian government as a funder of preschool is likely to be required, at least in

the near term, to fully embed universal access and use of preschool. The NPA has been successful in increasing participation rates (see chapter 3), which lends weight to the case for continuation of this support.

Given the strong evidence that school readiness is enhanced with participation in preschool or a preschool program in a LDC the year before a child starts school, the Commission considers that ongoing funding to ensure universal access to a preschool service at low cost should be a high priority for all governments. However, the major differences in the state and territory contributions need to be addressed, as do the incentives for the states and territories to support integration of preschool programs into LDCs. Moreover, the funding model should encourage the transition to the states and territories resuming full responsibility for preschool education, with per child funding support from the Australian government as is currently the case for school students. Ideally, while retaining its play-based character, the preschool year will become linked into or co-located with school systems with a longer period of OSHC offered for these children to allow parents the opportunity to work (chapter 8).

For some families, access to low or no fee preschool is not sufficient to induce them to send their children. For these families, particularly where the failure to send the child arises from family dysfunction, an inducement may be required. The Commission considers the evidence on the benefits of preschool sufficient for the Australian Government to withhold FTB for families with preschool age children unless they attend preschool, are unable to access a preschool, or can demonstrate sound reasons for non-attendance.

The proposed long term funding model

Universal access is best funded under a supply-based arrangement, as this allows family co-payments to be fixed and low to encourage attendance. The states and territories have such arrangements with providers, either through contracting independent providers or providing the service through a state or territory agency. This model is ideal for dedicated preschools, and there is no reason why preschool programs in LDCs could not be funded under the same arrangements.

The Commission proposes Australian governments provide universal access to preschool for:

- children in the year prior to starting school
- younger children where this affects the viability of the preschool program
- for 15 hours a week, with flexibility in how this is delivered within a week and over the school year (40 weeks).

In addition, to encourage parents to act in the best interests of their child:

- children attending preschool should be required to meet the same immunisation requirements as school-age children
- receipt of the FTB supplement should be made conditional on attendance at preschool for all appropriately-aged children in a family who can access a preschool program.

The desired model for funding preschool access is:

- the states and territories fund, on a per child basis, dedicated preschools, those integrated with primary schools, *and preschool provided in LDCs*. The funding is provided through block-funding arrangements based on the number of children enrolled in the preschool program for each provider
- the Australian Government provides a per child funding subsidy to the states and territories based on the number children of the appropriate age. It withholds a share of funds based on the previous year's actual enrolments relative to the number of eligible children
- LDC providers report to the Australian Government on the number of preschool children they have enrolled and the funding they have received from the states and territories. LDC providers are instructed to transparently deduct the state and territory funding for preschool from the fees they charge families for the hours of funded preschool service. Where the preschool hours are fully funded by state or territory governments (and they receive subsidies from the Australian Government) these hours are not an allowable claim for Australian Government mainstream ECEC funding programs. Under this arrangement, the LDC operates on the same basis as a dedicated preschool and should only charge families the standard copayment for the preschool hours.

DRAFT RECOMMENDATION 12.9

The Australian Government should continue to provide per child payments to the states and territories for universal access to a preschool program of 15 hours per week for 40 weeks per year. This support should be based on the number of children enrolled in state and territory government funded preschool services, including where these are delivered in a long day care service.

The Australian Government should negotiate with the state and territory governments to incorporate their funding for preschool into the funding for schools, and encourage extension of school services to include preschool.

Preschool within LDCs

The provision of preschool by LDCs varies considerably across the states and territories. The share of children who receive their preschool education in a LDC ranges from 51 per cent of children in Queensland to 2.5 per cent in Western Australia (chapter 3, figure 3.7). In some states and territories, LDCs organise for children to go to a separate preschool, but may still charge for the time while these children are away. This may not be unreasonable as their costs may be unchanged when the children are away for a short period of time, but it does mean that the Australian Government may be paying twice — in the preschool subsidy they provide to the states and territories and through CCB and CCR. Proposed changes in the scope for LDCs to offer short term care should allow LDCs to use these hours to provide occasional care type services.

To the extent that state or territory governments do fund preschool in LDCs, the LDC provider may be getting paid twice, for the preschool service and the ECEC fee paid by the family (which attracts CCB and CCR). As set out above, LDCs receiving preschool funding should not be able to charge families for these preschool hours. Where states and territories do not pass on the Australian Government funding, or provide any additional funding to preschool delivered in LDCs, there is considerable financial advantage to these governments of preschool being delivered in the LDC. For example, on the basis of limited available data it appears that the Australian Government pays 98 per cent of the total pre-school costs in Queensland and only 18 per cent of the preschool costs in Western Australia. The Western Australian Government noted the inequality of this arrangement:

The Commonwealth spends approximately \$300 million per annum through CCB/CCR for preschool provision in childcare services. Almost none of this funding comes to WA to support preschool provision. (sub. 416, p. 2)

As this funding issue highlights, the desire by parents for preschool services delivered in the LDC setting increases the complexity of the funding arrangements for preschool. Ideally states and territories would fund LDCs for the provision of preschool services as they do dedicated preschools, and for these hours parents would pay only the same co-payment to the LDC as they would to the dedicated preschool. In this situation the family would not be charged for the LDC service and so not entitled to the normal subsidy for this service. However, in the absence of this arrangement the Australian Government should pay the per-child subsidy (currently around \$2.50 an hour per child) directly to the LDC, as the cost of providing preschool is higher than the normal cost due to the need for a dedicated teacher. This would provide a greater incentive for LDCs to provide a formal preschool program than is currently the case.

The proposed transition arrangements

The Commission's proposed transition arrangements for funding preschool access are that the:

- states and territories fund and administer dedicated preschools, and those integrated with primary schools. The funding is provided through block-funding arrangements based on the number of children enrolled in the preschool program for each provider
- Australian Government provides a per child funding subsidy to the states and territories based on the number of children of the appropriate age. It withholds a share of funds:
 - based on the previous year's actual enrolments relative to the number of eligible children; and
 - on the share of children who received their preschool education in a LDC setting in the previous year
- Until the state or territory government undertakes to fund preschool in LDCs on the same basis as dedicated preschools, the Australian Government takes responsibility for funding preschool delivered within the LDC setting. This funding is provided as an additional payment for children accessing formal preschool in LDCs. This payment is made directly to LDC providers based on the number of children using this service (and payments to the states reduced accordingly). Families should only pay the usual ECEC fees for the hours of preschool service. It should be noted that these fees should come down slightly as some or all of the cost of providing a preschool service (relative to not providing one) will be met by the direct subsidy.

DRAFT RECOMMENDATION 12.10

The Australian Government should provide per child preschool payments direct to long day care services for 15 hours per week and 40 weeks per year, where long day care services do not receive such funding from the states and territories.

INFORMATION REQUEST 12.10

The Commission seeks views on how best to transition to full state and territory responsibility for preschool delivered in long day care services as well as in dedicated preschools. This includes a transition to the provision of preschool at no cost to parents, in those dedicated preschools attached to public primary schools.

Considerations for expanding the preschool program

Many participants (for example Brennan and Adamson sub. 383, p. 51) argued for increased funding of ECEC services to allow universal low cost provision of preschool to be extended to younger children (generally from the age of three years was favoured). While the evidence in chapter 5 suggests that most children from the age of three would benefit from a small number of hours each week participating in preschool, the Commission has not been able to find evidence that those benefits are sufficient to justify the likely substantial costs of extending universal access in this way. Furthermore, the quality of the services already available in ECEC settings, along with informal services such as playgroups and mothers groups, provide younger children with an opportunity for play-based learning and socialisation.

Nevertheless, subject to evidence of the costs and benefits, expanding the preschool program for younger children is something that could be considered in the future, and could be done easily within the suggested approach. The Commission notes that some states and territories already make preschool available to younger children.

Similarly, there is no evidence to suggest that the 15 hours for 40 weeks a year is the optimal amount of preschool education. However, any change from this should be evidence-based, and state and territory education agencies could conduct randomised controlled trials to assess the impacts of small changes in these hours. The adoption of the AEDI and linking to NAPLAN would provide a suitable instrument to compare outcomes for matched groups of children (chapter 5).

12.5 Current funding arrangements

In 2012-13 the Australian Government spent around \$5.8 billion on ECEC assistance (\$6.7 in 2013-14). Of this, around \$0.6 billion was transferred to the states and territories, and they, in turn, added an additional \$0.8 billion of funding, mostly for the provision of dedicated preschool. Ignoring contributions from tax expenditures, local governments, and in-kind services (mainly facilities), total government expenditure on ECEC was in the order of \$6.4 billion (in 2012-13). This is projected to rise in the future, having grown by almost 80 per cent in real terms between 2007-08 and 2012-13 (chapter 4). Indeed, the Department of Education argued that:

... it is likely that upward pressures on fees, including wage growth and demographic changes, will continue. This, combined with the fact that CCR rates are set as a proportion of childcare fees paid, will mean that the Australian Government outlays on child care fees assistance are likely to nearly triple over the next decade. (sub. 147, p. 27).

Families fund around 37 per cent of the total cost of subsidised ECEC services in out-of-pocket costs. This share will rise as more families hit the CCR cap, and if fees continue to rise faster than the rates applied to CCB (chapter 9).

Current Australian Government funding

The current indicative funding envelope for the Australian Government is \$31 billion over the next four years (table 12.4). This includes commitments under the National Partnership Programs which involve transfers to the states and territories (see chapter 4 for details).

Table 12.4 Australian Government funding for ECEC
2012-13 and forward estimates, \$million

Type ^a	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Fee assistance	4878	5723	6422	6932	7550	8201
Services assistance	365	552	547	366	294	302
Preschool funding	461	407	235			
Other NPA	96	43	42	6	3	3
Total ECEC	5800	6725	7246	7303	7848	8506

^a Fee assistance is CCB (including SCCB), CCR and JETCCFA. Services assistance includes Child Care Support Services and the Early Years Quality Fund, and the NPAs for TAFE fee waivers for childcare qualifications, and National Quality Agenda. Preschool funding is the NPA for universal access including retained funds. Other NPA is funding for Indigenous Early Childhood Development Children and Family Centres (2012-13 only as transferred to Prime Minister and Cabinet), TAFE fee waivers (finishes in 2013-14), National Quality Agenda (finishes in 2014-15), National Occasional Care which commences in 2014-15, and Early Learning Languages which is funded only for 2014-16.

Source: Chapter 4, table 4.1.

Expanding the funding envelope

The Government may be willing to commit more resources if a good case can be made not just that the benefits exceed the costs, but that this is the best use of public money. There are, however, several other sources of funding if the benefits from the Commission's proposed reforms can be redirected into ECEC expenditure.

Redirecting tax and welfare savings

The Commission has recommended removing a number of tax concessions that currently are not included in the ECEC budget, but are effectively payments for ECEC. The removal of the FBT exemption of employer provided ECEC is currently small, but will cost more in the future as more families switch from the current CCR once they hit the cap. Savings in administrative expenditures (from removing this

exemption) should also be redirected into the ECEC budget, however, these are likely to be relatively small, and in the short term implementation of the proposed changes would require some upfront investment. The potential increase in tax revenue from removal of tax exemptions for not-for-profit ECEC services (discussed in chapter 10) is uncertain, but could be substantial, and any savings should also be reallocated to the ECEC budget.

In addition, increases in parental workforce participation would raise national income (GDP) and income taxes, and reduce welfare payments, notably family tax benefits. These have an offsetting effect on ECEC expenditure (chapter 13).

DRAFT RECOMMENDATION 12.11

The Australian Government should redirect any additional tax revenue gained, or administrative savings from, removing ECEC related tax exemptions and concessions to expand the funding envelope for ECEC.

For not-for-profit providers of block funded ECEC services to children with additional needs, the tax savings should be included in their block funding arrangements while these programs continue under the current funding agreements.

Suggestions for redirecting PPL

The current PPL scheme is fairly close to that designed by the Commission for the Australian Government at the time (PC 2009). The main objectives were around the health and wellbeing of the mother and baby, rather than workforce participation (although elements of the Commission's design aimed to maintain workplace attachment). The Government is proposing to change the current scheme, making it more generous to many mothers. It is unclear that this would generate additional significant maternal and child health benefits (chapter 6).

It has been suggested in a number of submissions, by the National Commission of Audit, and by various commentators, that at least some of the funding for the Government's proposed Paid Parental Leave (PPL) scheme be diverted to funding childcare (box 12.5). The argument is that childcare is a greater barrier to returning to work for mothers than the availability of PPL. The Commission agrees with this widespread assessment that allocating additional funding to ECEC is likely to have a greater impact on workforce participation than expanding the PPL scheme.

Box 12.4 Views on diverting proposed additional PPL funding to ECEC

A number of submissions argued that Australian government funding was better spent on support for ECEC than on expanding the generosity of the PPL scheme.

Most industry groups argued that expanding the PPL scheme will do little to improve workforce participation. For example, the Australian Chamber of Commerce and Industry:

... believes that improve [sic] childcare arrangements will have a far greater impact on female participation than the paid parental scheme ... it would be far better to reduce the overall cost of PPL and redirect some of the investment into better childcare outcomes. (sub. 324, p. 8)

While the Australian Industry Group reports its members as saying:

... it is access to childcare rather than the generosity of the National PPL scheme ... that is the main impediment to greater workforce participation ... (sub. 295, p. 8)

Supporting this, the Australian Childcare Alliance's Parent survey 2014, found that 84 per cent of respondents who had issues with workforce participation stated that the cost of childcare was a barrier to work or study (sub. 310, p. 24).

Urban Economics (sub. 310) reported on research findings that the current PPL scheme has resulted in women taking time off earlier and returning to work later than women without access to the scheme (the latter was the point of the scheme). They suggested that with a more generous scheme the delay to mothers returning to work would be likely to be longer.

More generally, ECEC is viewed as a priority relative to PPL. Early Childhood Australia cite a Galaxy poll August 2013 that found:

... nearly 70% of individuals surveyed thought affordable early education is more important than PPL to young families ... men were more supportive of PPL (22%) than women (16%) (sub. 383, p. 62).

The National Foundation of Australian Women reported:

We are confident that were the Government to modify its proposed changes to paid parental leave, so as to free up some of the proposed additional expenditure, and instead invest those \$ in the child care sector, there would result greater user satisfaction and measureable improved workforce attachment. (sub. 59, p. 3)

And getting to the heart of the matter, the Guardian Early Learning Group question:

Is it the best allocation of resources to invest \$5 billion into maternity leave when it is clear that a reallocation of perhaps half this money into the childcare sector would have a great economic benefit? (sub. 274, p. 4).

The Government's proposed PPL scheme was initially costed at \$5.5 billion per annum, which was to be funded by the current scheme's budget allocation (\$2 billion), and a 1.5 per cent corporate income tax levy on large business which was expected to raise \$2 to \$2.5 billion. The shortfall was to be met from savings in public service maternity leave funding, higher general tax revenue (from increased workforce participation of mothers) and lower family payments (as higher incomes from working reduce family tax benefit payments). The proposal to reduce the maximum income threshold from \$150 000 to \$100 000 lowers the cost of the scheme only slightly, since few women earn more than \$100 000 prior to maternity leave.

Various options for repurposing the PPL scheme have been proposed. For example, the National Commission of Audit (2014) proposed:

... that Average Weekly Earnings, currently \$57,460 per year, is a more appropriate cap for the level of wage replacement ... the savings from the lower cap should be redirected to fund a proposal to expand eligibility for childcare assistance. That is, the 1.5 per cent levy on company taxable income above \$5 million per year should be retained so that the modified parental leave scheme could co-exist with an expanded child care proposal to be implemented in a broadly budget neutral way. (section 7.6)

The Commission is of the view that the extra revenue that the proposed PPL scheme would require would better meet the increased participation objectives of Government if used to expand funding for ECEC rather than PPL.

DRAFT FINDING 12.1

It is unclear that the proposed changes to the Paid Parent Leave scheme would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. There may be merit, therefore, in diverting some funding from the proposed new scheme to ECEC to ensure that the Government's workforce participation objectives are met and ECEC services to additional needs children are adequately funded.

13 Potential impacts of proposed changes

Key points

- The Commission has assessed the impact of four options for different levels of change to the Early Care and Learning Subsidy (ECLS) on families, providers and government. The estimates should be regarded as preliminary and further options will be investigated for the final report.
- All options have a maximum subsidy rate of 90 per cent for families on gross incomes of less than \$60 000 and the base subsidy rate (either 0 or 30 per cent) at \$300 000. Two of the options apply a linear taper and two are stepped (at a subsidy rate of 50 per cent) at a family income of \$130 000.
 - The 90-30 linear option results in the highest total subsidy rate (70 per cent) but requires government funding for ECLS to be higher by 23 per cent. This option has the largest boost to workforce participation (by 2.7 per cent) and to hours worked (by 3.6 per cent). Although this delivers a rise in tax revenue and a fall in family payments, it come at a net fiscal cost of \$0.75 billion.
 - The 90-0 stepped option results in the lowest overall subsidy rate of the options (58 per cent), but comes at lower cost with ECLS costing \$0.1 billion less than CCB and CCR in 2013-14. It delivers the lowest rise in participation (of 1.4 per cent) and hours worked (1.3 per cent). The gain to the fiscal bottom line is estimated to be \$0.7 billion.
 - The estimates for the 90-0 linear and 90-30 stepped fall between these other two options, with the 90-0 linear closer to the 90-30 linear option delivering reduced outcomes but being less costly while the 90-30 stepped is very similar to the 90-0 stepped option.
- Separate estimates are made for the expenditure required to provide adequate ECEC services to children with additional needs. The estimates are very preliminary, based on estimates of the current gap in ECEC use, the cost of services for children, and the capacity of providers to deliver services. The indicative budget of \$410 million for direct program support (some on a per child basis) is less than the current programs that are meant to assist children with additional needs, but better targeted. The total budget for additional needs is higher at \$700 million, reflecting the additional cost to ECLS as children with additional needs are better able to access mainstream ECEC services, and currently block funded services are transitioned to ECLS funding.
- As the Commission has recommended continuing funding for preschool at the current per child rate, attendance rates should remain high. The counterfactual of withdrawal of this funding has not been considered.

The Commission's recommendations represent significant changes to Australia's ECEC system. The proposed changes would affect all participants in the ECEC system — users (children and families), service providers (both businesses and workers), and governments (as funders and regulators). This chapter examines the impacts of the Commission's proposed changes on these three groups as well as longer term impacts.

The chapter starts with a summary of the proposed changes to the ECEC system in section 13.1. The estimated costs of the proposed ECEC system under a range of options for key assistance parameters (the maximum and base subsidy rate and the threshold family incomes where they apply) are presented in section 13.2. Detailed estimates of how the different stakeholder groups and the community more broadly are likely to be affected are provided in sections 13.3 to 13.7. The quantitative analysis, including the sources of data, the assumptions made, and the methodology used, will be provided in detail in a technical supplement to the draft report. Given the inherent uncertainties in the response of families to policy changes, the data limitations, and the complexities of the modelling required the estimates presented must be regarded as preliminary (box 13.1). Further modelling will be undertaken for the final report. An explanation of the sensitivity of the quantifications to different assumptions is provided where possible, but it should be kept in mind that there is considerable uncertainty as to how families and providers will respond.

The final sections consider transition issues for families and providers (13.8) and administration by government (13.9).

Box 13.1 **Uncertainty in the modelled estimates**

Even apart from the inherent uncertainties in the response of families and providers to policy changes, there is considerable uncertainty in the modelled estimates for the impacts of the proposed changes in the ECEC system. This stems from problems with the data, and from the inherent uncertainty about how families and providers will respond to the changes. There are also limitations with the models used. However, given the problems with the data and parameter estimates and the omission of the supply-side response to changes in demand (it is assumed to be highly elastic) and second and subsequent rounds of adjustment, these limitations are likely to have only a small effect. The implications of these adjustments are discussed in appendix K.

The main problem with the data is the poor quality of information on family incomes for those families currently using ECEC services and those that currently do not. Use of informal care (and nannies) while parents work is also not known.

The major source of uncertainty in the modelling is just how families with different levels of income and numbers of differently aged children will alter their workforce participation and use of ECEC services in response to changes in their out-of-pocket costs. The estimates of elasticities that measure the sensitivity of women's workforce participation to ECEC costs are generated from population data, and so reflect the aggregate response (appendix F). With microsimulation modelling, while the sum of the individual responses can be made to add up to match the population estimates, there can be many different combinations of family responses that give the same aggregate number. While the Commission has attempted to set constraints on family choices that align with what seems to be sensible behaviour, this still leaves considerable room for uncertainty. Given the inherent uncertainty in how families will respond, modelling will always be an approximation of behaviour.

Hence the modelling estimates should be regarded as indicative, and the relative results are somewhat more reliable than the absolute numbers. In the tables the estimates for the 'mid-point' parameters are reported. The ECEC cost and fiscal cost reported in the charts show the range of possible results. A technical supplement will be provided that gives more detail on the model used and the range of estimates.

13.1 Proposed approach to funding the system

Table 13.1 sets out the main proposed changes to the current system. While the modelling focuses on the funding changes, there are a number of other recommendations made in this draft report that should improve the ability of providers to respond to current and changing patterns of demand. As these changes should make supply more responsive and lower costs for providers and users of ECEC services, this should work to offset the effects of the costs of adjustment and pressure on fees from changes in demand. The implications of these changes are not explicitly included in the modelling, but are discussed where most relevant.

Table 13.1 **Comparison of the current and proposed funding system**

<i>Target group</i>	<i>Current system</i>	<i>Proposed system</i>
<i>Families using approved ECEC providers</i>	<p>CCB – means tested, adjusted for number of children and type of service, maximum subsidy \$3.99 - \$5.74/hr (85 per cent for school aged children)</p> <p>CCR – 50 per cent of out-of-pocket up to \$7500</p> <p>Available for approved LDC, FDC, OSHC, vacation care, capped OCC and IHC</p> <p>No activity test for up to 24 hours of care per week, 15 hours of care per week for CCB beyond this.</p> <p>Up to 50 hours of care a week</p>	<p>ECLS – means tested, deemed cost based on median fees (adjusted for age and care type), max subsidy 90% min 30 per cent</p> <p>Available up to 100 hours a fortnight of care provided by approved centre based and home based services that meet the NQF (including nannies) for families that satisfy the activity test of 24 hours a fortnight</p>
<i>Grandparent primary carers</i>	GCCB – full fees covered for up to 50 hours per week if on income support, no activity test	ECLS as above, but not subject to the activity test
<i>Jobless families in study or looking for work</i>	<p>JETCCFA \$1/hour parent contribution plus CCR – net cost \$0.50 per hour</p> <p>Up to 24 hours/week if undertaking approved activity or up to 50 hours a week if undertaking at least 15 hours of approved activities.</p>	<p>ECLS as above, study and looking for work satisfy the activity test</p> <p>Families where parents are on disability and/or carer payment are not subject to the activity test</p>
<i>Children with additional needs</i>		
<i>'at risk' children</i>	<p>SCCB – covers full fees for up to 24/7 care</p> <p>Assessment by providers, reassessed at 13 weeks by Department of Human Services</p>	<p>SECLS 100 per cent of the deemed cost</p> <p>Assessment by providers, but child must be referred to state or territory child protection agency within a week</p> <p>Reassessed at 13 weeks</p>
<i>Children living with a disability</i>	<p>Inclusion Support Subsidy –</p> <ul style="list-style-type: none"> • LDC, OCC and flexible services \$16.92 per hour up to 25 hours/week • FDC and IHC tier one subsidy of \$4.49 per hour or tier two subsidy of \$9 per hour up to 50 hours a week • OSHC \$16.92 per hour up to 10 hours a week before school, up to 15 hours a week after school vacation care up to 40 hours/week <p>Other IPSP – support to providers to build capacity</p>	<p>ECLS & SECLS – SECLS provides a 'top-up' for up to 100% of the additional deemed operational cost of providing a service that meets the additional needs</p> <p>ISP – support to providers to build capacity – staff, equipment</p>

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Table 13.1 (continued)

<i>Target group</i>	<i>Current system</i>	<i>Proposed system</i>
Children in highly disadvantaged communities (including Indigenous children)	BBF – blocked funded programs Indigenous Children and Family Centres (under a NPA)	DCP – block funding while services transition to ECLS where there is a viable labour market; otherwise block funding for current BBF providers and for new providers where they can transition; coordination funding for integrated services ISP – support to providers to build capacity SECLS – top-up funding for Indigenous children where they have additional needs
Other CALD communities	IPSP – support to providers to build capacity includes Bicultural Support - access to an interpreter	ISP – support to providers to build capacity
<i>Preschool</i>		
	States and territories receive around \$1500 per eligible child under a NPA, but different arrangements apply in each states and territory (depending on how preschool services are delivered) as to how this funding is spent.	All preschool funding to be managed and funded states and territories regardless of where it is delivered (including in LDCs), with NPA per child funding. If the state or territory does not fund children receiving preschool in LDCs the Australian Government funding will be paid to the LDC providing the preschool service

Sources: Chapters 4, 12, appendix B.

Note: Child Care Rebate (CCR); Child Care Benefit (CCB); Grandparent Child Care Benefit (GCCB); Long Day Care (LDC); Family Day Care (FDC); Outside School Hours Care (OSHC); Occasional Care (OCC); In-home-care (IHC); Special Child Care Benefit (SCCB); Early Care and Learning Subsidy (ECLS); Special Early Care and Learning Subsidy (SECLS); National Partnership Agreement (NPA); Budget Based Funding (BBF); Inclusion Support Program (ISP); Inclusion and Profession Support Program (IPSP); Jobs, Education and Training Child Care Fee Assistance (JETCCFA).

The funding envelope

The current budget allocation for ECEC was around \$6.7 billion for 2013-14, and the Australian Government has committed to \$31 billion over the next 4 years (roughly \$7.7 billion a year, which includes transfers of \$0.8 billion to the states and territories). Given the terms of reference requirement to examine options within the current funding envelope, this forms a guide to what would be available unless funding is expanded. As outlined in chapter 6, there could be a case for diverting some funding from the proposed PPL scheme to the ECEC budget, which could provide an expanded funding envelope.

13.2 Estimated cost of the funding options

The key areas of cost to government under the proposed approach to ECEC are:

- the cost of ECLS
- the cost of meeting the additional needs for eligible children
 - the ‘top-up’ funding under SECLS (and full funding for at risk children)
 - DCP funding for services in highly disadvantaged communities
 - ISP funding to build the capacity of providers to deliver services to additional needs children
 - the additional cost to ECLS of children who are enabled to attend mainstream ECEC services, who would otherwise not have been able to do so
- the cost of enabling universal preschool
- the cost of administration and support to assist providers to adjust to changes in regulation (not estimated).

The cost of funding mainstream ECEC services

The proposed mainstream funding model is examined for four options (table 13.2). The options have:

- the same lower income threshold of \$60 000 and maximum subsidy rate of 90 per cent
- two base rates subsidies — 30 per cent and zero, both of which apply for families with gross family incomes over \$300 000
- two types of taper — a linear taper and a kinked or stepped taper. For the stepped options, the step occurs at a family income of \$130 000, with a subsidy rate of 50 per cent.

It should be noted that the subsidy rates apply to the deemed cost of ECEC services. For the modelling in this chapter the deemed cost is based on the median fees charged to families using ECEC services in the base year.

Table 13.2 **Modelled options for mainstream funding arrangements**

<i>Option</i>	<i>Maximum subsidy</i>	<i>Lower threshold</i>	<i>Mid-subsidy</i>	<i>Mid-threshold</i>	<i>base subsidy</i>	<i>Upper threshold</i>
	%	\$'000	%	\$'000	%	\$'000
90-30 linear	90	60			30	300
90-30 kink	90	60	50	130	30	300
90-0 linear	90	60			0	300
90-0 kink	90	60	50	130	0	300

The estimates are for 2013-14, hence the indicative total budget envelope is \$6.7 billion. The 2013-14 budget for preschool funding is \$0.4 billion. If the cost of ECLS is kept to the current CCB, CCR and JETCCFA funding then ECLS funding would be \$5.6 billion⁶⁷. This indicates that around \$0.7 billion is available for supporting services for additional needs children under the current budget.

The four options are modelled for a single representative year (2011-12) to examine the differences between the options as well as the current system and then adjusted to reflect the growth in child numbers and prices to 2013-14 .

In the proposed system, mainstream ECEC services will provide either approved centre-based care (CBC) or home based care (HBC). CBC encompasses LDC, occasional care, OSHC and vacation care, and HBC encompasses FDC, in-home care, and nannies. The proposed system intends to apply an age-based deemed cost to reflect the very different costs of providing services to 0 to 2 year old, 3 to 5 year old and school aged children, and while not modelled at this stage, there is potential to vary this deemed cost by the care/education mix of the service and by location. However, the modelling in this draft report only makes a distinction between the deemed cost of providing CBC for school aged and younger children and between HBC and CBC for younger children.⁶⁸ Modelling for the final report will take into account the cost differences for children aged 0 to 2 years and 3 to 5 years in CBC and HBC. Where this is likely to make a difference to the results it is flagged in the discussion, however such differences will mainly be at the disaggregated rather than the aggregated level. A brief description of the modelling approach is given in box 13.2.

⁶⁷ The 2013-14 actual expenditure was \$5.7 billion, however, the modelling results on the current policy settings estimate \$5.6 billion. As this is the baseline for the comparison of options this estimate is used in this chapter.

⁶⁸ The model estimates the median fees for families using different types of services. As a guide the overall median price in 2013-14 is estimated to be \$7.53 per hour for LDC, \$6.84 per hour for FDC and approved nannies, and \$6.37 per hour for OSHC.

Box 13.2 The micro-simulation model

The Commission developed a behavioural micro-simulation model to analyse childcare funding options and a preliminary version of the model has been used for this report. The model is based on household data and childcare usage information from the ABS Survey of Income and Housing and administrative and childcare fee data from the Department of Education's administrative datasets. Further work is underway to align these sources of data and to refine the model.

Behavioural micro-simulation models are often used to analyse the impacts on labour supply of changes in policies where the response depends on the complex interactions between household characteristics and the tax and transfer system. These models have to incorporate enough detail about families and individuals and the policies that affect their behaviour to identify how choices in regard to workforce participation change with the policy settings. For ECEC policy, the critical policy parameters are income tax, Medicare levy and government transfer payments relating to the number and age of children, the type of ECEC being used and other payments affecting (and dependent on) family income.

Micro-simulation models apply a policy change to each family based on their unique circumstances, then add up the changes in each family's behaviour to estimate the population level changes. The Commission's model combines features of two models that have been used in the past to analyse childcare policies: the Melbourne Institute Tax and Transfer Simulator (MITTS) model as adapted by Doiron and Kalb (2005) and an econometric model developed by Gong and Bruenig (2012) for sole parents.

In the Commission's model, each household (couple or sole parent families) is assumed to maximise utility derived from disposable income net of out-of-pocket ECEC fees, work preferences for caring by mothers and the value attached to formal childcare. The changes in labour supply are the result of decisions about whether to work (a 'participation elasticity') and how many hours to work (an 'hour's elasticity'). Households choose their hours of labour supply and childcare demand based on the benefits and costs of the choices before them. The demand for childcare services is a derived demand to the extent that it depends on the labour supply choices made, but it is also a function of the value attached to childcare. The impacts of policy changes are estimated by comparing outcomes with and without a policy change.

Since the model only accounts for household decisions about demand for ECEC services and labour supply, it represents only one side of these markets — the supply of ECEC services and the demand for labour are not accounted for. Households are assumed to face fixed ECEC prices and returns to their labour. Should policy changes result in large increases in ECEC demand and labour supply, ECEC prices would be expected to increase and wages to fall respectively, especially in certain regional or occupational markets. For these reasons, estimated responses are best thought of as shifts in ECEC demand and labour supplies, rather than final market outcomes.

(continued next page)

Box 13.2 (continued)

The preliminary version of the model draws on survey information relating to family characteristics and the use of ECEC. The inclusion of childcare fee data enhances the testing of labour market responsiveness to changes in the fees of different forms of childcare. The model accounts for possible changes in out-of-pocket fees at a regional level and by: type of care (that is, centre based care — long day care, out of school hours care and occasional care — and home based care — family day care, in-home-care and nannies), and age category of the child (that is, childcare for 0–5 year olds or out of school hours care for 6-12 year olds).

Table 13.3 summarises the estimated impacts of the mainstream ECEC funding arrangements for the four modelled options and the current system. The first column gives the cost of the ECLS, the second is the total fiscal cost (section 13.6). The third column gives the total expenditure on ECEC services, followed by the share that is made up by out-of-pocket costs met by families (section 13.3). The final column shows the change in hours of workforce participation relative to the current arrangements (section 13.4).

Table 13.3 Estimates of the impacts of different funding options for mainstream ECEC services
2013-14 as a representative year

<i>Option</i>	<i>ECLS cost^a</i>	<i>Fiscal cost</i>	<i>ECEC expenditure (subsidy plus fees)</i>	<i>Share out-of-pocket</i>	<i>Change in total hours worked by mothers</i>
	\$b	\$b	\$b	%	%
Current ^a	5.6	5.6	9.0	37.6	
90-30 linear	6.9	6.4	9.9	29.9	3.6
90-30 stepped	5.5	5.2	9.1	39.7	1.5
90-0 linear	5.8	5.5	9.1	35.9	2.3
90-0 stepped	5.1	4.9	8.8	42.1	1.3

^a The fiscal impact of the current system is not known. So the fiscal cost equals the ECEC cost for the current system. For the options, the fiscal cost is the ECEC cost plus any change in the other sources of fiscal impact (the income tax, Medicare levy and welfare savings that result from changes in the workforce participation of the current arrangements).

Source: Commission estimates.

The cost to government depends on the change in use of the system as well as the amount that those who use the system receive as a subsidy. The option with the least cost to government is the 90-0 stepped at \$5.1 billion, and the highest cost option is the 90-30 linear at \$ 6.9 billion. The least cost option is \$0.5 billion below the indicative budget of \$5.6 billion, the highest cost option is \$1.3 billion above, while the other two options are in the ball park of current funding.

The stepped or kinked options are lower cost than the linear options. The reason for this is that the stepped options are less generous to families with incomes over \$60 000 than the linear equivalent and there is a steeper taper to the mid-threshold income rate (which has a bigger effect on effective marginal tax rates). As the majority of families have a gross income below the mid-threshold of \$130 000, this also means that the impact on the effective marginal tax rate is higher for the stepped than the linear taper (appendix G). This makes the (convex) stepped tapers less generous at any income level. The 90-30 stepped has exactly the same effect as the 90-0 stepped for families on incomes up to \$130 000. The reason the ECLS cost is higher for the 90-30 stepped is that families on incomes above the mid-threshold receive higher subsidies.

Comparing the two linear options, the 90-30 linear option gives a higher subsidy for families at all incomes over \$60 000 than the 90-0 linear option. Under the 90-30 linear option, families on incomes of \$220 000 will receive a 50 per cent subsidy rate, families below this income will receive a higher subsidy rate, while those above will receive a lower rate. Under the 90-0 linear option the 50 per cent subsidy rate applies to families with an income of \$193 000. The relative generosity of the linear taper compared to the stepped taper is obvious when the income levels at which the 50 per cent subsidy rate are compared. For both linear options this is substantially higher than the \$130 000 in the stepped options.

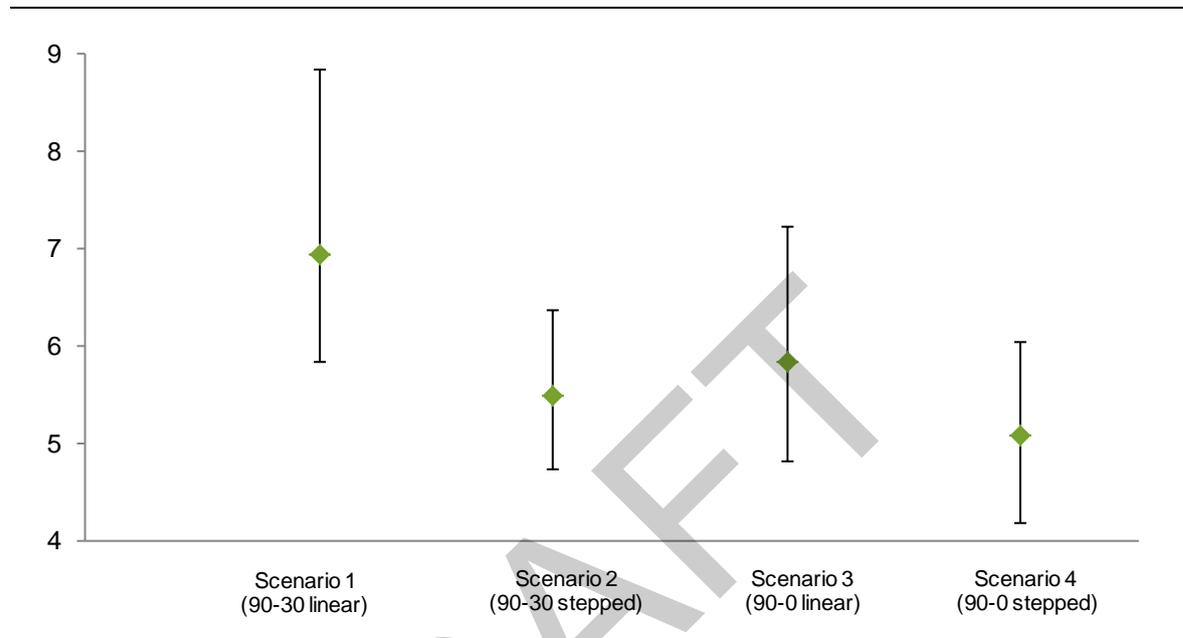
For these reasons, it is not just the upper and lower subsidy rates and thresholds that determine the cost of the mainstream ECEC system for government — whether a subsidy is stepped, the income at which a step applies (mid-threshold) and the subsidy rate at that point are also critical.

The estimates are highly uncertain as they are very sensitive to assumptions about how the workforce participation decisions of mothers are affected by the out-of-pocket cost of ECEC services. Figure 13.1 shows the ranges and midpoint estimates for the ECLS cost for the four options. There are high levels of uncertainty in the estimates, and the 90-30 linear option, in particular, does have a potentially much higher cost than the ‘mid-point’ estimates suggest. As a general rule, the more that mothers are responsive to more generous subsidies the higher the use and hence cost of ECLS.⁶⁹ While some of the large possible ranges are due to data issues that should be resolved for the final report, a lot is due to the inherent

⁶⁹ The relationship is complex as the subsidy rates that mothers get also depends on how much they work and the effect this has on family income. So systems that are more generous to very low income families where mothers currently don’t work, or work few hours, tend to be higher cost as the income effect is smaller (especially if those coming into work work relatively few hours). Systems that are generous to mothers from high income families, who would work anyway, are also more costly.

uncertainty in the key parameters that determine family responses to changes in the out-of-pocket cost of ECEC services.

Figure 13.1 Range of possible estimates of the cost of ECLS
\$ billion 2013-14



Data source: Commission estimates.

Viability Support funding for rural and remote approved services

The Commission has recommended viability support funding on a 3 years in 7 basis for providers that face a fluctuating demand that they cannot influence. These providers are mainly services in regional, rural, and remote areas. Sustainability funding in the CSP was \$21.7 million in 2012-13 and may have been intended to serve a similar purpose. It is unclear how much of the \$103 million operational support under CSP was used to keep FDC providers financially viable, but relatively little went to rural and remote providers.

As an indicative figure for the purpose of estimating the overall cost of the proposed system, the Viability Support Program will be funded at \$20 million.

The cost of ECEC services for additional needs children

While mainstream services make up the majority of Government ECEC expenditure (currently they account for 86 per cent of funding) the proposed changes will affect the expenditure on services for children with additional needs (as discussed below, the changes to preschool funding are minimal). An estimated \$0.5 billion in the

current budget is notionally allocated to assisting children with additional needs access ECEC services, including in some highly disadvantaged communities (table 13.4). While some of this funding is currently going to assist these children, a substantial proportion is not currently well targeted.

Under the Commission's recommendations, families of additional needs children using mainstream services and receiving ECLS will have access to additional funding from the Special Early Care and Learning Subsidy (SECLS), and approved providers can access funding from the Inclusion Support Program (ISP) to build their capacity to provide services. Where there is a concentration of children with additional needs, they would be assisted by the Disadvantaged Communities Program (DCP). It is proposed that the programs be capped, but with annual reviews of the adequacy of funding.

Estimating the appropriate level of funding is challenging as little is known about the level of unmet need demand at either current or alternative ECEC prices. As a consequence, the estimates made below are highly preliminary, and further information on both the needs of children and the cost of meeting those needs is sought for the final report (chapter 12).

The current funding comes from the BBF funding, SCCB, CSP, ISS and IPSP:

- 'At risk' children received \$86.2 million from SCCB in 2011-12, which is the total cost rather than the additional cost, while an additional \$52.8 million was provided to families based on a hardship assessment (a total of \$139 million).
- Children living with a disability receive \$50.6 million from ISS, which is paid in addition to the CCB and CCR funding, and further indirect support given to their providers from other programs under the IPSP.
- Services in regional, remote and Indigenous communities received \$79 million in 2011-12 from the BBF, and \$128 million for the Community Support Program (although the extent that this funding went to the most disadvantaged communities is uncertain, as most went to FDC in urban areas)
 - Around 80 per cent of the BBF funding goes to services for Indigenous children. In addition \$55.6 million was provided under a NPA for the Indigenous Early Childhood Development Children and Family Centres. Some support for providers of services to Indigenous children was available from the IPSP.
- Other CALD children were assisted mainly through the support available to providers from the IPSP (chapter 8).

Table 13.4 provides a very rough estimate of the gap in the supply of services for children with additional needs in each category based on their share of the population and their ECEC use (chapter 3). Two approaches to estimating the gap in use of ECEC services are applied. The first is to estimate the gap based on bringing the group of children up to the same ECEC usage rates as the general community. The second is to make a judgment about the value of ECEC services for this group of children and to set a target rate for attendance. In table 13.4, estimates of the gap for this second option sets the target for at risk children at 100 per cent, 50 per cent for children with a disability and for children from a non-English speaking background (NESB) (CALD) and 80 per cent for Indigenous children. The table focuses on children in the 0 to 4 age group. It is worth noting that children from a NESB attend ECEC services at a higher rate than the general population, but this may still be less than optimal (chapter 3).

Table 13.4 Estimates of the gap in services for children with additional needs

Thousands of children aged 0 to 4 years in 2013

	No. of children	No. using ECEC	No. using ECEC if at same rate as 'all children'	Gap in no. children relative to population	No. using ECEC if at target rate	Gap in no. children relative to target rates ^a
'at risk'	13	12	5	-7	13	1
Disability	60	17	24	7	30	13
Indigenous	75	17	30	13	60	43
NESB	276	128	110	-18	138	10
All children	1493	594				

^a A preliminary target for at risk children is 100 per cent, 50 per cent for children with a disability and NESB, and 80 per cent for Indigenous children.

Source: ABS population projections 2011 (updated to 2013 assuming population growth in these age cohorts of 1.2 per cent p.a).

Based on the estimated gaps in numbers of children accessing ECEC services, and assuming that, on average, current funding levels are adequate for those children receiving services, the funding for:

- children with a disability would need to rise between 41 and 76 per cent
- Indigenous children would need to rise between 71 and 247 per cent
- children from NESB (CALD) would need to rise between 0 and 8 per cent.

The cost of reducing unmet demand

Under the Commission's recommendations, families of additional needs children using mainstream services and receiving ECLS will have access to additional

funding from the Special Early Care and Learning Subsidy (SECLS), and approved providers can access funding from the Inclusion Support Program (ISP) to build their capacity to provide services. Where there is a concentration of children with additional needs, they would be assisted by the Disadvantaged Communities Program (DCP). It is proposed that the programs be capped, but with annual reviews of the adequacy of funding.

The model estimates for ECLS set out above includes the funding for all children who receive services from an approved ECEC provider. But any increase in the number of additional needs children accessing these services will also increase the cost of ECLS. With the exception of 'at risk' children, this cost is not included in the program budgets estimated below.

SECLS will provide 100 per cent of the deemed cost for children assessed as at risk. Many of the families are likely to be eligible for the full 90 per cent subsidy, so most of the cost of children currently using services is already in the ECLS estimates above. If the gap for at risk children is 1000 extra children, based on an average annual cost of \$11 500 per child on SCCB, an additional \$11.5 million could be required to fully fund the gap. This would bring the total SECLS funding for at risk children to just under \$100 million.

For children with a disability, based on the current funding of \$50.6 million, bringing the number of children up to the community average would require child-based funding of \$71 million (on current assistance arrangements), and to bring their attendance up to 50 per cent would require funding of \$89 million. This assumes the level of child-based funding is adequate, over which there is some doubt. If the children with a disability currently in an ECEC service are underfunded by an estimated 35 per cent (chapter 8), this implies a budget for SECLS top-up funding for children with disabilities of between \$96 and \$120 million.

For children in highly disadvantaged communities, the adequacy of current funding is unknown. However, for Indigenous children it is clear that there is a considerable gap. The proposed system could provide a top-up payment for Indigenous children in mainstream services where a high share of the children are Indigenous. This is part of making the transition to mainstream funding, reflecting the often higher needs of children in these communities. While an indicative figure of \$10 million is given, the adequacy or otherwise of this is unknown.

For the DCP, if just the 80 per cent of BBF known to be allocated to services for Indigenous children is taken as a guide, then funding would need to rise to between \$108 and \$218 million to fill the gap. As BBF services (which will transfer to the

DCP) transition to mainstream funding ECLS will expand, and new services can be funded. Support funding of at least \$100 million is suggested for the DCP to assist ECEC services in both Indigenous and non-Indigenous disadvantaged communities. As services transition to mainstream funding sources, the funding that is ‘freed-up’ should be allocated to establishing new services in highly disadvantaged communities. The suggested funding for the DCP is below the lower estimate of what is needed to fill the gap, but there is likely to be a limited ability to manage some existing and new services through transition, so funding should reflect the opportunities that are able to be developed effectively.

As existing BBF services will need assistance to develop pathways to meet the NQF and manage the move to child-based funding, additional professional support should be included in the DCP budget.

Block funding under the NPA for the Indigenous Early Childhood Development Children and Family Centres (\$55.6 million) was provided for the capital investment phase for services that are to be delivered by the states and territories. This was not budgeted beyond 2012-13, and should not be continued without serious consideration of the current capital funding model approach the Australian Government has taken to such programs (see chapter 8).

Expanding access to additional needs children, including those not assisted by SECLS or the DCP, will also require funding for providers to improve their capacities. Much of the current funding flagged under the IPSP for capacity building goes to support agencies and coordinators, who in turn provide support to the providers. As noted in chapter 12, it is unclear how efficient this model is in targeting capacity that increases the access to, and quality of, services for children with a disability or other additional need.

The current funding pool for building the capabilities of providers was around \$51 million in 2012-13 (made up of funding for Inclusion Support Agencies, Indigenous Professional Support Unit, Bicultural Support, and Specialist Equipment).

The absence of any information on the allocation of the IPSP funding (other than ISS) to the different additional needs groups makes the assessment of funding adequacy difficult (if not impossible). For the purpose of making a rough estimate, it is assumed that around 80 per cent supports children with disabilities 10 per cent supports Indigenous children and the remaining 10 per cent supports other CALD children. Based on the two ‘gaps’ estimated above, this would imply funding for the new ISP will need to be between \$66 and \$95 million (based on current expenditure of \$51 million) simply on the basis of the number of additional needs children.

The additional cost for ECLS of a more inclusive system

As the funding is aimed at increasing the use of mainstream ECEC services by children with additional needs, the impact on the ECLS should be included in the overall indicative budget for additional needs. A very rough approximation can be made based on the projected growth in use of additional needs services:

- SECLS for at risk children includes the full cost, so no call on ECLS is required.
- Between 7 000 and 13 000 additional children under school age with disabilities may be able to attend ECEC services. If the average annual ECLS subsidy for ECEC services for these children is \$7500 (based on 3 days a week at \$80 a day and an average subsidy of 60 per cent) this would add between \$52 and \$65 million to the cost of ECLS.
- Between 12 000 and 42 000 additional Indigenous children under school age could attend an ECEC service. As many Indigenous families are in the lower household income groups, the rate of subsidy will be higher than the average for these children. If the average ECLS subsidy is \$10 000 if they attend a mainstream service (based on 3 days a week at \$80 in fees a day and an average subsidy of 80 per cent), the cost to ECLS of the additional attendance is between \$120 and \$420 million.
- If an additional 10 000 children from other CALD attended, assuming the same use and average family characteristics as children with disabilities, the additional cost to ECLS would be \$74 million.

This suggests that, over time, the cost to ECLS of a more inclusive funding for additional needs could be between \$172 million and \$559 million. These numbers are indicative only and the actual change in the cost to ECLS will depend on how effective better funding for additional needs is in inducing greater use of the ECEC services. If the total budget for additional needs is fixed at \$700 million, then around \$290 million could be considered as the additional cost to mainstream funding.

These indicative funding estimates are provided in table 13.5. They are highly preliminary and information on unmet demand and costs is requested in chapter 12 to improve the confidence in these funding requirements.

Table 13.5 Funding estimates for additional needs programs
2012-13 and proposed

<i>Program</i>	<i>2012-13</i>	<i>Program</i>	<i>Proposed</i>
	\$ million		\$ million
<i>At-risk children ^a</i>			
SCCB (at risk)	86.2	SECLS (at risk)	100
SCCB (financial hardship)	52.8		
<i>Children with disabilities</i>			
ISS	50.6	SECLS (disability)	100
<i>Highly disadvantaged communities</i>			
Budget based funding	79	Disadvantage Communities Program ^b	100
		SECLS (Indigenous)	10
<i>Capability to service additional needs</i>			
Inclusion support agencies	30.4	Inclusion Support Program	80
Professional Support Coordinators	14.5		
Indigenous Professional Support	3.6		
Bicultural Support	2.4		
Specialist Equipment	0.2		
NISSP	2		
Indigenous Early Childhood Development Children and Family Centres (NPA)	55.6		
<i>Other provider support</i>			
CSP Operational Support	103.3		
Regional travel Assistance	0.7		
Capital Exceptional Services Grant	0.5		
<i>Rural and remote</i>			
Sustainability assistance (CSP)	21.7	Viability Support ^c	20
Establishment assistance	1.5		
		Expanded ECLS	290
Total	505		700

a Split based on 2011-12 data ^b Block funded component only – as move to child-based funding the total funding will rise. In the first few years the funding should be higher to assist services to move to the ECLS. Will also fund ECEC in integrated services for non-Indigenous and Indigenous disadvantaged communities, and Indigenous Professional Support. ^c Viability support is available for mainstream services rather than for additional needs programs but is included here for completeness.

Sources: Chapter 8, table 8.2, Commission estimates.

The estimates indicate a budget of \$700 million, of which \$410 million is for specific programs. This is less than the current expenditure of \$505 million for specific programs, although it is unclear how much of this is targeted at children with additional needs. While there is a rough matching from the current to the

proposed programs set out in table 13.5, the funding from the CSP would be redirected to more finely targeted use under the proposed funding system.

The cost of universal preschool

Chapter 12 canvassed several proposals for how preschool should be funded in the future. Under each of these proposals the Australian Government's contribution is maintained at the current per child funding of around \$1500 (in real terms).

The main driver of the total cost of universal access to preschool is the number of children who would be eligible to attend. While there are differences in the cut off age for starting school across the states and territories, and some children who have been identified as 'at risk' or developmentally vulnerable are eligible for two years of preschool, most children in preschool are 4 years old (chapter 3). There were nearly 300 000 4 year old children in Australia as at 1 July 2014. This number is expected to grow by around 5000 children a year up until 2020 (just under 1.6 per cent a year) and then 2500 a year until 2026 (a growth rate just under 0.8 per cent a year) (Department of Health 2013). Under the *National Partnership on Universal Access to Early Childhood Education* (COAG 2013), there is a target of 95 per cent of children in their last year before full time school to be enrolled in a preschool program.

Using CPI to index the per child rate of support, expenditure would increase from around \$450 million in 2012-13 to around \$520 million in 2026-27.

There is no saving to the ECEC budget for preschool resulting from the proposed changes to preschool arrangements. States and territories that do not pass on the NPA funding to preschool delivered in LDCs will receive less funding under the NPA. This funding will be diverted to assist in the provision of preschool within LDCs until such time as states and territories fund all preschool services regardless of where they are delivered.

Total ECEC funding under the four options

Table 13.6 summarises the total direct cost to the Australian Government of the ECEC system under the four funding options for ECLS (the funding is the same for additional needs programs and preschool). The total direct cost of all options are within an expanded funding envelope, and all but the 90-30 linear option are near enough to the current 2013-14 funding envelope.

Table 13.6 Estimated funding under the different options
2013-14 \$ billions

	<i>ECLS</i>	<i>Additional needs</i>	<i>Preschool</i>	<i>Total</i>
Current	5.6	0.6	0.4	6.7
90-30 linear	6.9	0.7	0.4	8.0
90-30 stepped	5.5	0.7	0.4	6.6
90-0 linear	5.8	0.7	0.4	6.9
90-0 stepped	5.1	0.7	0.4	6.2

Source: Commission estimates.

13.3 Estimates of changes in the cost to families

The change in the cost to families using ECEC services depends on the change in the subsidy rate they get under each option compared with the current system. It also depends on the extent to which the ECEC provider that they use currently charges more than the deemed cost of care. Families who use services that charge fees below the deemed cost of care will continue to pay this lower fee (the subsidy is applied to the lesser of the deemed cost or actual fee charged). The actual subsidy rate received under the current system depends on the means tested CCB rate, which is affected by the number of children and the choice of care type, and the 50 per cent CCR that is based on their out-of-pocket cost.

Table 13.7 sets out the estimates for the total share of out-of-pocket for families under the current system⁷⁰ (38 per cent) and each of the four options. The 90-30 linear option results in a total out-of-pocket share of 30 per cent while the 90-0 stepped option has families paying 42 per cent of the total ECEC fees. The other two options are similar to each other at 36 per cent for the 90-0 linear option and 40 per cent for the 90-30 stepped option.

The total expenditure by families on ECEC services is not very relevant to families (although it is to providers as discussed below), as this depends as much on the total hours of use of the services (number of families as well as average hours of use) as it does on the effective subsidy rate.

⁷⁰ There is a difference between the Department of Education administrative data estimate and that generated by the model. The former is 35 per cent, while the model estimates 38 per cent. This difference arises from using the Survey of Income and Housing as the model base, which differs somewhat from the income and other data in the administrative data base. Both data sources have some problems, and work is ongoing to resolve these differences.

What matters to individual families is their subsidy rate. Table 13.7 also sets out the subsidy rate for families in different family income brackets. The estimates are based on the average out-of-pocket rate for families in this income bracket, reflecting their use patterns (which is affected by the number of children) and choice of more or less expensive ECEC services.⁷¹ The estimates are preliminary and should not be interpreted to be what share families in this income bracket currently receive or will pay in the future.

The 90-0 stepped option is the least generous to high income families (only 1 per cent of ECEC fees are paid for by government for families on gross incomes of over \$200 000). The modelling finds that it is more generous to the families on the lowest incomes (85 per cent of ECEC fees for families on gross incomes of under \$60 000) than the current policies (81 per cent). The 90-30 stepped and 90-0 stepped options have the same subsidy rates for families on incomes up to \$130 000.⁷² They then diverge, with the 90-30 option being more generous to higher income families. The 90-30 linear option provides a higher subsidy (lower out-of-pocket) rate for all families under \$160 000 than the current policy settings. The 90-0 linear option turns out to have a very similar share of total ECEC costs paid by families as the current policy for all but families on incomes above \$300 000.

To the extent that higher income families have older children (who use OSHC rather than the higher cost longer hours used by younger children) their expenditure on ECEC services required to participate in the workforce is lower. However, this does not affect the estimates of the out-of-pocket expenditure as a share of the total cost of ECEC services.

⁷¹ The comparisons are complicated as rising workforce participation means that some families move into a higher income bracket, and the number of families changing income brackets varies across the options. Hence the number of families in each bracket also differs across options. This is another area where further work is required.

⁷² They have slightly different average subsidy rates in the table because the income categories are based on the beginning income group, and where the workforce participation rises families may move to a higher income group. The higher share paid under the 90-0 linear option reflects families moving above \$130 000 paying a higher share than under the 90-30 stepped option.

Table 13.7 Estimates of the share of fees paid by families under the different options

2013-14 as a representative year

Percentage of total ECEC fees paid by families^b

<i>Family income</i>	<i>Current^a</i>	<i>90-30 linear</i>	<i>90-30 stepped</i>	<i>90-0 linear</i>	<i>90-0 stepped</i>
\$	%	%	%	%	%
Under 40,000	19	15	15	15	15
40,000 to 60,000	18	15	14	14	14
60,000 to 80,000	24	19	24	21	24
80,000 to 100,000	38	24	38	30	38
100,000 to 130,000	48	32	51	42	54
130,000 to 160,000	51	44	58	59	67
160,000 to 200,000	51	54	63	76	81
200,000 to 300,000	52	71	71	99	99
Above 300,000	50	72	72	100	100
Average	38	30	40	36	42

^a The model estimates differ slightly from the estimates from the administrative data. This reflects the difficulties matching the administrative data with the Survey of Income and Housing data on which the microsimulation model is based. ^b The actual share paid by families is higher than subsidy rate as for some families the fees will exceed the deemed cost which is based on the median fees.

Source: Commission estimates.

The out-of-pocket share is also higher for an income bracket if more families in that income bracket choose services that are higher cost. The estimates assume that the current pattern of behaviour continues and providers do not adjust their prices (that is, it is assumed for simplicity that services can expand without driving up fees). In practice, some families may be less willing to bear the full cost of premium services and will adjust their demand. If there is an overall shift away from the premium end of the service spectrum this will help to offset the likely increase in fees for the options that see a substantial growth in demand for ECEC services. These responses add to the uncertainty of any estimates of out-of-pocket costs, but the effect of assumptions about supply response are likely to be small relative to other sources of uncertainty in the estimates.

The impacts will be slightly different if families face different deemed costs for children aged 0 to 2 years and those aged 3 to 5 years. As discussed in chapter 12, this will tend to reduce the demand for services for the younger children (as providers have an incentive to raise fees for this group) and increase demand for the older children (as providers have an incentive to lower fees for this group). This should see an expansion in lower cost relative to higher cost service use, resulting in lower out-of-pocket costs for many families.

Families with additional needs children

Families of additional needs children currently accessing mainstream ECEC services will face the same changes in out-of-pocket costs associated with ECLS as other families. However, they should find that the services funded under SECLS better meet the needs of their child. New families, who will be better able to access ECEC services under the proposed changes, will face the same arrangements. Whether families face any additional out-of-pocket cost for the additional service depends on the budget made available, and how the funding is allocated. One option, which would have implications for out-of-pocket costs (as an alternative to more restricted access or hours and/or per child funding limits), is for families to be asked to pay a means-tested proportion of the additional cost. In this situation the out-of-pocket share would be the same under the options as set out in table 13.7. However, this is not the Commission's preferred approach.

Families with children currently in block-funded services may already make a co-payment for the service they use. For services that transition to ECLS funding, these families will move to paying the out-of-pocket cost based on their family income. This may be higher or lower than the current co-payment. Families with children in block-funded services that are not able to transition, and those using new services before they transition, may be required to make a co-payment. The assessment of any co-payment should be made whenever the service's funding is reviewed.

13.4 Estimates of the effect on workforce participation

Workforce participation is closely tied to the use of ECEC services, and families change both their hours of work and use of services as the out-of-pocket cost of using ECEC services changes. Workforce participation, both in terms of the numbers of mothers working and the hours of work, rises relative to the current system for all the funding options modelled. This suggests that current arrangements may not be delivering the greatest possible incentives to work. As discussed in appendix G, this is due to high effective marginal tax rates arising from the design of the current system, although the cap on CCR has yet to directly affect many families (although it may be that parents are already responding to this cap by limiting the number of days worked — chapter 9). Perhaps more importantly, the proposed system requires an activity test to be eligible for ECLS, whereas the current system allows up to 24 hours a week to be eligible for CCB even if one parent is not in the workforce, training, studying or looking for work.

The estimated aggregate effect on workforce participation under each of the options is set out in table 13.8. All options resulted in an increase in both participation and hours worked by mothers using ECEC services. The increase was greatest for the 90-30 linear option (3.7 per cent for hours worked) and least for the 90-0 stepped option (1.3 per cent). Again, these estimates are preliminary and should be considered a guide only.

Table 13.8 Estimates of the impacts on workforce participation of different funding options for ECEC services

2013-14 as a representative year

<i>Option</i>	<i>Participation of mothers using ECEC services</i>	<i>Change in participation of mothers^a</i>	<i>Hours of participation</i>	<i>Change in total hours worked by mothers^a</i>
	million	%	Million per week	%
Current	1.74		53.06	
90-30 linear	1.79	2.7	54.99	3.6
90-30 stepped	1.76	1.5	53.85	1.5
90-0 linear	1.77	2.0	54.27	2.3
90-0 stepped	1.76	1.4	53.75	1.3

^a Includes single parents. For two parent families, the primary earner's workforce participation is assumed not to change. The effects of the workforce participation of parents on the workforce participation of those who provide informal care are not included.

Source: Commission estimates.

The modelling suggests that the redistribution of current funding can deliver an increase in workforce participation, as additional funding to lower income families induces a greater workforce response than the withdrawal of funding from higher income families. However, this increase is partly offset by the cost of allowing subsidies for qualified nannies for families already using nannies, as this is not matched by a change in participation. So while the proposed arrangements are a more efficient use of the funding available in terms of inducing workforce participation, the transfer of those already working and using nannies into the system negates some of this gain. This is a one-off transfer effect.

Over time, the proposed arrangements will be more effective in translating ECEC funding to workforce participation. First, the subsidies are greatest for those who are more sensitive to out-of-pocket costs, and least for those who are more likely to work anyway. Second, by using gross rather than net family income the effect on the effective marginal tax rate faced by the second earner is reduced.⁷³ Third, the

⁷³ Universal non-means tested support has the least effect on the effective marginal tax rates, so the design is limited by the need for means testing.

subsidies require an activity test — families that use subsidised ECEC services have to be in work or study for 24 hours a fortnight, or looking for work.

13.5 Estimates of changes in use of ECEC services

The change in the use of ECEC services is closely related to the changes in workforce participation. It is affected by the number of families needing care in order to work and by the hours of care they require. In general, fewer families with higher average work hours have a smaller impact on the use of services than more families with lower average work hours. This is because families need care for the time it takes them to get to and from work. The modelling takes account of the relationship between hours of work and hours of care. This includes consideration of the days of care as well as hours required.

Table 13.9 summarises the changes in the use of ECEC services. The model tracks the type of ECEC service used by families based on their current observed preferences. As the use of nannies is not included in the administrative data, a hypothetical base for use of nannies had to be constructed from available data. The estimates are based on the assumption that where nannies are more cost-effective, notably for families with multiple children and several under school age, families are more likely to use a nanny once this service is eligible for an ECEC subsidy. As a result, there is rapid growth in the use of nannies in all four options, but it is off a very small base. (Clearly it will take some time for the market to adjust, so the estimates should be seen as representative of the mix that could emerge over three to five years).

Overall, the weekly hours use of ECEC services rises under all the options in alignment with the increase in workforce participation. FDC loses out to nannies, and use of OSHC rises relative to LDC. This reflects greater growth in workforce participation for mothers of school aged children relative to younger children.

Table 13.9 Estimates of the impacts on use of ECEC services
2013-14 as a representative year

<i>Option</i>	<i>Total hours/week</i>	<i>Change in hours/week</i>	<i>LDC share of total hours</i>	<i>FDC share of total hours</i>	<i>Nanny share of total hours</i>	<i>OSHC share of total hours</i>
	million/wk	%	%	%	%	%
Current	18.66		66.0	9.3	0.1	24.6
90-30 linear	22.41	20.1	63.0	8.4	2.2	26.4
90-30 stepped	19.75	5.9	64.4	8.6	2.0	25.1
90-0 linear	20.57	10.2	63.5	8.5	2.1	25.9
90-0 stepped	19.29	3.4	63.9	8.7	1.9	25.5

Source: Commission estimates.

ECEC workforce impact

Associated with the change in the number of children and hours of ECEC services, as well as the mix of service types, there will be a change in the demand for ECEC workers. The introduction of the NQF has already seen considerable change, and some providers are still adjusting to the changed requirements for the 50:50 ratio of certificate III to diploma educators (chapters 7 and 11). In addition, some states will not reach the staff ratios required by the NQF for children aged 25 to 35 months and over 36 months until 2016. The Commission's draft recommendations would relax the qualification requirements for staff working with younger children (3 years and below), but do not propose adjusting the staff ratios. Given this, there will continue to be a rising demand for ECEC workers in some states, even if there is no change in the number of children using ECEC services. However, the proposed changes to the qualification ratio will mean that the mix of qualifications changes. As a Certificate III is easier to obtain than a diploma, the proposed changes should ease pressures on providers in finding staff. As the demand for ECEC is growing, educators with diplomas should not face a sudden shortage of jobs as a result of the proposed changes.

The indicative workforce implications of the four funding options are set out below. They do not take account of the growth in the child population and hence demand, and so reflect only the number and allocation of jobs for the base year under the different policy options. The current full-time equivalent workforce is 52 566.⁷⁴ As estimated in the model, this would change to:

- 60 544 for the 90-30 linear option, a rise of 15 per cent

⁷⁴ The actual number and mix of staff in the sector differs slightly from the modelled results for 2013-14. As such, the relative results should be considered as more reliable than the absolute numbers.

-
- 51 340 for the 90-30 stepped option, a fall of 2 per cent
 - 55 841 for the 90-0 linear option, a rise of 6 per cent
 - 52 369 for the 90-0 stepped option, a fall of less than 0.4 per cent.

It should be noted that having a different deemed cost for ages 0 to 2 years and 3 to 5 years (as well as school aged children) will have workforce implications. To the extent that demand for services shifts away from the youngest children, the demand for ECEC workers will be lower as the staff to child ratios are much higher for these children. Modelling for the final report will take this effect into account.

13.6 Estimates of the fiscal impact for government

The fiscal cost differs from the funding cost as it accounts for how changes in workforce participation affect:

- income tax, Medicare levy and other tax receipts — as hours of work rise government collects tax on the extra hours worked (if income is above the tax free threshold). Mothers may pay tax at a higher rate than is currently the case if they have moved into the next tax bracket
- Family Tax Benefits — as the family income rises with more hours worked, the amount received in Family Tax Benefits will fall for the families that have been eligible for these payments
- other social security payments — as families move into the workforce and expand their hours of work, their dependence on Newstart and Parenting Payments declines.

The modelling estimates the effect of changes in the mainstream ECEC funding arrangements on workforce participation by families and hence can track the changes in these taxes and social security payments. In addition to these workforce participation related effects, the recommendation to remove the Fringe Benefits Tax exemptions for not-for-profit providers would provide a fiscal saving.⁷⁵ This is not included in the fiscal cost estimates.

It is important to note that the estimates of fiscal impact are intermediate in nature — that is they flow on from the decisions about workforce participation induced by

⁷⁵ To the extent that this exemption has allowed not-for-profit providers to be less efficient there will be little impact on fees. If these providers have been cross subsidising, then their fees may have to rise in some locations, but can fall in others. If they have been using these indirect subsidies to cover higher bad debts, the proposed changes should reduce their willingness to carry customer debts.

the changes in the ECEC funding arrangements. At this stage the modelling does not take account of the effect of this change in labour supply on wages, which will also flow through to the final fiscal impact of the proposed changes. As the change in the ECEC system induces changes in the demand for labour as well as the supply of labour, the net effect on wages is uncertain. The more sensitive labour demand is to wages the less likely that a substantial increase in the labour supply can be absorbed without a fall in some wages. This would work to raise the fiscal cost as lower wages flow through to tax revenue and family payments. However, with relatively low unemployment, and some increase in labour demand (as non-market activities are brought into the market), the wage impact is likely to be very small unless the labour supply change is large. The longer-term implications on government revenue are considered below.

Table 13.10 summarises the main components of the fiscal impact for each of the options set out above.

Table 13.10 Estimates of the fiscal impacts of ECLS funding relative to the current system
2013-14 as a representative year

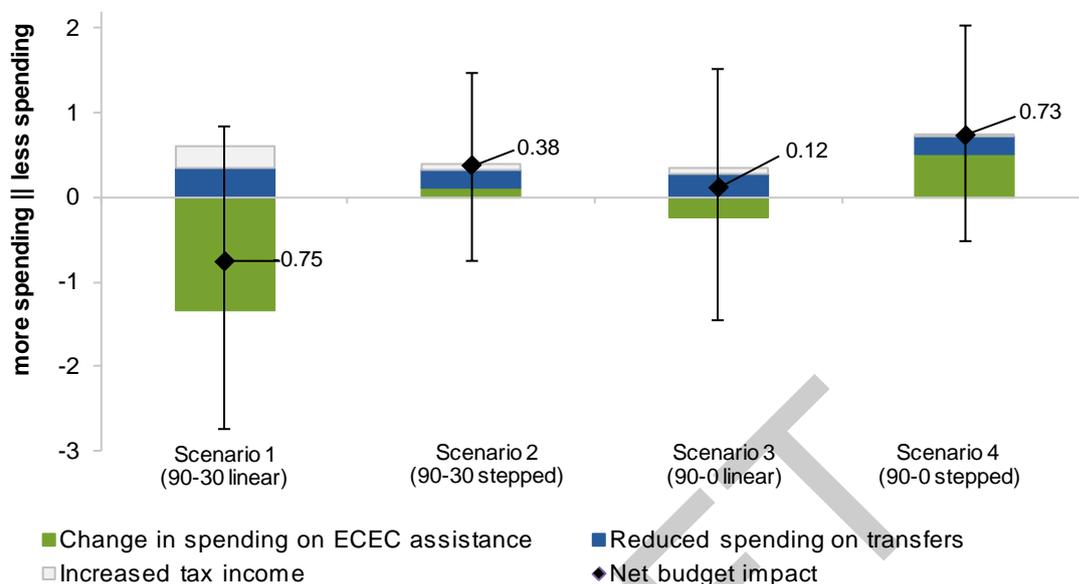
<i>Option</i>	<i>Fiscal cost</i>	<i>Change in ECLS</i>	<i>Change in Income tax revenue</i>	<i>Change in Family Tax Benefits and parenting payments</i>	<i>Change in fiscal cost</i>
	\$b	\$b	\$b	\$b	\$b
Current	5.6				
90-30 linear	6.4	1.34	0.24	-0.35	0.75
90-30 stepped	5.2	-0.10	0.06	-0.22	-0.38
90-0 linear	5.5	0.24	0.08	-0.27	-0.12
90-0 stepped	4.9	-0.50	0.01	-0.22	-0.73

Source: Commission estimates.

The estimates suggest that the linear 90-30 option has a net fiscal cost, at least in the short term, while the other options offer a net fiscal saving. All options see a rise in tax revenue from greater participation and lower family payments, but for the linear 90-30 option these savings are outweighed by the additional expenditure on ECLS.

The estimates are highly preliminary, and the extent of uncertainty is reflected in the range around the mid-point estimates. These are given for fiscal cost in figure 13.2. The figure also shows the composition of the fiscal impact, with saving to government (or additional revenue) above the line and additional costs to government (or decline in revenue) below the line.

Figure 13.2 Range of possible estimates of the fiscal cost of ECLS ^a
\$ billion 2013-14



^a Estimates for the components of fiscal costs also vary, however only the midpoint estimates are displayed. The displayed range relates to the net fiscal cost only.

Data source: Commission estimates.

13.7 Longer term impacts

The effect on Gross Domestic Product

With an ageing population there has been considerable interest in getting women to participate more fully in the workforce to help address future workforce shortages. Several recent studies (Daley 2012; Ernst & Young 2013) have pointed to large increases in GDP as a result of a rise in female workforce participation.⁷⁶ Australia has a relatively low rate of participation for women during their child bearing years compared to most other OECD countries, and a higher rate of part-time work (chapter 6). Hence, designing ECEC policy to encourage greater workforce participation is generally regarded as a desirable outcome.

The effects of the proposed policy changes on GDP are uncertain and complex. The Commission has only been able to estimate the 'first round' effects of a change in

⁷⁶ The Ernst and Young and Grattan studies do not consider the cost of ECEC services that might induce this 'potential' increase in the female labour force participation. In contrast, the Commission estimates are for the impact of the proposed and costed policy options on female workforce participation.

the supply of labour induced by changes in the ECEC subsidies that families will be able to receive. This approach effectively assumes that the increase in labour supply is seamlessly absorbed by the markets (demand for labour is perfectly elastic), which is the approach taken by most studies that have estimated GDP effect. The increase in the total labour supply as a result of the change in the labour supply of mothers using ECEC services is given in column 1 in table 13.11. As mothers of young children make up only a relatively small share of the workforce, the percentage change in their supply of hours is much larger than the effect this has on the total supply of hours.

Most studies assume that the productivity of the additional labour is similar to that of the current labour supply. This may not be the case and, if it is not, an adjustment for the effect on productivity is required where the new labour entering the market has different education levels and years of experience. Given that the proposed ECEC system aims to encourage women with relatively low wages before ECEC costs back into the workforce it would, if successful, see the average productivity of this additional labour be lower than the rest of the labour market. This is because higher wage (and productivity) women are more likely to be already working. If the policy reduces subsidies for these higher wage women and they reduce their workforce participation, this adds to the lower average productivity of the net increase in the labour supply. This effect is seen in table 13.11. The impact on productivity is higher for the stepped than the linear options as these are relatively less generous to middle and higher income families. It is highest for the 90-0 stepped option as this is the least generous to higher income families (which are more likely to have higher income mothers). The estimates are approximate and likely to overstate the productivity impact. In the longer run, as women work more and gain experience and access to better jobs this productivity impact should decline.

The resulting increase in GDP (which in 2013-14 was \$1 493 billion) for each of the four options are given in table 13.11. In percentage terms, these exploratory estimates range from 0.09 to 0.37 per cent of GDP. While these benefits may appear small, if they can be realised, the benefits would largely arise from changing how the existing quantum of subsidies are distributed.

Table 13.11 **Impact on the GDP: first round effects only**

<i>Option</i>	<i>Change in the hours worked</i>	<i>Change in productivity</i>	<i>Change in the effective labour supply</i>	<i>Change in GDP</i>
	%	%	%	\$b
90-30 linear	0.53	-30	0.37	5.50
90-30 stepped	0.21	-41	0.13	1.88
90-0 linear	0.33	-38	0.20	3.03
90-0 stepped	0.19	-51	0.09	1.36

Source: Commission estimates.

These estimates of GDP are inherently uncertain, and should be regarded as first round effects for a number of reasons, including:

- Labour demand is not perfectly responsive, especially in the short run, and wages may need to fall so that all those looking for work can be employed. Alternatively the adjustment may take place more slowly, as mothers enter the labour force only if they can find work (which will reduce downward pressure on wages).
- There is an increase in the demand for labour as women enter the workforce, as services (notably childcare) previously taking place in the household sector move into the market sector (which raises the question of the overall change in consumption, although GDP rises).
- Women's labour force behaviour is characterised by state persistence (a tendency to remain in the same labour force state), so a higher participation rate and working longer hours flows through to future workforce participation.
- Higher participation flows through to higher productivity and wages growth over time (appendix K).
- The longer term outcomes depend on the overall health of the economy, and forces driving structural change, and whether the additional labour supplied by mothers matches the long term growth in demand for different types of labour.

Families living in poverty

Single parent families and jobless families are much more likely to be in poverty than couple families where one or both parents work. McLachlan et al. (2013) reported estimates that 25 per cent of single parent families had incomes below the poverty line, as did 45 per cent of single parent families on parenting payment. As single parent families make up around 15 per cent of families this is a significant number of families.

To the extent that the changes in the ECEC system encourage parents, whether single or in couple families, to participate in the workforce and/or work more hours and this leaves them with more money after ECEC expenses, the system should reduce the number of families living in poverty. This has immediate benefits, but also longer term benefits.

The estimates of the changes in workforce participation and income are very preliminary, but do suggest that there will be some benefit in terms of longer term poverty alleviation. The results are similar for all options (reflecting the 90 per cent subsidy for families on gross income of below \$60 000). Relative to the current system, an estimated 3425 more mothers from families with an income below \$40 000 will be working, as will 12 293 more mothers in families with gross family income between \$40 000 and \$60 000.⁷⁷ An estimated 7216 single parents will move into the workforce.

As these numbers are still a small share of the total numbers of families in these different groups, and as working more means lower transfer payments, the overall effect on disposable income is estimated to be small. Estimates of the change in disposable income for single parents range from an average additional \$3.06 a week for the 90-30 linear option to \$1.34 a week for the 90-0 stepped option.

Child development outcomes

Over time the proposed changes in the ECEC system should result in a higher share of children from disadvantaged and lower socio-economic backgrounds attending ECEC services. As discussed in chapter 5, use of ECEC services in the years before school can have an impact on later educational performance. However, the magnitude of this effect is highly uncertain, and contingent on the quality of the ECEC service and the nature of the child's disadvantage.

The greatest development benefits have been found to come from the preschool years. Approximately 151 000 children are already enrolled in a dedicated preschool, which are covered by the National Partnership Agreement on Universal Access to Early Childhood Education. An additional 113 000 attend preschool in a LDC. Some preschools in LDCs receive universal access funding passed on by their state or territory government, but others receive only the standard CCR and CCB assistance.

⁷⁷ This understates the effect for the families on income less than \$40 000 as some of these will move into the \$40 000 to \$60 000 income group as a result of working. Similarly, there will be families in this income range that have moved into the next income group as a result of greater participation.

The Commission is recommending continued funding for nationwide preschool programs in the year before school, regardless of the setting it occurs in. As there is near universal uptake of the preschool year at present, this is expected to be maintained with the continuation of funding. However, the National Partnership Agreement on Universal Access to Early Childhood Education is currently under re-negotiation and the outcome is unclear. If negotiations result in lower funding and this reduces the share of children accessing preschool, this may have impacts in the future in terms of costs associated with teaching children in primary school who are less school-ready, and potentially lower achievement in literacy and numeracy. To the extent that children from lower socio-economic areas are more affected, this could contribute to lower life time outcomes, especially if not offset by more effective primary school education.

Should the Australian Government continue funding as recommended, this 'counterfactual' will not arise, and the impacts are the same as the current arrangements. The exception to this is where families do not take their child to preschool, where one is available. Linking a portion of FTB Part A to attendance in a preschool program should encourage recipients of that benefit to utilise preschool programs more than under current arrangements. The numbers are small, but for these children the benefits could be substantial.

Similarly, expanding access to ECEC services for children in highly disadvantaged communities should provide benefits over time. These benefits will be contingent on the children being able to access primary and secondary schools that continue to support their development. The ECEC component should be seen as part of a broader strategy to improve the life outcomes for Indigenous children and children in highly disadvantaged communities. As recommended in chapter 8, integrated approaches may be more effective and efficient in delivering services to disadvantaged communities, and better ways to accelerate and support the greater integration of services are needed.

Even if ECEC attendance is substantially increased for children with the greatest development needs, the long-term outcomes are contingent on other education policies. Given the current uncertainty about school funding, and in particular funding to the most disadvantaged schools, the extent to which the full benefits from improved ECEC can be achieved is also uncertain. Hence, although there should be some long term benefits from the proposed changes, measurement of these outcomes is too uncertain to project any long-term employment or social outcomes. The method for making such projections is well known (appendix K) although they are always highly dependent on the assumptions made. Before the Commission is able to make this type of estimate, considerably more needs to be known about how the changes would affect child development, particularly for

children with additional needs, and how these changes would enable them to lead a more productive (and happier) life. Without this information, any estimates would just be at best an informed guess.

The longer term impacts of changing workforce participation

Time away from the workforce while raising children can have long-term effects both on the workforce participation rates of women (including average hours when they do work), and on the wages they receive when they work.

A number of studies have estimated the wage growth penalty to time out of the labour force. Estimates for Australia range between 5 and 12 per cent and this wage penalty is often sustained over a decade or more (appendix K). The cumulative effect of this is that both wages and lifetime income will be lower as a result of time out of the workforce.

Table 13.12 provides some illustrative estimates. The effect depends mostly on the initial wage the mother receives and the real wages growth in the economy that the penalty applies to. For example, with real wages growth of 4 per cent in the economy, a parent who takes time off with their children could end up with wages that are 28 per cent lower than if they had stayed in the workforce.

Table 13.12 Estimates of the impacts on wages and lifetime income: some examples

For a mother who spends 5 years out of the workforce over a 35 year working lifetime

<i>Starting wage</i>	<i>Real wages growth</i>	<i>Wage growth penalty</i>	<i>Life time income</i>	<i>Difference in wages at year 35</i>	
\$ an hour	%	%	%	%	
25	2	5	20	12	
25	2	12	22	16	
40	3	5	24	17	
40	3	12	26	22	
40	4	12	30	28	

Source: Commission estimates.

To the extent that the wage a person receives reflects their productivity (contribution to GDP) then the long term change in productivity resulting from mothers spending less time out of the workforce could be considerable. To estimate this effect with any confidence requires knowing the initial wage of the mothers whose workforce participation changes, and further information on the impact of duration out of the workforce on this wage penalty (and if it varies with the initial

wage). A rough estimate can be made based on the estimated cost of the gender wage gap. Cassells et al. (2009) estimated that 7 per cent of the \$93.4 billion shortfall in GDP due to the 17 per cent gender wage gap was due to labour force history. This suggests that GDP in 2009 would have been higher by \$6.5 billion if women had been able to remain engaged with the workforce while they had children (appendix K).

Retaining mothers in the workforce may also have an effect on the long term labour supply as the work pattern of mothers while their children are young affects their labour force participation as their children grow up. There is a strong rise in the labour force participation of women after the age of around 35, and an increasing share working full time (Gilfillan and Andrews 2011). As there has also been an increase in participation across birth cohorts over time, with women from younger birth cohorts much more likely to work than women from older birth cohorts at all ages, the net effect of the ECEC system on participation at older ages for the current cohort of women with young children is less clear. Hence, the main participation effect is likely to be while their children are young and ECEC enables them to work.

13.8 Transitional arrangements

The proposed funding model for ECEC services differs from the current funding model in a number of ways. The Commission recommends cutting a number of programs, evolving some, and substantially changing others to provide a more streamlined and less complex system. There will be some families that are better off, but some will face higher out-of-pocket costs for the ECEC services they use. To the extent possible, in line with delivering a more efficient and equitable system, low income families are likely to be beneficiaries rather than losers from the proposed reforms. Some ECEC providers, particularly those that have come to rely on specific programs as a source of funding, may find the proposed reforms undermine their service delivery model. Changing models of service provision can be challenging for providers, who can face considerable adjustment costs, as can government agencies tasked with administering payments and oversight. Given that the funding changes will impose costs during transition to the proposed system, a transition strategy is required.

Transition from CCB, CCR, JETCCFA and GCCB to ECLS

Transition for families

Most families who currently receive CCB and/or CCR will be able to transition directly to ECLS. This includes those families who have an in-home care place and those that use occasional care where these providers meet the NQF.

ECLS will be available for all families that meet the activity test where their provider is an approved service. The Commission has recommended that some of the requirements to be an approved provider be relaxed (mostly those that restrict practices, such as hours of operation). This should see some providers change their service offerings, making sessional ECEC more affordable. In some cases, the changes to hours may not suit some families, but on balance more rather than less choice should be available.

Families using approved ECEC providers will be able to transition easily to the new system, although their information may need to be updated. For families currently using ECEC services that are not approved (including registered care providers) they will need to encourage their provider to become an approved provider.

Transition for providers

The main change for approved providers of mainstream ECEC services is that they will receive the subsidy directly for all services to children with a customer reference number (and not just those currently receiving CCB). To the extent that the deemed cost is lower or higher than their fees, they may wish to review their fees, including the extent to which they cross subsidise between children aged 0 to 2 and 3 to 5 years.

There will be a major transition for service providers, mainly nannies and uncapped occasional care services, who currently fall outside the approved care category. For users of these services to apply for ECLS, these providers will have to meet the NQF and become approved providers. This may take some time, but most of these providers will have an incentive to make this transition as it will enable the users of their services to access a subsidy (if they meet the activity test).

There are a number of coordinator services that already support nannies and FDC educators. It is anticipated that these services will be able to provide support to nannies to acquire the required accreditation to become an approved provider. Fees paid to coordinating services will be recognised as a legitimate expense in estimating deemed cost (it would form part of a benchmark price).

Some FDC educators also currently pay fees to a coordinator, although some FDC coordinating services receive block funding under the CSP, which the Commission has recommended be closed (chapter 8). For these coordinators there will need to be a transition arrangement in place to move them from block funding to a fee-based arrangement with the FDC educators that they support. As with nannies, reasonable fees will be considered part of the deemed cost. Also, the FDC educators should be able to select the level of service that they want to purchase from their coordinator (chapter 11).

Registered carers will no longer receive the small subsidy they currently receive. Some may choose to become an approved provider. If coordinators are working well, they should be able to work with registered carers who would like to become HBC providers to enable them to do so (chapter 9).

Transition to Viability Support

One of the more challenging transitions will be for providers who have been in regular receipt of Sustainability Assistance from the Community Support Program and need to transition to the Viability Support Program. They will have two years of support to move to a more sustainable business model. The changes in the requirements for NQF, particularly the hours of operation, should give these providers greater scope to adjust.

INFORMATION REQUEST 13.1

The Commission seeks information and advice on the costs and risks involved in the transition to the proposed new funding arrangements for mainstream services (including home-based care providers paying for the services of coordinators) and advice on how these costs can be minimised and risks managed.

Transition for users and providers of services for children with additional needs

Transition for families

There may be some families who currently access funding notionally targeted at children with additional needs, or who currently access highly subsidised care for other reasons, who will not be able to access funding for additional needs under the proposed arrangements. For these families, adequate warning of the proposed changes is required. Processes to reassess eligibility are needed and families found

to fall outside the criteria should be provided with an opportunity to seek reassessment.

While eligibility will be tightened, funding for additional needs should better cover the actual cost of additional needs for children with a disability and greater assistance available to providers operating in communities where a high proportion of children are developmentally vulnerable. While the programs need to be capped, they should be funded to a higher level than under current arrangements.

The main changes are as follows.

- Children assessed as ‘at risk’ (who currently access SCCB) should be able to access the SECLS. The differences are that the criteria for assessment is tightened, and 100 per cent of the deemed cost (including for other additional needs) paid to providers rather than an uncapped hourly rate. The families should not face an out-of-pocket cost unless they are accessing a service that charges higher fees than the deemed cost. Around half of the children currently accessing SCCB are in families that have been assessed as facing financial hardship. The SECLS will not be available on the basis of family hardship, so families facing sudden changes in their financial circumstances will need to have their subsidy rate reassessed quickly .
- For children with an in-home care place who are on SCCB and have a disability, funding is replaced by the SECLS. (The inclusion of nannies in the mainstream ECLS arrangements will allow families currently allocated an in-home care place to continue their arrangements but as part of mainstream services). SECLS provides top-up funding to the means tested ECLS, preferably at 100 per cent of the additional deemed cost. This will mean that families who have been receiving their in-home care service at no cost may now have to pay for some of the deemed cost of the mainstream equivalent (HBC) unless they satisfy the new ‘at risk’ criteria.
- Children with a disability receiving services from an approved provider that had applied for and received ISS payments to meet their additional needs will transition to SECLS. This top-up payment is to be based around the needs of the child and is not limited in the same way as the ISS. To be eligible, the child must have a diagnosed disability and the deemed additional cost of the assistance they require assessed. Transitional arrangements will have to be put in place to reassess children and adjust the support to a needs-based level.
- Children who benefit from providers that have accessed the Inclusion and Professional Support Program that fund or directly build capabilities to meet additional needs will continue to benefit from access to funding for this purpose. The new ISP will fund this source of support (see below).

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- Children who benefit from blocked-funded programs under BBF will be moved to a child-based funding model (ECLS and SECLS) where there is a viable labour market, with transitional support available to providers from the DCP (below). For programs that remain block-funded, a review of the co-payments families make will be required.

In some cases, transitional funding arrangements to ensure that providers can continue to support children with additional needs will be required.

Transition for Providers

For providers that currently access SCCB on behalf of children and their families, the child's eligibility will be reassessed at the usual 13 weeks review point. Children who no longer qualify should be able to transition to the ECLS, so providers will have to seek any fees above the subsidy (based on family income and the deemed cost) from the child's family. Where the SCCB rate has been well above the deemed cost, providers will need to adjust their supply model to reduce costs. If the higher cost has been due to the child having a disability, the provider should apply for SECLS on their behalf.

Providers that currently supply services to children with a disability and access support through the ISS will need to apply for support from SECLS. As this will be more tailored to the child's needs, providers will need to work with families to document the diagnosed disability, any NDIS assessment, and what additional resources they require to meet the ongoing operational costs above the cost to providing services to children without a disability. Providers can also apply for SECLS on behalf of children who intend to use their service.

The extent to which the National Disability Insurance Scheme (NDIS) will meet the needs of children with disabilities when participating in ECEC is unclear to the Commission at this stage. However, the Commission's proposed ECEC assistance arrangements for children with additional needs is in no way intended to replace whatever support is provided under the NDIS.

In addition, providers who have children with a disability and/or children from CALD backgrounds (including Indigenous children, who need providers with additional capabilities) can apply for ISP funds to build capacity. Rather than the Government directly funding organisations to supply capacity building services to providers, providers will be funded to purchase these services with grants from ISP. The current Inclusion Support Program providers will need to adjust from their current block-funded model to a demand-based model where the ECEC providers are their clients. This transition could be phased in over time with the Education

Department acting as the ‘market maker’ to bring ECEC providers who have successful grant applications and those organisations that build specialist capacities together.

Providers receiving block funding under BBF will be transitioned to ECLS and SECLS where possible (that is, there is a viable labour market so families can meet the activity test). Consideration needs to be given to setting any additional deemed cost for services to Indigenous communities where they face higher costs due to their location and the needs of the children using the service. These providers may also require support in meeting the NQF, and some may require exemptions from some aspects that are unachievable in the locations where they operate.

The current funding system provides assistance for the provision of some integrated services for additional needs children and their families, most notably the Indigenous Early Childhood Development Children and Family Centres (which funded the capital under a National Partnership Agreement and is now managed by Prime Minister and Cabinet) and the Multifunctional Aboriginal Children’s Services (funded under the BBF). As discussed in chapter 8, integrated services should be encouraged to deliver a range of related family and child services to disadvantaged communities. However, the best way to promote the required coordination across departments and jurisdictions is unclear. In chapter 8 the Commission seeks more information on how Australian governments can commit to and deliver more integrated approaches to service delivery in disadvantaged communities.

As ECEC is only one of the services that benefit from an integrated approach it may not be well placed to play the coordinating role. Agencies responsible for outcomes for the particular disadvantaged community (such as the Australian Government Department of Prime Minister and Cabinet for Indigenous policy), may be better placed to fund the coordination ‘glue’ that is needed to make integrated services work well. Nevertheless, funding for coordination will be available from the DCP where the ECEC service plays the coordination role in integrated services. This will be available to ECEC providers currently funded to do so under the BBF, and to new services funded under DCP (these must commit to transition to mainstream funding where possible to do so).

While most providers can make the transition to a child-based funding model this will take time and many will need additional assistance to do so. Those providers who are unable to make the transition because of the lack of a viable labour market, should be reviewed on a regular basis (3 to 5 yearly, with the longer period only for high performing providers). These reviews should also assess the scope for co-payments to improve the funding available for the services provided.

DRAFT RECOMMENDATION 13.1

The Australian Government should continue support for the current block funded ECEC services for Indigenous children to assist their transition to mainstream ECEC funding (where there is a viable labour market).

Regulatory authorities should work with providers to assist them in satisfying the National Quality Framework and managing the transition to child-based funding arrangements.

13.9 Administrative changes

The proposed ECEC system will involve some significant changes but should reduce the administrative burden in the future. The exception to this is in the ECEC services to disadvantaged communities under the DCP where a more active and informed approach is suggested. While it may be more expensive to implement, this investment should pay-off in the outcomes achieved which should be better targeted to where they make the greatest difference and be more focused on sustainable outcomes.

Administration of the ECLS

The main effort involved in transitioning current CCB and CCR recipients to the ECLS is administrative. The income data on which the assessment of CCB is based are the same as required for ECLS, and the formula to be applied will be considerably simpler. Many families currently elect to pay their CCB directly to their ECEC provider and receive a discount on their fees. Nevertheless, changing to a single means tested payment will require changes to the Department of Human Services payment system. Department of Human Services, as the manager of the applications for and payment of mainstream subsidies should, take a leading role in streamlining the process.

Administrative issues that will need to be addressed include:

- streamlining the application process with a user friendly online version widely available
- ensuring that the subsidy received by the ECEC provider is clearly marked on the family's invoice along with the out-of-pocket costs that they have to pay
- minimising scope for overpayments that need to be recouped, and arrangements to address both under and over payment

- application for eligibility and payments where a child is in joint custody.

Many of these issues have been resolved successfully in the past, but as with any system change, will need to be managed carefully. The Department of Human Services and the Department of Education should also seek to minimise compliance costs for providers and families by applying the principles set out in box 13.3.

Box 13.3 Principles for minimising compliance costs

To make it easier for providers and families to interact with systems for delivering ECEC support and to ensure payment efficiency and accountability:

- eligibility rules and policies should be easy to access and understand, including for those families that do not have access to a computer/internet
- information, and assessment and application processes, should cater for people with communication difficulties, including language and literacy skills
- application processes should be simple and applications easy to submit
- processing of applications should be timely, and response to inquiries on progress and on determinations should be quick and easy. Staff of relevant agencies should be available to answer questions, whether available face to face, by telephone and online
- it should be as easy as possible to meet requirements for continuing payment
 - simple forms and processes should be available for reporting changes in circumstances (for example, income or work/study status/hours etc.), with the option of reporting online, and with minimal evidentiary requirements for those for whom there are no changes in circumstances
- administration should coordinate with other family payments to:
 - share of information (electronically) so that benefit recipients only have to report information once to government
 - align rules and policies governing eligibility, income thresholds, activity tests etc. across programs (where possible)
- systems should be in place to minimise the scope for conscious fraud or improper payments and to effectively address it when it arises.

Streamlining eligibility assessment

Any funding scheme that does not provide a universal subsidy will involve eligibility assessment. Like the current system, the proposed system requires activity tests and means tests.

The administrative and compliance cost of assessing eligibility depends on the number of agencies involved and the extent to which they already collect the

relevant data. In general, eligibility assessment is best done in an agency which has, or can easily collect, the relevant data. For families of children with additional needs, these will be agencies that already engage with the family in relation to these needs (below).

Setting the deemed cost for services

The Commission has recommended using a deemed cost based on the median fees charged, allowing the age of child and service type. It may also be appropriate to allow deemed cost to vary by location and the education/care mix of the service provided. Such differences can be addressed through loadings to a deemed cost.

Determining the median fees requires data on the fees charged. For the modelling estimates in this chapter the information on fees in the administrative database was used, and this could provide suitable information for setting a benchmark price. However, consideration needs to be given to whether a benchmark price is necessarily the best approach, and views are sought on the relative merits of an efficient price approach. Regardless, the Department of Education will need to have better information on the costs of providing services that satisfy the NQF, and on the drivers of any cost differences in service provision across provider types and locations, as well as the age of child. As a result the Department will need to invest in ensuring that the data it is collecting on fees is accurate, and in better understanding the cost drivers of ECEC businesses.

Quality Assurance – administering the NQF

A number of recommendations are made in chapter 7 in regards to simplifying the NQF and reducing some of its requirements. This will require ACECQA and regulatory authorities to produce new guidance and other materials, and adjust quality ratings from previous assessments to reflect the changes; and for providers to learn about the changes. This should be straightforward.

The Department of Education will need work with state and territory governments to develop a set of national ratios for OSHC. This would need to be implemented over time.

More attention will need to be paid to altering the scope of the NQF to include some new services. While the requirements for FDC are likely to be largely relevant for nannies, requirements on the premises will need to be different. Some NQF requirements may also be less relevant for services in remote communities, where alternative approaches may be more effective in delivering good outcomes for

children. This will need to occur over an appropriate timeframe (particularly for services transitioning from BBF).

A recommendation to remove dedicated preschools from the NQF will require the states and territories to transition to regulating them under education legislation where they do not already do so.

Administration of programs for children with additional needs

Allocation of resources within capped funding programs

Transparent criteria and mechanisms for the allocation of funds within the capped programs that support children with additional needs need to be agreed. The efficiency of capped programs in delivering benefits depends on how well the resources are allocated across competing areas. Processes for doing this are critical.

Both SECLS (where providers apply on behalf of the family) and the Viability Support Program (providers apply on their own behalf) are notionally capped. The Australian Government will need to set the eligibility criteria and assistance provided to meet this funding cap. Hence there may be overruns and surpluses in the early years as the Education Department work out eligibility criteria that will efficiently 'ration' the funding available.

The DCP will be a capped program aimed at providing ECEC services in highly disadvantaged communities. It will need to allocate funding between:

- transition support to move current BBF block-funded programs to mainstream ECEC funding where there is a viable labour market
- integrated program support — moving to coordination funding only, where providers can move to child-based funding
- block funding to residual BBF programs and to new ECEC services targeting Indigenous or other children in highly disadvantaged communities either as stand-alone services or as part of an integrated service. One of the criteria for assessing the funding of any new services should be their potential to transition to the child-based funding model within a five year period.

The Commission agrees with the conclusion of the BBF Review (chapter 8) that resources need to be more targeted, and to do this clear, transparent, and implementable criteria need to be set out. Several of the information requests in chapter 12 should assist the Commission in being able to provide considered

guidance for the criteria and mechanisms for allocation of the DCP in the final report.

ISP will be a capped program to provide grants to providers for funding for capital/equipment, and training staff who provide (or intend to provide) services to children with any of the identified additional needs (at risk, disabilities, Indigenous, refugee, other CALD, and children with a parent or sibling with a disability). Providers will need to apply for the grants, and a process is needed to assess and prioritise the applications as well as administer the grants. As the program is to be ongoing, provider's use of past grants will form part of any application for further grants, so they should have an incentive to use the grants as stated in their application. The administrative and information requirements for the grant application should be proportional to the size of the grant application.

Assessing eligibility and applications

While the Australian Government Department of Education will need to set the eligibility criteria for SECLS and the criteria to determine the allocation of funding with the DCP and ISP, undertaking eligibility and criteria assessment efficiently is important. For example, there will often be a trade-off between the cost of applying eligibility criteria and the probability that eligibility will be either too widely or too narrowly applied. The impact on the actual and potential recipients as well as the fiscal cost (or benefit) of too wide (or narrow) an application, and the cost of administering the test for government, providers, and applicants, all need to be considered. Similarly, the more spent on assessing grant applications for ISS and new applications for funding under DCP the better the prioritisation, but at some point the gain from improved allocation is outweighed by the cost of the assessment (including the cost of delays for the providers who made applications and for the children they service).

The NDIS will develop much better information on the number of children with severe disabilities who qualify for NDIS, and on the cost of meeting their medical and social support needs. However, there will be categories of children who will not be eligible for the NDIS who do require additional support in an ECEC setting. The SECLS program will need to identify the groups of children (such as those with diagnosed attention deficit disorder that affects their ability to learn) and the types of ongoing services they need as well as the cost of these services within an ECEC setting.

The Department of Education currently contracts out the management of the ISS program, at a cost of \$2 million per year. This NISSP 'program' assesses the applications from providers for support for children with disabilities. The proposed

changes will see an expansion in the funding for these children, and a greater need to assess the actual level of need and to monitor the performance of providers. The Department may wish to contract out this responsibility to specialist providers, and the NDIS may have a model that is relevant. Hence a larger budget for managing the SECLS allocations to children with a disability may be required.

Similarly, the Department may wish to contract out the allocation and management of the DCP and ISP programs. Such decisions should be based on the relative cost-effectiveness of specialist services relative to the public service in educating providers about the programs, advising on application processes, assessing eligibility and determining priority applications, monitoring delivery, and assessing the adequacy of the funding.

There are advantages and disadvantages in outsourcing the allocation of program funds. On the upside side, an outsourced organisation may be less subject to pressure to allocate funds to satisfy political considerations at the cost of achieving the highest benefits from the available funding. They may also have the necessary analytical skills and specialist knowledge that the Department may be unable to command. On the downside, they might have less commitment to achieving the best outcomes, or be captured by particular groups (for example, if they are also a service provider). Whether outsourcing can bring administrative efficiencies is also hotly debated, and the potential for overlap in what the Department of Education has to do for oversight and the role of the outsourced agency can reduce what gains there might be.

INFORMATION REQUEST 13.2

The Commission seeks information on the efficiency and effectiveness of outsourcing the allocation of funding under capped programs that support children with additional needs. Views are sought on the model that should be used to allocate funding under the proposed new funding arrangements and the governance requirements to ensure outsourced allocation services are accountable, and deliver value for money.

Improving the information base for ECEC policy

The access to administrative data has been essential to this inquiry to understand the use of the current ECEC system and the incentives that it has created. The Commission's consultation and submissions processes are essential for understanding the issues and can help in assembling empirical evidence, but it is the statistical data available from the census, properly conducted surveys, and

administrative data that underpin much of the analysis. The administrative data made available to the Commission by the Department of Education, ACECQA, and the Department of Human Services allowed a much wider and more comprehensive analysis than would otherwise have been possible (box 13.4).

Box 13.4 Use of administrative data to better understand the ECEC system

The views and experiences of participants on the elements of the ECEC system that are working well and on what needs improvement have been informed by personal experience or based on limited information — for example, their information may relate only to particular issues or particular locations. Additional information is required to assess if these views of the outcomes are widespread and pervasive.

Access to administrative data has allowed the Commission to undertake analysis that would not have been possible from publicly available sources. This includes:

- examining how accessible ECEC services are, including
 - how concentrated or clustered ECEC providers are
 - the opening hours of ECEC services across Australia
 - how far families travel from home to use ECEC services, including examining the extent to which families use ECEC along major commuting corridors.
- exploring family characteristics (family income, number of children, geographic location and type of care used) that influence affordability of ECEC under current policies.
- Administrative information has also been pivotal in assessing the effectiveness and cost of current regulatory arrangements surrounding the NQF, including
 - how many days it is taking to complete quality assessments – and to identify how many are taking longer than prescribed as acceptable under the National Law
 - examining the number of elements not met by services receiving a ‘Working Towards NQS’ rating – which has allowed the Commission to test claims made that many ECEC services are receiving overall Working Towards ratings because they only failed a few elements
 - examining which elements of which NQF standards services are having difficulty meeting
 - the proportion of waiver applications that have been rejected.

Administrative data could be better utilised to inform the ongoing management of the ECEC program, while making data available on data.gov.au allows the development of value added products that could assist families to find more suitable ECEC services, and providers to plan their service offerings. Some issues that access to administrative data could be beneficial for are to:

-
- allow ECEC providers to identify areas of supply shortage when they could consider commencing new ECEC services
 - improve state and local government planning decisions and policies through having more accurate information about families likely travel routes
 - for example, decisions on the location of public transport park and ride facilities and the interface with public transport infrastructure
 - improve the ability of peak bodies and researchers to assess the effectiveness of current policies and suggest policy improvements
 - allow greater policy analysis which can provide governments with free or low cost policy advice.

Administrative data could also be used in conjunction with survey collections to monitor and assess:

- the responsiveness of providers to changes in demand and the assistance provided for children with additional needs
- the responsiveness of parents in different income groups and with different age children to changes in their out-of-pocket costs of ECEC.

Even with better use of existing data, there are a number of data gaps that will need new data collection or linking of existing data collections. For example, further data on the number of children of different ages with additional needs, the nature of their needs, and what level of service is effective in delivering improvements in the outcomes for these children is required.

The other major gap is in the outcomes for children in relation to their ECEC attendance in order to assess issues such as what is:

- the optimal number of hours of preschool for children in the year prior to starting school
- the value of preschool for children from the age of 3, and how much benefit does this brings relative to a single year of preschool (and relative to the cost of supply)
- the long term development effect on literacy and numeracy outcomes for children who have had different preschool experiences
- impact on children's development of different exposures to ECEC by type of service
- the effect of changes in mother's workforce participation on the school outcomes for their children over time.

There is considerable potential to link several administrative data sets with each other and with other data to be able to research these questions. Making confidentialised data sets available can also harness the research efforts of academics, and help build the evidence base for improving policy. The continued funding of the AEDI, which is an important source of data on child development, is recommended in chapter 5.

DRAFT RECOMMENDATION 13.2

The Australian Government should establish a program to link information for each child from the National ECEC Collection to information from the Child Care Management System, the Australian Early Development Index, and NAPLAN testing results to establish a longitudinal database.

Subject to appropriate data protection methods, this information should be made available for research, policy analysis and policy development purposes. The ability of researchers to access unit record information should be permitted subject to stringent privacy and data protection requirements.

The Australian Government agency, which is the custodian of the Child Care Management System, should provide a de-confidentialised extract from the database each year that interested parties can use for research and planning purposes.

Evaluation of changes in the ECEC system

Good practice policy reform requires ex-post as well as ex ante evaluation. Some of the recommended changes are substantial and the outcomes are not guaranteed. The areas where there is the greatest uncertainty should be targeted for review to ensure that they are working as envisaged. The most important are:

- streamlining of application and payment processes — which along with simpler funding formulas should see families and providers finding the system easier to navigate and understand what support they are eligible for
- the targeting of assistance to lower income families to support work — which should see higher workforce participation response in these families
- flexibility in the operating hours and the scope for HBC (qualified nannies as well as FDC) to be eligible for subsidies — which should see a greater diversity in service offerings that better meet the needs of the families
- effectiveness of the deemed cost in addressing affordability — which should see slower growth in ECEC fees as extra costs cannot be subsidised, and see the

deemed cost continue to be set to the actual cost of providing a service that satisfies the NQF

- the effectiveness of transitioning block funded programs to mainstream funding — which should provide greater stability of funding for Indigenous ECEC services
- the prioritisation processes for providing support to providers to build capabilities, along with support for establishing new services for children in highly disadvantaged communities (and that the services then transition to mainstream funding) — which should see more innovative approaches to providing ECEC services that can still meet the NQF and deliver better value for the public funding
- the discipline of the 3 in 7 years support rule for rural and remote providers — which along with allowing greater flexibility should see services move to more sustainable models of ECEC service delivery.

In addition, the proposed changes to the regulatory requirements aim to reduce costs by giving providers greater scope to meet the NQF.

DRAFT RECOMMENDATION 13.3

The Australian Government should review the operation of the new ECEC funding system and regulatory requirements after they have been implemented. In particular:

- ***within 2 years of introducing subsidies based on deemed cost of care, the accuracy of the deemed costs and appropriateness of the selected indexation approach should be examined and the existence of any adverse unintended outcomes should be identified and resolved***
- ***within 3 years of extending the coverage of the National Quality Framework (including to current block funded services and to nannies), ACECQA should prepare a report identifying any legislative, regulatory or procedural difficulties arising from the wider coverage of the National Quality Framework***
- ***within 5 years of implementing the new ECEC funding system and regulatory requirements, the Australian Government should undertake a public review of the effectiveness of the revised arrangements.***

DRAFT

A Conduct of the inquiry

This appendix lists the organisations and individuals that have participated in the inquiry to date. Following receipt of the terms of reference on 22 November 2013, an initial circular advertising the inquiry was distributed to several hundred government representatives, industry organisations and individuals and the inquiry was advertised in national and metropolitan newspapers and in all state and territory regional newswire services.

The Commission released an Issues Paper on 5 December 2013 to assist interested stakeholders in preparing their submissions. There were 464 submissions received by the Commission prior to the release of this draft and they are listed in table A.1. The Commission also provided facilities on the inquiry website for interested stakeholders to lodge a short email comment. A total of 729 comments were received prior to the release of this draft and details of these are listed in table A.2.

In addition, the Commission met with a number of stakeholders, including business groups, academics and government agencies. A list of those meetings is in table A.3.

The Commission also held roundtables on Childcare and Workforce Participation and on Early Childhood Development with representatives from various academic institutions and research bodies set out in table A.4.

Participants are invited to send any additional submissions in response to this draft to the Commission by 5 September 2014. The Commission will send the final report to the Australian Government by 31 October 2014.

The Commission would like to thank all who have contributed to the inquiry so far.

Table A.1 **Public submissions received**

<i>Participant</i>	<i>Submission number</i>
A Head Start Children's Centre and Child Essential Learning Systems	44
A. Moriarty	339
Aberfoyle Hub Community Children's Centre	373
ACT Education and Training Directorate	376
ACTU	167
AGJ Businesses	55
AJ Nannies and Services	459
Alice Sprigs Steiner School	452
Alison Butcher	138
Alliance of NSW Parents and Citizens District Councils	124
Amanda Cheetham	214
Amanda Holt	237
Amanda South	171
Amaroo Early Childhood Centre	239
AMES	62
Andrea Nolan	241
Annabel Griffith	304
Anne Gigney	379
Annie Dennis Children's Centre	92
Antipodean Family Foundation	47
ANZ Banking Group	125
ARACY	168
Ariah Park Preschool	349
Association for Children with Disability Tas	187
Association of Independent Schools of SA	294
Association of Neighbourhood Houses and Learning Centres	428
Association of Parents & Friends of ACT Schools (APFACTS)	413
AuPair-Assist	153
AuPairWorld	446
Australian Advisory Board on Autism Spectrum Disorders	182
Australian Association for Infant Mental Health	352
Australian Bureau of Statistics	360
Australian Catholic University, Faculty of Education and Arts	163
Australian Chamber of Commerce and Industry	324
Australian Childcare Alliance	310
Australian Children's Education and Care Quality Authority	260
Australian College of Educators	78
Australian Community Children's Services	183
Australian Community Children's Services NSW	161
Australian Council of Social Service	332
Australian Education Union	374
Australian Family Association	448
Australian Federation of Employers and Industries (AFEI)	338
Australian Federation of Graduate Women	417

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Australian Human Rights Commission	455
Australian Industry Group	295
Australian Institute for Teaching and School Leadership	195
Australian Institute of Family Studies	391
Australian Institute of Health and Welfare	323
Australian Library and Information Association	235
Australian Literacy and Numeracy Foundation	423
Australian Local Government Association	318
Australian Nannies Association	254
Australian Primary Principals Association	438
Australian Services Union (ASU)	283
Australian Women Chamber of Commerce & Industry	336
Awesome Mother's Association	303
Bankstown Family Day Care Co-op	150
Batten, Bronwyn	63
Bega Valley Shire Council	159
Berri Regional Child Care Centre	263
Bev Schneider	179
Billabong Childcare Centre	28
Blue River Family Day Care	228
Blue Skies Childcare Centre	53
Braidwood Preschool Association	288
Brent Airey on behalf of parents at Kedron Goodstart Early Learning	394
Brindabella Christian Education Limited trading as Brindabella Christian College	362
Brisbane Family Day Care	175
Brisbane South Family Day care	236
Brotherhood of St Laurence	208
Bundaberg YMCA Child Care Services	211
Business and Professional Women Australia	85
Business Council of Australia	21
Business Council of Co-operatives and Mutuals	77
BusinessSA	388
Caboolture Montessori School	72
CAFWAA	199
Cairns & District Child Care Development Association	67
Canning Vale Prekindy	98
Capricornia Family Day Care and In Home Care	152
Care for Kindies Kindergarten	248
CareforKids.com.au	49
Carewest	93
CareWest	246
Carla Yeates	432
Carol A Burgess	229

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Carolyn Eccleston	122
Carroll, Ebony-Jane	22
Castlemaine Childcare Cooperative	113
Catholic Education Office of Western Australia	99
Centre fir Market Design	375
Centre for Community Child Health	308
Centre Support	268
Chalmers, Natalie	1
Chamber of Commerce and Industry Qld	245
Charlton Brown	402
Chief Executive Women	464
Child Australia	230
Child Care National Association	325
Child Care NSW	333
Child Care on Wheels Service	381
Child Wise Ltd	194
Childcare Association of WA	299
Children & Youth Services, Dept of Health & Human Services, Tas.	410
Children First Learning Centres	104
Children with Disability Australia	424
Children's Educators ACT	210
Children's Ground Ltd	462
Children's Protection Society	247
Churches of Christ Care	203
City of Boroondara	216
City of Campbelltown	220
City of Darwin	342
City of Sydney	196
Clarendon Children's Centre Cooperation	188
Clarke, Amanda	34
Clovel Childcare & Early Learning Centres	454
Collins, Michelle	69
Commission for Children and Young People	449
Commonwealth Department of Education	147
Communicare	264
Communities@Work	162
Community Child Care Association (VIC)	386
Community Child Care Co-operative (NSW)	173
Community Connections Solutions Australia	305
Consult Australia	24
Contact Incorporated	206
Coralie Driscoll	133
Council of the Ageing	412
Country Children's Early Learning	270

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Cultural Au Pair Association of Australia	238
Dagleish, Helen	56
Daniella Ward	146
das Neves, Cindy	42
Davis, Gayle	106
Daycare Decisions	91
De Santis, David	11
Deborah Brennan & Elizabeth Adamson, Social Policy Research Centre (UNSW)	420
Del Piano, Olivia	35
Demortain, Marie	23
Department of Premier and Cabinet, Tasmania	390
Dial-an-angel	135
Diana Nelson	258
Diversity Council Australia	356
Dr Gordon Cleveland	234
Dr Laurie Berg	315
Dr Michelle Brady & Dr Francisco Perales	309
Dr Wendy Jarvie and Dr Trish Mercer	249
Duffy, Lorraine	52
Early Childhood Australia	383
Early Childhood Australia (NSW) North Coast	363
Early Childhood Intervention Australia	282
Early Childhood Management Services	190
Early Childhood Quality Consultants	141
Early Childhood Teachers' Association	192
Early Learning Association Australia	271
East Brunswick Kindergarten and Childcare Centre	314
Eastern Region Preschool Field Officer Group	96
Economic Security4women	291
Elizabeth Adamson & Deborah Brennan, Social Policy Research Centre (UNSW)	404
Elizabeth Tan	54
Endeavour Family Day Care	221
Endeavour Forum	433
Enhance Management & Leadership	257
Eva Cox	189
Explore and Develop Wamberal	80
EYLF Apps	82
Fairfield City Council	361
Family Day Care (WA)	39
Family Day Care Association Qld	165
Family Day Care Australia	301
FamilyVoice Australia	191

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Finance Sector Union of Australia	174
Flinders University Childcare Centre	359
Forrest Early Learning Centre	322
Forwin Childcare Investments	140
Frankston City Council	286
French-Australian Preschool	444
FROBEL Australia	275
Gaia's Nest Early Childhood Education and Care	382
Galbiri Child Care and Preschool Centre Incorporated	129
Gate 121	377
Giovana Arrarte	269
Giulia Elliott-Hall	265
Glen Mallett	224
Glenhaven Private Preschool	158
Good Beginnings Australia	340
Goodstart Early Learning	395
Goodstart Ringwood	2
Government of NSW	435
Gowrie Australia	311
Gowrie NSW	306
Gowrie SA	87
Graham Bray	378
Grattan Institute	445
Greater Hume Children Services	176
Grow n Learn	4
Guardian Early Learning Group	274
Hack, Karen	103
Hamilton Smith, Elisha	36
Hanson, Cate	81
Happy Hubbub	457
Harden, Denise	105
Harvey, Rachel	8
Health and Community Workforce Council (Qld)	422
Henderson, Annette	73
Hill, Claire	31
Hinchinbrook Family Day Care	116
Houston, Nicholas	30
Huckel, Kathryn	70
Huntly Kindergarten	102
Hutchison, Kelly	112
Illawarra Area Child Care	160
Inala Community House	212
Inclusive Directions	142
Independent Education Union of Australia	88

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Independent Schools Queensland	297
Independent Schools Victoria	302
Indonesia Institute	219
Informing You	157
Institute of Chartered Accountants in Australia	369
Institute of Child Protection Studies, Australian Catholic University	440
Institute of Early Childhood	226
Ipswich Central Childcare & Preschool	170
Ipswich Family Day Care	222
Isis Family Day Care	41
Isolated Children's Parents' Association of Australia	120
Isolated Children's Parents' Association of New South Wales	139
J.J. McMahon Memorial Kindergarten	115
Jacqui Ward	197
James McFarlane	155
Jane Bowd	458
Jane Park	148
Jane Webb	366
Jennifer Clarke	368
Jenny Matulovich-Medo	351
Jensen Early Learning Centre	250
Jolly Frog Private Kindergarten	354
Jones, Dawn	7
Jowett, Jacinta	13
Judy Powell	242
Julie Toth	312
Kathryn Trippe	123
Katrina Coleman	136
Kay Doyle	252
KCL Family Day Care	398
Kempsey Family Day Care	27
Ken Filmer	134
Kim Horner	12
Kinda Kapers	273
Kirwan Uniting Church Child Care Centre	66
Koala Lou Childcare centre	204
Kookaburra Kindergarten	201
KU Children's Services	384
KU Children's Services (National Inclusion Support Subsidy Provider)	385
Kuch, Allison	90
Kurri Kurri & District Pre-School Kindergarten	169
Lady Gowrie Tasmania	355
Lake Macquarie Family Day Care	184
Leeton Shire Council	358

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Linda Scott	180
Lineage, Margaret and Bob	64
Linke, Caroline	32
Lisa Geraghty	154
Local Government Children's Services Reference Group	240
Louise McBride, Sophie Grace Pty Ltd and Sophie Grace Legal	431
Ludlow, Robert	14
Macquarie University Institute of Early Childhood Advisory Board	227
Maggie Dent	3
Mainstream Party	60
Mallee Track Health and Community Service	100
Margaret Cribb Child Care Centre	244
Marie Emmanuel	276
Marita Keenan	443
Marrickville Council	261
Martin Dore	463
McLeod, Shannon	19
McMillan Shakespeare Group	439
Medley, Lucy	10
Meegan Marmora	172
Melissa Jones	335
Merindah Children's Centre	370
Merredin And Districts Childcare And Play School (MADCAPS)	451
Migration Alliance	426
Miller, Jeanette	5
Minister's Education and Care Advisory Council-Tasmania	290
Mira-Bateman, Bindi	6
Mission Australia	164
Misty Howard	330
Mobile Children's Services Association of NSW	406
Monash City Council	75
Moncrieff, Amber	57
Montessori Australia Foundation	357
Mullins, Ian and Dianne	26
Multitask Family Day Care	441
Municipal Association of Victoria	343
Name Withheld	18
Name Withheld	37
Name Withheld	48
Name Withheld	50
Name Withheld	58
Name Withheld	107
Name Withheld	108
Name Withheld	117

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Name Withheld	118
Name withheld	132
Name withheld	209
Name withheld	292
Name withheld	131
Name withheld	345
Name withheld	346
Name withheld	396
Name withheld	397
Name withheld	399
Name withheld	434
Name withheld	447
Name withheld	453
Natalie Akers	460
Nathan Quinlan	137
National Disability Services	296
National Foundation for Australian Women	59
National In Home Child Care	365
National Inclusion Support Agency Alliance	298
National Out of School Hours Services Association (NOSHSA)	371
Neil Ashton	442
Network of Community Activities	372
Ngaire Hutchinson	213
Night Nannies Australia	126
Nina Olle	178
Noah's Ark	344
Noel Leung	202
Northern Area Community and Youth Services	348
Northern Children's Network	101
Northern Sydney Council of P&Cs Association	144
Northern Territory Government	461
Novita Children's Services	185
NSW Children's Services Forum	33
NSW Family Day Care Association .	253
O'Hara, Jennifer Anne	68
Occasional Child Care Australia	200
Oceanview College Children's Centre	353
Only About Children	393
OSHCsa	243
Owen Su	151
Parenting Research Centre	427
Parents of Deaf Children	328
Pascal, Charles	83
Pennant Hills War Memorial Children's Centre Association	9

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
Penrith City Council	403
Peter Apps	414
Petra Stock	415
Placement Solutions	45
Platinum Pre School	97
Play and Learn WA	232
Playground Inspection Protection	293
Playgroup Australia	255
Police Federation of Australia	94
PORSE In-Home Childcare & Educator Training (NZ)	421
Press, Viki	119
PriceWaterhouseCoopers	193
Primary OSHCare	266
Professional Support Co-ordinators Alliance	231
Professor Alison Elliott	401
Professor Nick Parr	400
Puddleducks Play to Learn	267
QCOSS	186
Qld Catholic Education Commission	364
Qld Children's Services Alliance	280
Queensland Children's Activities Network	198
Queensland Department of Education, Training and Employment	405
Queensland Inclusion Network (inclusion Support Agencies)	95
Queensland Indigenous Education Consultative Committee	320
Queensland Nurses' Union	65
Queensland Parents for People with a Disability	207
Randwick City Council	289
Randwick City Council – Supplement	456
Rebecca Devitt	223
Regional Development Australia Wheatbelt	259
Remote & Isolated Children's Exercise	51
Response Ability	300
Richard Lenn	215
Robyn Seth-Purdie	279
Rod Pitt-Owen	127
Rogan Family Care	380
Rose Lennon	128
Rosny Child Care Centre	307
Royal Adelaide Hospital Community Children's Centre	350
Rundle, Thomas	17
Sandra Cheeseman and Sheila Degotard	217
Savage, Alan	16
School of Early Childhood at QUT	284
School of Education, Flinders University	287

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
School's Out Outside School Hours Care	317
SDN Children's Services	205
Secretariat of National Aboriginal and Islander Child Care	411
Shannon, Robin	46
Shenton, John	25
Shop Distributive and Allied Employees' Association	74
Snugglepot Day Care Centre	29
Social Ventures Australia	392
South Australian Education and Early Childhood Services Registration and Standards Board	408
South Burnett Family Day Care	143
South Coast Baptist College School of Early Learning Childcare	114
Southern Cross University	177
St Leonards Primary School Out of School Hours Care	110
Strahan, Renee	40
Synergies Economic Consulting (on behalf of AEIOU Foundation for Children with Autism)	425
Tarpey, Deborah	43
Terri Butler	278
The Association of Heads of Independent Schools of Australia	430
The Australia Institute	316
The Benevolent Society	86
The Council of the Care of Children	429
The Creche and Kindergarten Association	272
The Hon Kate Ellis MP	145
The Northern Institute	79
The Parenthood	407
The Playgroup Association of Queensland	262
The Queen Elizabeth Community Childcare Centre	20
The Smith Family	331
The Tax Institute	166
Three Springs Childcare	15
Tony Sonter	149
Townsville and Regions Family Day Care	76
Toxteth Kindergarten	156
Tracey Victor	181
Tropical North Family Day Care	251
Unions NSW	329
United Sole Parents of Australia	321
United Voice	319
UnitingCare Australia	387
UnitingCare Children's Services	326
UnitingCare Gippsland	225
UnitingCare Victoria and Tasmania	409

(continued next page)

Table A.1 (continued)

<i>Participant</i>	<i>Submission number</i>
University of Notre Dame Australia	84
University of Wollongong	367
VCOSS	341
Victoria Government	418
Victorian Children's Council	437
Victorian Inclusion Support Managers Network	109
Victorian Principals Association	218
WA Community Services, Health & Education Training Council	277
WA Government	416
WA Local Government Association	313
WACOSS	256
Wanslea Early Learning and Development	281
Warawyn Early Learning	61
Warwick and District Family Day Care	285
Webb, Jane	121
Westpac Group	327
White, Carol	71
Woden Community Service	111
Women's Electoral Lobby Australia	334
Woon, Darren	38
Work + Family Policy Roundtable	347
Work+Family Policy Roundtable	450
Workplace Gender Equality Agency	89
World Vision Australia	130
Wynnum Family Day Cagwynre	233
Yarra City Council	436
YMCA	389
YMCA Australia	337

Table A.2 Emailed comments received

<i>Type of respondent</i>	<i>Number of public comments</i>
Workers in education and care services	127
Users of education and care services	453
Both worker and user of education and care services	80
Neither worker nor user of education and care services	69
Total	729

Table A.3 **Consultations***Participants*

ACT Department of Education and Training
 Adamson, Ms Elizabeth, University of New South Wales
 Australian Skills Quality Authority
 Australian Catholic University, Faculty of Education
 Australian Childcare Alliance
 Australian Children's Education and Care Quality Authority
 Australian Community Children's Services
 Australian Council of State School Organisations
 Australian Education Union
 Australian Government Australian Taxation Office
 Australian Government Department of Education
 Australian Government Department of Employment
 Australian Government Department of Human Services
 Australian Government Department of Prime Minister and Cabinet
 Australian Government Department of Social Services
 Australian Government The Treasury
 Australian Human Rights Commission
 Australian Institute of Health and Welfare
 Australian Nanny Association
 Australian Primary Principals Association
 Australian Research Alliance for Children and Youth
 Australian Services Union
 Baird, Dr Marian, University of Sydney
 Bertrand, Prof Jane, University of Toronto
 Biripi Child and Family health/Maternal
 Brennan, Prof Deborah, University of New South Wales
 Breunig, Prof. Robert, Crawford School, Australian National University
 Brotherhood of St Laurence
 Bruce Ridge Early Learning Centre and Preschool
 Cairns and District Childcare Development Association
 Cairns Early Years Centre
 Cairns TAFE Community Childcare Centre
 Caltex Australia
 Camp Australia
 Care for Kids
 Catholic Early Learning & Outside School Hours Care
 Centre for Child Development & Education, Menzies School of Health Research
 Child Care on Wheels Services at Kangaroo Inn Area School
 Child Care on Wheels, Robe
 Child Care Services Taree and Districts
 Children with a Disability Australia
 Childs World, Cairns
 City of Sydney

(continued next page)

Table A.3 (continued)

Participants

Cleveland, Prof. Gordon, University of Toronto
 Communities for Children Taree
 Communities@work
 Community Child Care Co-operative (NSW)
 Cred Community Planning (NSW)
 Davis, Jaycent (Aboriginal Community Liaison Officer)
 Defence Community Organisation
 District Council of Robe
 Doveton College
 Early Childhood Australia
 Early Intervention Service Manning Gardens Public School
 Early Learning Association Australia
 Ellis MP, The Hon. Kate
 Eskay Kids, Karana Early Education Centre
 Fair Work Ombudsman
 Families Australia
 Family Day Care Australia
 First Steps Count
 FKA Children's Services
 Folkestone Limited
 G8 Education
 Geoff Carmody & Associates
 Gialamas, Angela, University of Adelaide (Research Associate)
 Goodstart Early Learning
 Goodstart Early Learning, Jerrabomberra
 Gray, Dr Matthew, Australian National University
 Greater Taree City Council
 Guardian Early Learning Group
 Harrison, Dr Catherine, Australian Catholic University
 Hill, Dr Elizabeth, University of Sydney
 Human Rights Commission
 Inclusion Support Agency Far North Queensland
 Inclusion Support Agency North Queensland
 Jilkminggan Creche
 Katherine School of the Air
 KU Children's Services
 Kurtovich Consulting
 Ley MP, The Hon. Susan
 Manning Gardens Public School, Taree
 Manunda Terrace Outside School Hours Care
 Melhuish, Prof Edward, University of Oxford
 Mission Australia
 Municipal Association of Victoria

(continued next page)

Table A.3 (continued)

Participants

National Children's Commissioner
 National Foundation for Australian Women
 National In-home Care Association
 National Out of School Hours Services Australia
 New Zealand Early Childhood Council
 New Zealand Home Based ECE Association
 New Zealand Kindergartens
 New Zealand Ministry of Education
 New Zealand PORSE
 New Zealand Treasury
 Northern Territory Department of Education and Training
 Novita Children's Services
 New South Wales Department of Education, Childhood Education and Care Directorate
 New South Wales Department of Premier and Cabinet
 New South Wales Treasury
 Occasional Child Care Australia
 Only About Children
 Pascal, Dr Charles, University of Toronto
 Play Environment Consulting
 PriceWaterhouseCoopers
 Queanbeyan Family Day Care Scheme
 Queensland Department of Education, Training and Employment
 Regional and Remote Aboriginal Children and Services Support Unit
 Remote Area Aboriginal and Torres Strait Islander Child Care Advisory Association
 Roper Gulf Regional Council
 Rose, Dr Colin
 Secretariat of National Aboriginal and Islander Child Care
 Sex Discrimination Commissioner
 Sheridan Meadows Childcare, Cairns
 Smithfield Childcare Centre Cairns
 Snugglepot Day Care Centre, Taree
 South Australia Department of Education and Child Development
 Tasmanian Department of Education
 The Australia Institute
 The Parenthood
 Tigger's Honey Pot Child Care Centre, University of New South Wales
 UnitedVoice
 Uniting Care Children's Services
 UnitingCare Burnside
 Victorian Department of Education and Early Childhood Development
 Waratah Drive Day Care, Cairns
 Water Street Occasional Care, Cairns
 Wesley, Dr Dylan

(continued next page)

Table A.3 (continued)

Participants

Western Australian Department of Education
 Western Australian Department of Health
 Western Australian Department of Local Government and Communities
 Western Australian Department of Planning
 Western Australian Disability Services Commission
 Winanga-Li Aboriginal Child and Family Centre
 Woden Community Services — Garran After School Care
 YMCA Australia
 Young, Lea
 YWCA Canberra

Table A.4 Roundtables

Participants

2 December 2013, Childcare and Workforce Participation,

Amy Wilson	Latrobe University, School of Social Sciences
Anu Rammohan	University of WA, Business School
Barbara Pocock	University of SA, Centre for Life and Work
Elizabeth Hill	University of Sydney, Department of Political Economy
Guyonne Kalb	Melbourne Institute of Applied Economic and Social Research
Jennifer Baxter	Australian Institute of Family Studies
Michelle Brady	University of Queensland, School of Social Science
Nick Parr	Macquarie University, Faculty of Business and Economics
Patricia Apps	University of Sydney
Robert Breunig	Crawford School, ANU
Rod Hurley	Australian Government Department of Education (observer)
Stephen Whelan	University of Sydney, School of Economics
Xiaodong Gong	University of Canberra, NATSEM

2 December 2013, Early Childhood Development

Alison Elliot	Faculty of Education and Social Work, Sydney University
Bob Perry	School of Education, Charles Sturt University
Donna Berthelsen	Faculty of Education, Qld University of Technology
Frank Oberklaid	Centre for Community Child Health, Royal Children's Hospital Melbourne
Jenna Goddard	Australian Government Department of Education (observer)
Jennifer Bowes	Institute of Early Childhood, Macquarie University
Kay Margetts	Graduate School of Education, University of Melbourne
Linda Harrison	School of Teacher Education, Charles Sturt University
Margaret Sims	School of Education, University of New England
Patricia Apps	Faculty of Law, University of Sydney
Rachel Flottman	Graduate School of Education, University of Melbourne
Sally Brinkman	The Fraser Mustard Centre
Sue Dockett	School of Education, Charles Sturt University

B Disadvantaged children

The following groups have been raised as potentially experiencing some disadvantage when it comes to early childhood education and care (ECEC) participation:

- low income families
- children with a disability
- children at risk of abuse or neglect
- children who are developmentally vulnerable.

This appendix examines the magnitude and nature of these groups in Australia.

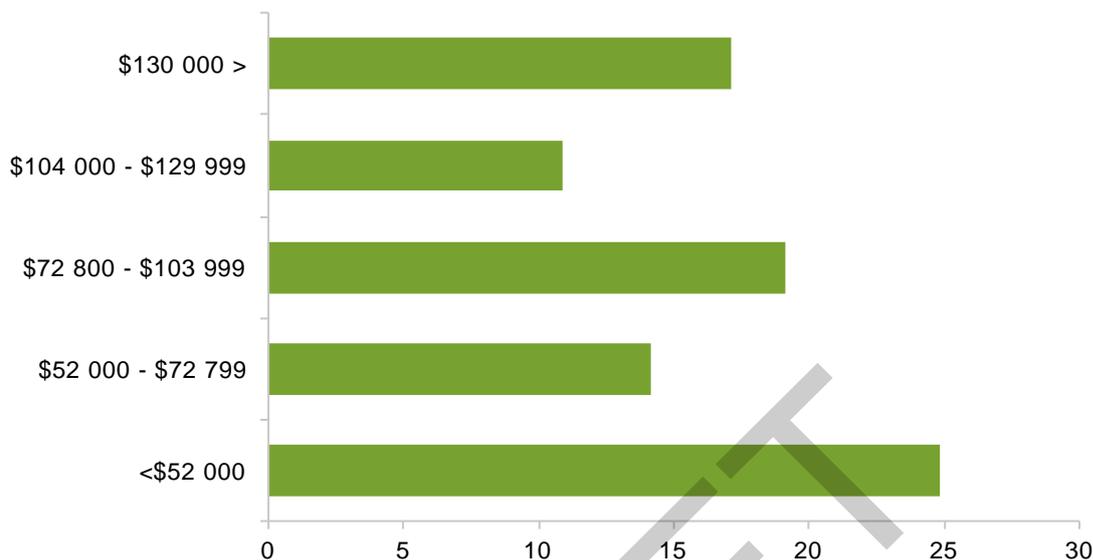
B.1 Low income

Children live in families across the income spectrum (figure B.1). Around 25 per cent of children (or 906 000 children) live in families with an annual income of less than \$52 000. At the upper income range, 17 per cent of children (or 623 000) live in families with an income over \$130 000.

B.2 Disability in Australian children

There is a broad range of disabilities that affect some Australian children. Around 288 350 or 7 per cent of children (aged 0-14) have a disability which restricts everyday activities and has lasted or is likely to last for at least six months. The types of disability that affect children vary somewhat with age. Of young children aged 0-4 years old who had a disability, almost two-thirds had a sensory (e.g. sight and hearing) or speech disability. In contrast, older children were more likely than younger children to have a diagnosed intellectual disability. Almost two-thirds of children aged 5-14 years old with a disability had an intellectual disability, more than twice the proportion of children aged 0-4 years with an intellectual disability (ABS 2012a).

Figure B.1 Children and family income^a
Per cent of children



^a Children aged 0 to 12 as at June 2011. Those families that refused to disclose their income or it could not be determined are not included.

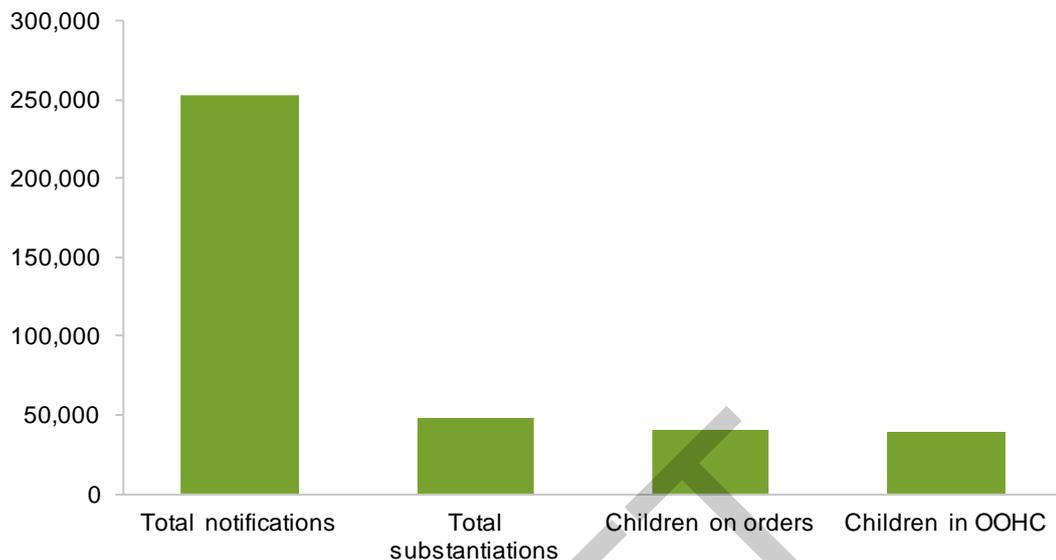
Data source: ABS (2012b).

The effects of children with disabilities go beyond the individual to other family members such as parents and siblings. Children can also be affected by parents with disabilities. These effects are not necessarily all 'bad', including parents and children developing greater resilience, but this does not remove the stress and challenges of day to day life with a family member with a disability. As an indication of the broader impact of disability, in addition to 7 per cent of children with a disability, a further 15 per cent had a parent with a disability (ABS 2000).

B.3 Children at risk

In 2011-12, there were approximately 48 000 substantiated cases of child abuse and neglect concerning 38 000 children (figure B.2).⁷⁸ Emotional abuse and neglect are the most commonly substantiated type of harm. The rates of substantiated harm or risk of harm decreased as age increased. Children aged less than 1 year were the most likely to be the subject of a substantiation of abuse or neglect (13.2 per 1 000 children), followed by children aged 1–4 years (8.4 per 1 000 children).

⁷⁸ Child protection statistics tells us how many children come into contact with child protection services. It is the only data routinely collected in Australia that give an idea of the number of children experiencing child abuse and neglect. While these data have limitations, they are best available indicator of the extent of the problem of child abuse and neglect in Australia.

Figure B.2 **Child at risk^a**

^a Data for 2011-12. The total number of notifications and substantiations reported by child protection services in any given year will also include some children who are reported to child protection services more than once in a 12-month period. Each new notification or substantiation does not necessarily represent a different child as there is the possibility of a small level of double-counting. Care and protection orders are legal orders or arrangements that give child protection departments some responsibility for a child's welfare. OOHC: Out of home care.

Data source: Australian Institute of Family Studies (2013).

Some children who are found to have been harmed or at risk of harm from abuse and neglect are removed from their homes by child protection authorities and placed in out-of-home care (OOHC). These children generally live in home-based care such as foster care or with a relative. In 2011-12, there were almost 40 000 children living in OOHC.

B.4 Developmentally vulnerable

Some children are potentially developmentally vulnerable because of cultural or family characteristic such as:

- Indigenous children
- children from culturally and linguistically diverse (CALD) backgrounds with limited English spoken at home
- children whose parents are long-term unemployed
- children whose mother has not completed high school
- children with a parent or sibling that has a disability.

Indigenous and regional distribution

While 70 per cent of children live in a major city, the remaining 30 per cent are sparsely distributed across the rest of Australia. Even though Australians of all backgrounds reside in the different regions across Australia, the Indigenous population — including children — has a much greater concentration in the more remote areas. Indigenous children comprise 21 per cent of the population in remote areas and very remote areas compared to 1 per cent of all children aged 0-12 (table B.1).

Table B.1 **Geographic distribution of Australian children^a**

Per cent		
<i>Accessibility remoteness index Australia</i>	<i>Indigenous children</i>	<i>All children</i>
Major city	34	71
Inner regional	23	19
Outer regional	22	9
Remote	7	1
Very remote	14	0

^a Children aged 0-12 as at June 2011.

Source: ABS (2013).

Culturally and linguistically diverse

People for whom English is not their primary language, or who were born into a culture significantly different to the dominant Australian culture are known collectively as culturally and linguistically diverse (CALD).

Limited English language skills can act as a major barrier to participation in life in Australia. Typically migrants with limited language skills are less likely to reach out into the community or to access services, including services for their children (Australian Research Alliance for Children and Youth 2008). Of children aged 0-12, around 4 per cent spoke another language and did not speak English well or not at all (table 3.2).

Table B.2 English proficiency at home and other language spoken
Per cent of children

<i>English proficiency</i>	<i>'000</i>	<i>per cent</i>
Speaks English only	2 873	80
Speaks other language and speaks English: Very well	289	8
Speaks other language and speaks English: Well	115	3
Speaks other language and speaks English: Not well	77	2
Speaks other language and speaks English: Not at all	61	2
not classified	178	5
Total	3 600	100

^a Children aged 0-12 as at June 2011.

Source: ABS (2013).

Non-working families

Just over 500 000 (or 14 per cent) of children live in families where neither parent is employer or their single parent is not employed (table b.3).

Table B.3 Children and labour force status of parents^a
Per cent of children

<i>Labour force status of parent(s)</i>	<i>'000</i>	<i>per cent</i>
Couple family - both parents employed	1718.7	47
Couple family - one parent employed	1062.4	29
Couple family - neither parent employed	172.3	5
One parent family - parent employed	334.6	9
One parent family - parent not employed	338.9	9
Total	3647.6	100.0

^a Children aged 0-12 as at June 2011. For 1 per cent of children, the labour force status of parents could not be determined.

Source: ABS (2012b).

Educational attainment of mothers

Over 2.2 million children (or 62 per cent) have a mother who has completed year 12 or the equivalent. However, around 200 000 children (or 5 per cent) have a mother who has limited high school education (Year 9 or below) (table B.4).

Table B.4 Children and mother's highest year of school completed^a
Per cent of all children

<i>Highest year of school completed of mother</i>	<i>'000</i>	<i>per cent</i>
Year 12 or equivalent	2 272	62
Year 11 or equivalent	316	9
Year 10 or equivalent	623	17
Year 9 or equivalent	126	3
Year 8 or below including never attended school	75	2
Total	3 648	100

^a Children aged 0-12 as at June 2011. For about 6 per cent of children, their mother's education was not known.

Source: ABS (2012b).

DRAFT

C Current assistance measures

This appendix provides information on the Australian Government's key assistance payments and programs for early childhood education and care (ECEC) including:

- Child Care Benefit (CCB)
- Child Care Rebate (CCR)
- Jobs, Education and Training Child Care Fee Assistance (JETCCFA)
- Community Support Program (CSP)
- Budget Based Funding (BBF) Program
- Inclusion and Professional Support Program (IPSP)
- Home Interaction Program for Parents and Youngsters (HIPPY)
- Family Tax Benefit (FTB).

C.1 Payments and programs for early childhood education and care

Child Care Benefit

To be eligible to receive the CCB families must use CCB approved or registered care and meet residency and immunisation requirements and an income test. The amount of CCB a family receives is dependent on the number of hours of CCB they can access and their hourly CCB rate.

The number of hours of CCB that can be accessed depends on whether the family is using approved or registered care and how many hours parents are participating in work-related commitments.

- Eligible families who are using approved care can receive CCB for up to 24 hours per child per week. To claim more than 24 hours and up to a maximum of 50 hours CCB per week, parents must meet the Work, Training, Study Test (box C.1).

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- Eligible families who are using registered care can access up to 50 hours of CCB per child per week if they meet the Work, Training, Study Test but no minimum number of hours of work-related commitments are required (Department of Education 2013f). In certain circumstances, more than 50 hours of CCB per child per week can be claimed.

Box C.1 **Work, Training, Study Test**

The Work, Training, Study Test is used to determine how many hours of CCB can be claimed. It is also used to determine eligibility for the CCR and priority for vacancies in the priority of access guidelines.

To meet the Work, Training, Study Test for approved care (and claim between 24 and 50 hours of CCB) each parent must have work-related commitments of at least 15 hours per week or 30 hours a fortnight or have an exemption. For registered care, families need to participate in work-related commitments at some time during the week (no minimum hours are required) or have an exemption.

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 satisfied if the CCB recipient is:

- on annual leave, long service leave, sick leave or other paid leave
- on paid or unpaid parental leave for a maximum of 12 months for a single parent or combined leave for both parents
- on self-employment leave
- receiving Carer Payment or Carer Allowance
- caring for a person with a disability or on carer leave or carer sick leave.

Exemptions to the test include grandparents with primary care for the grandchild, a parent who has a disability (the other parent must still meet the test), a parent who is overseas or in prison or parents that are facing exceptional circumstances.

Source: Department of Education (2013g).

The rate of CCB per hour that each family receives is primarily dependent upon whether the family is using an approved or registered service provider, family income, the number of children in care and whether or not the children are in school.

- Eligible CCB families using approved care with incomes of \$41 902 or less (in 2013-14) are entitled to the maximum CCB payment rate. This rate varies according to how many children are in approved care. For example, for one non-school child in approved care the maximum amount of CCB (for 2013-14) is \$3.99 per hour or \$199.50 for 50 hours of care. Table C.1 shows maximum CCB rates for families using CCB approved services by number of non-school children in care.
- As income increases above \$41 902 the rate of CCB decreases until income limits are reached. Again, these vary according to the number of children in approved care. For example, if a family has one non-school child in approved care the family income limit for qualifying for CCB is \$145 642 (table C.1). CCB maximum rates and income thresholds are indexed with the Consumer Price Index each year (Department of Education 2013b).
- Eligible families using registered care are entitled to a CCB payment of \$0.66 an hour for a non-school child up to a maximum of \$33.30 for 50 hours of care per week per child. The registered care rate for a school child is lower (85 per cent of the rate for a non-school child). For registered care users family income does not affect the hourly rate of CCB (Department of Education 2013e).

Table C.1 **Maximum payments and family income limits, CCB**
2013-14

<i>Number of non-school children in CCB approved care</i>	<i>Maximum amount of CCB for 50 hours of care</i>	<i>Maximum amount of CCB per hour</i>	<i>Income limit, CCB is not available over this limit</i>
	\$	\$	\$
One	199.50	3.99	145 642
Two	416.92	4.16	150 914
Three	650.57	4.33	170 404
Each additional child	216.85	4.33	32 219

Source: Department of Education (2013b).

There are a number of other factors that may influence the rate of CCB entitlement including:

- rates for school children are 85 per cent of the non-school child rates
- a higher part-time loading percentage applies to non-school children attending a LDC service for less than 38 hours a week
- a higher standard hourly rate applies to children attending FDC and In-Home Care services for less than 37.5 hours a week
- a higher non-standard hourly rate applies to children attending FDC and In-Home Care services for any hours outside the service's standard hours.

There are also two sub categories of CCB which target specific circumstances.

- Special Child Care Benefit (SCCB) supports a child at risk of serious abuse or neglect or a family experiencing temporary financial hardship. Claims are assessed every three months but the benefit is not intended to be an ongoing support payment (sub. 147, p. 38 and box C.2).
- Grandparent Child Care Benefit (GCCB) is provided to eligible grandparents who have primary care of a child and receive an income support payment. GCCB recipients do not have to meet the Work, Training, Study Test. GCCB pays full fee relief for each child in approved childcare for up to 50 hours per child per week. GCCB can only be claimed as reduced fees and is paid directly to the ECEC provider (Department of Education 2013b).

Families receiving CCB for approved care can elect to have the payment as a lump sum or as reduced childcare fees. Families using registered ECEC can receive CCB from the Department of Human Services by presenting childcare fee receipts together with a claim form within 12 months from when the care was provided (Department of Education 2012).

Box C.2 Special Child Care Benefit

Under family assistance law, approved childcare services can grant up to 13 weeks of SCCB in a financial year for a child in their care if it believes a child is at risk of serious abuse or neglect or if a family is experiencing temporary financial hardship which has reduced their ability to pay childcare fees. Hardship includes natural disasters and/or periods of local emergency. Services should be satisfied that all individuals being approved for SCCB meet the criteria for a child at risk of serious abuse or neglect, or hardship. The decision of a service to grant SCCB cannot be appealed.

If a child needs more than 13 weeks of SCCB, the service provider can apply to the Department of Human Services for an extension of SCCB support. For SCCB for a child at risk, the service must make a claim on behalf of the family, stating the reasons why the child is at risk and how long SCCB will be required. Evidence provided by childcare services may range from observations of the child's behaviour to assessments from welfare and health professionals. The minimum supporting documentation required by the Department of Human Services to receive extra periods of SCCB for hardship is a statutory declaration outlining the circumstances and providing details of the period of local emergency. Extended SCCB assistance is considered for periods of up to 13 weeks on each application.

There is no limit on the total number of weeks of SCCB which can be provided where a child remains at risk of serious abuse or neglect. However, there is a 52 week limit for SCCB provided to assist a family in relation to a single hardship event.

There are limits on the proportion of care for which services can approve SCCB. The total amount of SCCB (for both 'child at risk' and 'hardship') that a service can approve in one quarter is normally limited to 18 per cent of the total CCB paid to the service in the quarter before last. If a service reaches this 18 per cent SCCB approval limit, any further SCCB must be obtained either by the service successfully applying to the Department of Education for a higher approval limit or by seeking approval of individual applications by the Department of Human Services.

All families who are eligible for CCB receive up to 24 hours of CCB a week or up to 50 hours of CCB a week if they meet the Work, Training, Study Test (or they have an exemption). A service provider can approve an increase in the CCB hour limit for SCCB for children who are at risk. However, SCCB for financial hardship is restricted to the weekly limit for CCB. Further, SCCB can be paid for a period of 24-hour care if exceptional circumstances apply that warrant 24 hour care.

Services cannot claim both the SCCB rate and JETCCFA for a child at the same session of care. When a family is receiving JETCCFA and a childcare service approves SCCB for the family, or when a family is receiving SCCB and becomes eligible for JETCCFA, SCCB takes priority.

Source: DEEWR (2012).

Child care rebate

To be eligible for CCR, parents have to participate in work-related commitments at some time during the week or have an exemption (box C.1) and be using a CCB approved service. There is no CCR for families using registered care.

Unlike CCB, CCR is not means tested. If families are eligible for CCB but their CCB entitlement is zero, because of income, they still may be eligible for CCR.

CCR provides up to 50 per cent of a family's out-of-pocket childcare costs after any CCB is deducted, up to a maximum of \$7500 per child per year. Parents can elect to receive CCR on a fortnightly, quarterly or annual basis or have it paid directly to their ECEC provider as a fee reduction.

Jobs, Education and Training Child Care Fee Assistance

To qualify for JETCCFA families must qualify for the maximum rate of CCB.

JETCCFA currently includes up to 24 hours of assistance per child per week while the recipient is undertaking an approved activity. To access more than 24 hours of JETCCFA a week, up to a maximum of 50 hours per week the recipient must be undertaking at least 15 hours of approved JETCCFA activities a week. JETCCA activities include:

- searching for a job — up to 20 days in 20 weeks
- paid and unpaid work — for 26 weeks per course
- study or training — for up to 24 months
- participating in a labour market program — for example, the Language, Literacy and Numeracy Program, Work for the Dole and Green Corps
- participating in a Government-funded rehabilitation program
- other activities that help parents engage in sustainable paid work (Department of Education 2013d).

JETCCFA currently pays most of the childcare gap fee (the difference between the full fee and CCB). All parents receiving JETCCFA pay a small contribution (\$1 per hour of care) to the cost of the care they attend. However, the 2014-15 Budget announced two changes to this payment rate and to the maximum number of hours that JETCCFA can be claimed. From 5 January 2015:

- JETCCFA will be capped to a maximum amount of \$8.00 per hour per child

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- JETCCFA will be paid up to a maximum of 36 hours per week per child for parents doing approved study activities. However, no changes have been made to hourly limits of other JETCCFA activities such as work activities (Department of Human Services 2014a).

JETCCFA is paid directly to ECEC services. Families receiving JETCCFA may also be eligible for CCR. Families requiring JETCCFA must apply directly to the Department of Human Services (Department of Education 2013d).

Community Support Program

The CSP is part of the broader Child Care Services Support Program (CCSSP) and provides a range of payments directly to eligible childcare service providers with the aim of improving access to childcare, especially in areas where the market or services might otherwise be unviable. The CSP is a range of payments dependent on the type of childcare service, its size and location.

- **Set Up Assistance** is a one-off payment to contribute to an approved family day care (FDC), In-Home Care and outside school hours care (OSHC) service's set-up costs when establishing the new service. It is available to both for-profit and not-for-profit service providers.
- **Sustainability Assistance** is funding to support approved long day care (LDC) and OSHC providers deliver services in areas where the operation of a service is unlikely to be viable without additional assistance. The payment provides a contribution to the daily costs of operating the service. FDC Sustainability Assistance is an older model of childcare service funding assistance that is no longer available to new applicants.
- **Operational Support** is funding to support approved FDC, In-Home Care and Occasional Care providers with the ongoing, day to day costs of delivering quality, affordable childcare.
- **Regional Travel Assistance** is a support payment designed to assist FDC services and In-Home Care with the travel costs incurred by coordination staff for journeys undertaken in order to support the service's network of educators (Department of Education 2014c).
- the **Long Day Care Capital Funding Exceptional Circumstances Grant** provides individual one-off discretionary grants of up to \$500 000 to eligible LDC providers (box C.3) (Department of Education 2014d).

Box C.3 LDC Capital Funding Exceptional Circumstances Grant

The Long Day Care (LDC) Capital Funding Exceptional Circumstances Grant provides individual one-off discretionary grants of up to \$500 000 to assist communities in rural or remote locations experiencing documented unmet demand for services. (Department of Education 2014d).

Providers seeking funding must demonstrate that they have considered all viable alternative childcare options, including non-centre based care options. To be eligible, providers must be:

- CCB approved or eligible to be CCB approved.
- eligible for LDC Sustainability Assistance funding under the CSP
- located in an area identified as 'Outer Regional', 'Remote' or 'Very Remote' as determined by the Department of Education
- have an existing or intending provider of centre-based LDC in an area of need identified by the Department of Education, where there is evidence of market failure or facing difficulties in expanding facilities to operate centre-based LDC, with documented evidence of unmet demand.

The LDC Capital Funding Exceptional Circumstances Grant is intended to assist eligible regional and remote communities to:

- expand or extend existing facilities to enable them to continue to operate a centre-based LDC; or construct a facility to provide centre-based LDC.
- assist regional and remote communities to develop innovative solutions such as co-locating childcare with the school to increase community access to childcare.

Requests for funding under the LDC Capital Funding Exceptional Circumstances Grant are assessed on a case-by-case basis by the Department of Education. Not all eligible applicants are able to receive a grant as funding is limited.

Source: Department of Education (2014d).

CSP eligibility and the amount of funding each service receives is determined by a number of factors including type of service (LDC, OSHC, FDC, In-Home Care or Occasional Care), remoteness category, level of socioeconomic disadvantage and the number of children attending the service. CSP payment rates are available on the Australian Government Department of Education's website (Department of Education 2014a).

From 1 July 2015, all FDC providers applying for CSP funding will be assessed under similar eligibility criteria to those which apply to other care types (LDC and OHSC). FDC providers will only be eligible for CSP funding if they are the sole provider of FDC in the surrounding area, and if they provide care in regional, remote or disadvantaged areas where there is unmet demand for childcare. At the

same time a yearly cap of \$250 000 on CSP Operational Support payments will be introduced for FDC services (Department of Education 2014b).

Budget Based Funding Program

The BBF Program is a discretionary grant program. The total amount of funds available for the Program is limited and the decision to offer funding to existing recipients is reviewed at the end of each financial year where existing recipients may or may not be offered further funding (Department of Education 2013a).

The purpose of the BBF Program is to help services with the cost of operating an ECEC service. Funding is intended to be an operational subsidy; it is a contribution towards the operating costs of a service and is not intended to be at the exclusion of other sources of funding (such as state and local government funding and fees from parents).

The funding agreement sets out the rights, responsibilities and obligations of the Australian Government and the BBF recipient. A service work plan and budget is required under the funding agreement.

BBF services may only receive CCB on behalf of families if authorised by the Department of Education. Recipients of BBF funding are required under the funding agreement to establish a fee setting and collection policy based on that families with the capacity to pay should contribute to the cost of the service (Department of Education 2013a). As a result, fee policies vary across BBF services depending on the profile of the local community. Some BBF services do not charge fees, while others charge minimal fees or market rates.

The BBF Quality Measure supports improvements in the quality of facilities, improvements in the qualifications of staff and strengthening the governance and administrative capacity of services.

Inclusion and Professional Support Program

The objective of the IPSP is to promote and maintain high quality, inclusive education and care for all children in eligible ECEC settings. This is achieved by increasing the knowledge and skills of educators and the capacity of services by providing professional development and support including advice and access to resources. The following principles underpin the delivery of the Program.

- Equity of access — eligible ECEC services, regardless of their geographic location or service type, have equitable access to support provided by the IPSP.

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- Inclusion — the IPSP supports eligible ECEC services to be inclusive of all children.
 - Professional workforce — the IPSP supports an increase in the professionalism of the ECEC workforce, and is proactive in meeting the needs of the ECEC workforce and ECEC service management.
 - Quality — the Program assists eligible ECEC services to understand quality by actively promoting the National Quality Framework, the Early Years Learning Framework and the Framework for School Age Care.
 - National consistency — eligible ECEC services have access to Program services that are delivered in an efficient, flexible, culturally appropriate and timely manner.
 - Integrated approach — IPSP providers work collaboratively with each other and develop organisational relationships that support an integrated approach to service delivery.
 - Capacity building and strengths-based approach — IPSP providers use a strengths-based approach (that is, understanding the capacity and capability of the ECEC service as a starting point for determining the type and intensity of assistance and support required) to build the capacity of services to continuously improve the quality of their environment (Department of Education 2013c).

The IPSP is made up of two elements— Inclusion Support as well as Professional Development and Support. Inclusion Support improves access and inclusion for children with additional needs and is provided by Inclusion Support Agencies, the National Inclusion Support Subsidy Provider and through access to the Inclusion Support Subsidy (ISS), Flexible Support Funding, Bicultural Support, and Specialised Equipment. Professional Development and Support raises the quality of the education and care provided in ECEC settings and this support is provided by Professional Support Coordinators (PSCs) and Inclusion and Professional Support Units.

Inclusion Support Subsidy

ISS is demand driven but managed within a capped allocation. Inclusion Support Agencies and the National Inclusion Support Subsidy Provider are responsible for monitoring the use of ISS to ensure it is targeted appropriately to assist children with ongoing high support needs to be included in eligible ECEC services. ISS funding is carefully monitored, and if demand is expected to exceed the budget allocation, then measures are put in place to manage funding. This could include increasing the budget allocation, or waitlisting applications until funds become

available. This means that even if services meet the eligibility requirements, they are not guaranteed to receive the ISS.

The ISS rate (indexed annually) and hourly limit is dependent on service type.

- For LDC, Occasional Care and flexible/innovative services the subsidy is \$16.92 an hour for up to 25 hours per week, 52 weeks of the year.
- For FDC and In-Home Care a tier one subsidy of \$4.49 an hour or tier two subsidy of \$9 an hour for up to 50 hours per week. Tier one is defined as the impact of caring for the child has a ‘mild impact on the carer’ and tier two is when the child has a ‘significant impact’ on the carer’s capacity to include the child in the service.
- For Before School Care the subsidy is \$16.92 an hour for up to 10 hours per week for 42 weeks a year.
- For After School Care the subsidy is \$16.92 an hour for up to 15 hours per week for 42 weeks a year.
- For Vacation Care, a subsidy of \$16.92 an hour for up to 40 hours per week, 12 weeks of the year (Department of Education 2013c).

The development of a Service Support Plan is required for a service to access ISS (box C.4). ISS is underpinned by conditions of funding (agreed to by ECEC services) which are based on relevant criteria and vary in duration to a maximum of 52 weeks.

The National Inclusion Support Subsidy Provider (currently KU Children’s Services) can approve a subsidy for up to 6 months for eligible children undergoing continuous disability assessment and for up to 12 months for a child with assessed/diagnosed disability or a child from a refugee or humanitarian intervention background.

CCB approved ECEC services can apply for ISS online through the *IS Portal*. BBF services apply for ISS using a paper-based application process. ISS is paid directly to centre-based services. In the case of FDC and In-Home Care, the payment is made to the FDC scheme or sponsors of the In-Home Care service, who in turn make the payment directly to the service.

Box C.4 **Service Support Plan**

The development of a Service Support Plan is a prerequisite to receive inclusion support, applying for Inclusion Subsidy Support or Flexible Support Funding.

There are three key sections to the Service Support Plan.

- Service Information – includes ECEC service and Inclusion Support Agency details
- Service Review – includes issues and dynamics that impact on the ECEC service
- Staff Capacity Building Plan – includes staff need, team goals, resources available to support goal implementation, an action plan, progress and future directions.

In developing the Service Support Plan, the ECEC service examines the care environment and the staff capacity to include a child or children with additional or high support needs. The Service Support Plan identifies:

- the impact on the environment, and what educators will need to change to enable them to support a child's or children's access to the service and engagement in all aspects of the program.
- modifications educators may have to make to policy, pedagogy, planning, activities and the physical environment, including social play
- how the educators will engage with the family and any relevant organisations
- new knowledge, training or supports educators require in the area of inclusion
- goals that will guide all educators in the environment
- internal and external capacity building opportunities, including other Inclusion and Professional Support Program supports
- actions the service will implement to meet the goals, policies and practices the ECEC service might adopt to support inclusion.

Source: Department of Education (2013c).

Flexible Support Funding

Flexible Support Funding is a subsidy administered by Inclusion Support Agencies to enable ECEC services to be more responsive to families and children with additional needs. Flexible Support Funding can be used to assist a service to include a child with high support needs where it is unclear whether the ISS is required on an ongoing basis. Services that support a child with short-term additional needs or ongoing high support needs but attends the service on an occasional or irregular basis, may apply for Flexible Support Funding. To be eligible, the ECEC service must have already enrolled a child with additional needs.

Approved purposes for Flexible Support Funding include:

- assisting ECEC services to include a child with ongoing high support needs where it is unclear whether the ISS is required on an ongoing basis

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- enabling release time for permanent educators to settle a child with ongoing high support needs into the ECEC environment (for example, a child who is transferring to a new care environment or type (such as from LDC to OSHC)
 - enabling release time for permanent educators to attend specialist training that is relevant to the inclusion of a child with additional needs
 - enabling release time for permanent educators to prepare a Service Support Plan to support the inclusion of a child with additional needs
 - providing a financial contribution to FDC educators and In-Home Care carers unable to attend specialist training. Specialist training must relate specifically to the additional needs of the child in care
 - providing home based educators with an additional carer so that a child or children with additional needs who attends on an irregular basis can participate in out-of-home excursions or other special activities (for example, playgroups or vacation care excursions)
 - assisting services to include a child with additional needs in circumstances where attendance may be irregular and an application for the ISS may not be appropriate (for example, in occasional care, Multifunctional Aboriginal Children's Services, flexible/innovative services or mobile services)
 - assisting services in circumstances where the ISS has already been approved, but an emergency situation has resulted in the child requiring additional hours of care for a time-limited period (Department of Education 2013c).

The primary role of educators employed using Flexible Support Funding is to increase the staff-to-child ratio in the ECEC service for a time limited period. This enables services to quickly respond to their own needs and those of families of children with additional needs. It is also used to allow staff to attend training specific to the additional needs of the child in care or to prepare a Service Support Plan to identify inclusion needs. Any educator funded by Flexible Support Funding must be in addition to the number of educators required by licensing or regulatory requirements.

Educators support all children in the service, and all educators in the service may be involved in providing support to the child with additional needs. However, educators employed using Flexible Support Funding do not:

- assist the child with additional needs on a one-to-one basis
- provide specialist assistance (for example, medical assistance or physiotherapy)
- provide support that would otherwise be provided by the Inclusion Support Agency.

Flexible Support Funding is not intended to cover all additional employee costs, but does provide a significant contribution to these costs. Flexible Support Funding is a flat hourly rate (aligned with the ISS) that is indexed on 1 July each year. Limits apply to the number of daily and annual hours of Flexible Support Funding an ECEC service can access. These limits vary according to service type and activity.

- For LDC, Occasional Care, Before and After School Care and flexible/innovative services the subsidy is \$16.92 an hour with a daily cap of 5 hours for a maximum of 100 hours each year for each eligible child.
- For FDC and In-Home Care the subsidy is \$16.92 an hour, with a weekly cap of 5 hours for a maximum of 5 weeks each year for each eligible child.
- For Vacation Care, a subsidy of \$16.92 an hour with a daily cap of 8 hours for a maximum of 80 hours each year for each eligible child.
- In addition, for all service types, Flexible Support Funding for specialist training is limited to 15 hours per service each year (Department of Education 2013c).

Bicultural Support

Bicultural Support provides eligible ECEC services with access to an interpreter or other bilingual/bicultural person to support the service to enrol and settle a child from culturally and linguistically diverse, Indigenous, refugee or humanitarian intervention backgrounds (Department of Education 2013c).

Eligible ECEC services can make requests for Bicultural Support through the Inclusion Support Agency, PSC or Inclusion and Professional Support Unit. The request must be accompanied by a Service Support Plan and include the consent of the relevant parent, carer, or ECEC professional (other than the educator). However, as Bicultural Support must be responsive, and to avoid delays, the decision to approve the request can proceed before the PSC receives the completed Service Support Plan.

PSCs are responsible for ensuring that eligible ECEC services can access Bicultural Support free of charge and for building and maintaining networks in the region to source suitable agencies or persons able to provide the type of support required. When an eligible service requests Bicultural Support in relation to the enrolment and settlement of Indigenous children, the PSC contacts the IPSU to either directly provide the bilingual/bicultural advice or support required (on a fee for service basis); or advise of an alternative contact in the local area that may be able to meet the specific need of the eligible ECEC service. Where an appropriately skilled interpreter, bilingual or bicultural person is not available to visit in person, support can be provided via phone or other technologies, such as Skype.

The funding allocations for Bicultural Support are determined before each financial year and paid to the PSCs. Assistance provided by the interpreter, bilingual or bicultural person under Bicultural Support funding may include:

- facilitating communication between eligible ECEC services and culturally diverse families and children, for example by, interpreting meetings between parents and educators, providing verbal translation of enrolment documents, and providing educators with key words and phrases that can be used to communicate with the child
- facilitating cultural awareness by assisting eligible ECEC services to better understand particular ethnic backgrounds, cultural experiences, and child rearing practices of the children and families
- supporting curricula or programming by advising on culturally inclusive curriculum and resources that support the development of English as a second language and assist newly arrived children and families from refugee backgrounds
- supporting community linkages by providing educators with information, where available, about relevant community resources and services to support the inclusion of culturally diverse children and families (Department of Education 2013c).

Specialist equipment

Specialist equipment is available on loan from the PSC to eligible ECEC services (excluding In-Home Care) to assist the inclusion of a child who has demonstrated ongoing high support needs in an ECEC environment.

The specialist equipment includes, but is not limited to:

- portable ramps to create access to the environment
- standing frames and full support swings to allow a child with high physical support needs to participate in the daily childcare program and activities
- hoists, slings, harnesses, change tables, toilet seats or steps, potty chairs, mobile stools and seating or posture aids to help educators provide basic care functions
- specialised 'basic furniture', such as chairs, tables, desks and sleeping equipment
- communication cards or charts, and Auslan dictionaries to assist communication between the child and educators
- specialised inclusion toys, such as switch sensory mats

-
- individualised equipment, such as foam items, specific to the needs of a child's care environment and a child being included (Department of Education 2013c).

To borrow specialist equipment an eligible ECEC service must submit a Service Support Plan and a Specialist Equipment Request Form (completed by a qualified professional, such as an occupational therapist or physiotherapist). Equipment is loaned for as long as it is required. Where equipment is available, non-eligible ECEC services can hire equipment on a full cost recovery basis.

The PSC purchases new equipment in line with IPSP Funding Agreements but must seek prior approval from the Department of Education for equipment costing \$5000 or more (Department of Education 2013c).

Professional development and support

PSCs deliver and/or facilitate professional development and support and resources to assist educators in providing a high quality service as defined by the National Quality Standards. This support is to assist services in developing strategies that are sustainable in the longer term.

PSCs are required to develop a plan, in consultation with the Department of Education (as specified in the Funding Agreement) as to how professional development and support will be promoted, coordinated and delivered to all eligible ECEC service types across the state/territory and within Inclusion Support Agency regions, including in remote areas. Professional development and support under the IPSP includes:

- accredited and non-accredited courses
- conversations and informal sessions
- events, forums, hubs and networks
- collaborative projects
- mentoring and coaching
- advice and information
- access to information/resources.

PSCs (in consultation with the Department of Education) are required to develop calendars of training and courses and promote them within their state or territory. Each PSC:

- maintains a 1800 phone line to provide eligible ECEC services with access to a PSC

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- maintains a webpage with contact details and relevant links to websites
 - widely promotes professional development, publications, the website and other media to eligible ECEC services in the state or territory
 - in collaboration with the state/territory Indigenous Professional Support Units, establish strategies for updating eligible Indigenous ECEC services with the latest ECEC research and news from the sector.

Fees for the delivery of professional development and support are based on principles whereby fees:

- reflect the capacity of the market to pay
- for eligible ECEC services are not based on full cost recovery
- for non-eligible ECEC services are based on full cost recovery
- maximise client participation (low enough to encourage attendance but high enough to be a disincentive to non-attendance post booking)
- are not charged to eligible Indigenous children's services receiving BBF (Department of Education 2013c).

Indigenous Professional Support Units

Indigenous Professional Support Units provide or facilitate professional development and other support to assist Indigenous-focused BBF services and their managing bodies to provide high quality education and care environments. Indigenous Professional Support Units also provide advice to other IPSP providers on culturally appropriate support and resources to assist mainstream services to include and support Indigenous children and educators.

Indigenous Professional Support Units are required to promote their services and contact details to Indigenous focused BBF services within the state or territory in a variety of ways, including visits, websites and flyers. The professional development and support provided by Indigenous Professional Support Units is in priority areas agreed by the Department of Education. These currently include:

- leadership and management
- the development of operational management systems for Indigenous focused BBF services in the areas such as financial management, employment and workforce issues, business planning and support for management committees
- building the capacity of Indigenous focused BBF services to work together with families

-
- programming and curriculum development
 - provision of a quality environment that supports learning and development, guiding children's behaviour, managing challenging behaviours and working with diverse family expectations
 - health, safety and nutrition.

Indigenous Professional Support Units are required to manage and monitor their budget in accordance with the terms and conditions of their funding agreement with the Department of Education, this includes providing detailed expenditure reports on the budget on a 6 monthly basis and an annual audited financial report.

Home Interaction Program for Parents and Youngsters

HIPPY began as a research project in Israel in 1969. In 1998, the Brotherhood of St Laurence established the first Australian program in the City of Yarra, Victoria. The program currently operates in the United States, Germany, Austria, South Africa, Canada, El Salvador, Italy, Australia and New Zealand.

The Brotherhood of St Laurence has exclusive licensing rights from HIPPY International to run the program in Australia. The Brotherhood of St Laurence has sub-license arrangements with other not-for-profit organisations to deliver HIPPY to selected communities.

HIPPY is targeted at disadvantaged areas with a high proportion of families with young children. In 2013 the Australian Government announced an extension of HIPPY into 50 additional locations, with an emphasis on Aboriginal and Torres Strait Island communities. 25 new HIPPY communities were selected in 2013 and a process is currently underway to select a further 25 communities. By 2015, there will be a total of 100 HIPPY communities across Australia.

The 2014 process for selecting new communities for the delivery of HIPPY is two staged. In the first stage, communities have the opportunity to nominate to have HIPPY delivered to their community. Stage one selection criteria include:

- a minimum population of 100 Aboriginal or Torres Strait Islander children aged birth to 4 years
- a strong need for an early childhood program
- a not-for-profit provider who can deliver the program or find a suitable provider.

Stage two involves a detailed assessment of shortlisted communities including a location visit and information session in each community. Key criteria include:

-
- the ability of the community to participate in the program in line with the HIPPY model
 - strong community support for HIPPY
 - factors that may influence the success of HIPPY delivery in the community (Department of Education 2014e).

The Department of Education also considers a range of factors when identifying HIPPY communities such as Census information, Australian Early Development Index results, Socio-Economic Indexes for Areas data and the Australian Standard Geographical Classification.

Once communities are identified, the Brotherhood of St Laurence undertake a separate competitive selection process to identify suitable not-for-profit program providers to deliver HIPPY. Providers receive funding to support the employment and training of tutors and local co-ordinators, local operating costs; and program materials (Department of Education 2014e).

Family Tax Benefit

The FTB is a payment that helps eligible families with the cost of raising children. It is made up of two parts:

- FTB Part A is paid per-child and the amount paid is based on family circumstances
- FTB Part B is paid per-family and gives extra help to single parents and families with one main income.

Family Tax Benefit Part A

The amount of FTB Part A families are eligible for is dependent on family income, and the number and age of children.

Currently, a family will receive the maximum FTB Part A rate if adjusted taxable family income is \$48 837 or less. In most cases FTB Part A is calculated using two income tests and families receive the highest rate from the two tests. The first test reduces the maximum rate of FTB Part A by 20 cents for each dollar above \$48 837 until the payment reaches the base rate of FTB Part A. The second test reduces the base rate of FTB Part A by 30 cents for each dollar above \$94 316 (plus \$3796 for each FTB child after the first) until the payment reaches nil (Department of Human Services 2014f). However, from 1 July 2015, a per-child add-on amount (\$3796 for

second and each subsequent child) will no longer be used to calculate a family's income-free area for FTB Part A (Department of Human Services 2014d).

The base amount of FTB Part A per fortnight is currently \$53.31 per child per fortnight. The maximum payment rate per fortnight is:

- \$172.20 for each child aged 0 to 12 years
- \$224.00 for each child aged 13 to 19 years
- \$55.16 for each child aged 0 to 19 years in an approved care organisation.

Indexation of the maximum and base rates of FTB Part A have been paused until 1 July 2016 (Department of Human Services 2014g).

The FTB Part A supplement is dependent on family income and is currently up to \$726.35 for each child. However, from July 2015 the supplement will be reduced to \$600 and will no longer be indexed (Department of Human Services 2014e). The supplement is paid when payments have been balanced after the end of the financial year.

If a FTB Part A child is turning 4 years old and the parent is in receipt of an income support payment (such as the Parenting Payment, Newstart Allowance or a payment from the Department of Veterans' Affairs) the supplement may be withheld if the child does not get a health check to ensure they are healthy, fit and ready to learn when they start school. The supplement may also be withheld if a child is not fully immunised at age 1, 2 and 5 years, or is on a recognised immunisation catch up schedule, or has an approved exemption (Department of Human Services 2014g).

Large families may also be eligible for the Large Family Supplement which is currently \$12.04 for each third and subsequent child (Department of Human Services 2014g). However, from 1 July 2015 the FTB Part A Large Family Supplement will be limited to families with four or more children.

Family Tax Benefit Part B

The amount of FTB Part B per fortnight families are eligible for is dependent on family income and the age of the youngest child.

Single parent families with an adjusted taxable income of more than \$150 000 are ineligible for FTB Part B. Single parent families with income less than this limit are eligible for the maximum rate of FTB Part B. The current maximum payment rate for FTB Part B is:

- \$146.44 per fortnight if the youngest child is aged under 5 years

-
- \$102.20 per fortnight if the youngest child is aged between 5 and 18 years (Department of Human Services 2014h).

Indexation of the maximum rates of FTB Part B have been paused until 1 July 2016.

Currently, two parent families in which the primary income earner has an adjusted taxable income of more than \$150 000 are not eligible for FTB Part B. If the primary income earner's income is at or below this limit FTB part B is assessed on the second earners income. Currently, secondary earners can earn up to \$5183 each year before it affects the rate of Family Tax Benefit Part B. Payments are reduced by 20 cents for each dollar of income earned over \$5183. Secondary earners are ineligible for FTB Part B when income exceeds:

- \$26 390 a year, if the youngest child is under 5 years of age or
- \$20 532 a year, if the youngest child is 5 to 18 years of age (Department of Human Services 2013).

FTB Part B supplement (currently, up to \$354.05 per family) is available for eligible FTB Part B recipients after the end of the financial year (Department of Human Services 2014h). However, from July 2015 the supplement will be reduced to \$300 and no longer be indexed (Department of Human Services 2014e).

Also, from 1 July 2015, eligibility for FTB Part B will change.

- The primary income threshold for eligibility for FTB Part B will be reduced from \$150 000 to \$100 000 per year. This applies to both new and existing recipients of FTB Part B.
- Families will no longer receive the payment when their youngest child turns 6 years of age. However, in order to give existing recipients time to adjust the Australian Government has introduced a two year grandfathering to this change (Department of Human Services 2014b).

To assist low-income single parent families, from the impact of these changes in July 2015 a new \$750 allowance will be available to single parent families. It will be paid as an additional component of FTB Part A and will be paid for each child in the family aged between 6 and 12 years. The allowance will be paid automatically to customers who are eligible for FTB Part A who:

- are single
- are in receipt of FTB Part A at the maximum rate
- are not in receipt of FTB Part B and
- have a child(ren) aged between 6 and 12 years (Department of Human Services 2014c).

DRAFT

D Workforce participation data

There are several sources of data on the workforce participation of parents including the ABS Labour Force Survey, the ABS Census of Population and Housing, the Household Income and Labour Dynamics in Australia (HILDA) Survey and the Longitudinal Study of Australian Children (LSAC).

The Labour Force Survey provides Australia's official measure of employment and unemployment. It is also used by the OECD in its employment databases, including its family database. For these reasons, this appendix draws more heavily on the Survey in relation to workforce participation than on other sources of data.

However, the Commission notes the work of others, particularly the Australian Institute of Family Studies (sub. 391) and the Department of Education (sub. 147), which report on workforce participation indicators using other data sources such as the ABS Census of Population and Housing, HILDA and LSAC. This work draws many conclusions similar to those drawn by the Commission from the Labour Force Survey.

The appendix is in two parts: the first part reports workforce participation indicators for Australia drawing on the Labour Force Survey; the second reports workforce participation indicators for Australia compared with selected countries drawing on the OECD family database.

Three indicators of workforce participation are referred to in this appendix.

- The participation rate⁷⁹ is the proportion of persons in the population (or a given segment of the population) who are in the labour force. It captures persons who are employed and unemployed. It also reveals the proportion of the population not in the labour force. However, as it treats persons who are in part-time and full-time employment as equivalent, it is not representative of hours worked. For

⁷⁹ Using data variables in the Labour Force Survey, the formula used for calculating participation rates for time period i and for persons aged over 15 years is:

$$PR_i = LF_i \div Pop_i$$

where:

$LF_i = \text{Employed Full time}_i + \text{Employed Part time}_i + \text{Unemployed Looking for Full time Work}_i + \text{Unemployed Looking for Part time Work}_i$ and $Pop_i = LF_i + \text{Not in the Labour Force}_i$

example, two groups of persons could have the same participation rate, but one group works fewer hours than the second group.

- The part-time share of employment⁸⁰ is the proportion of persons who are employed who work part time. This is more reflective than the participation rate of hours worked by persons over a period of time. However, it does not include persons who are in the labour force who are unemployed looking for part-time work.
- Another indicator of the workforce participation of parents is the employment rate. This indicator, which is reported in the OECD family database, is the proportion of persons in the population (or a given segment of the population) who are employed. The maternal employment rate, for example, is the proportion of mothers who are employed. As the employment rate does not capture persons who are unemployed, it is not as complete a measure of a person's labour force status as the participation rate. Like the participation rate, it does not account for hours of work. However, the employment rate still remains useful for comparisons between Australia and other OECD countries.

D.1 Workforce participation in Australia

Participation rates

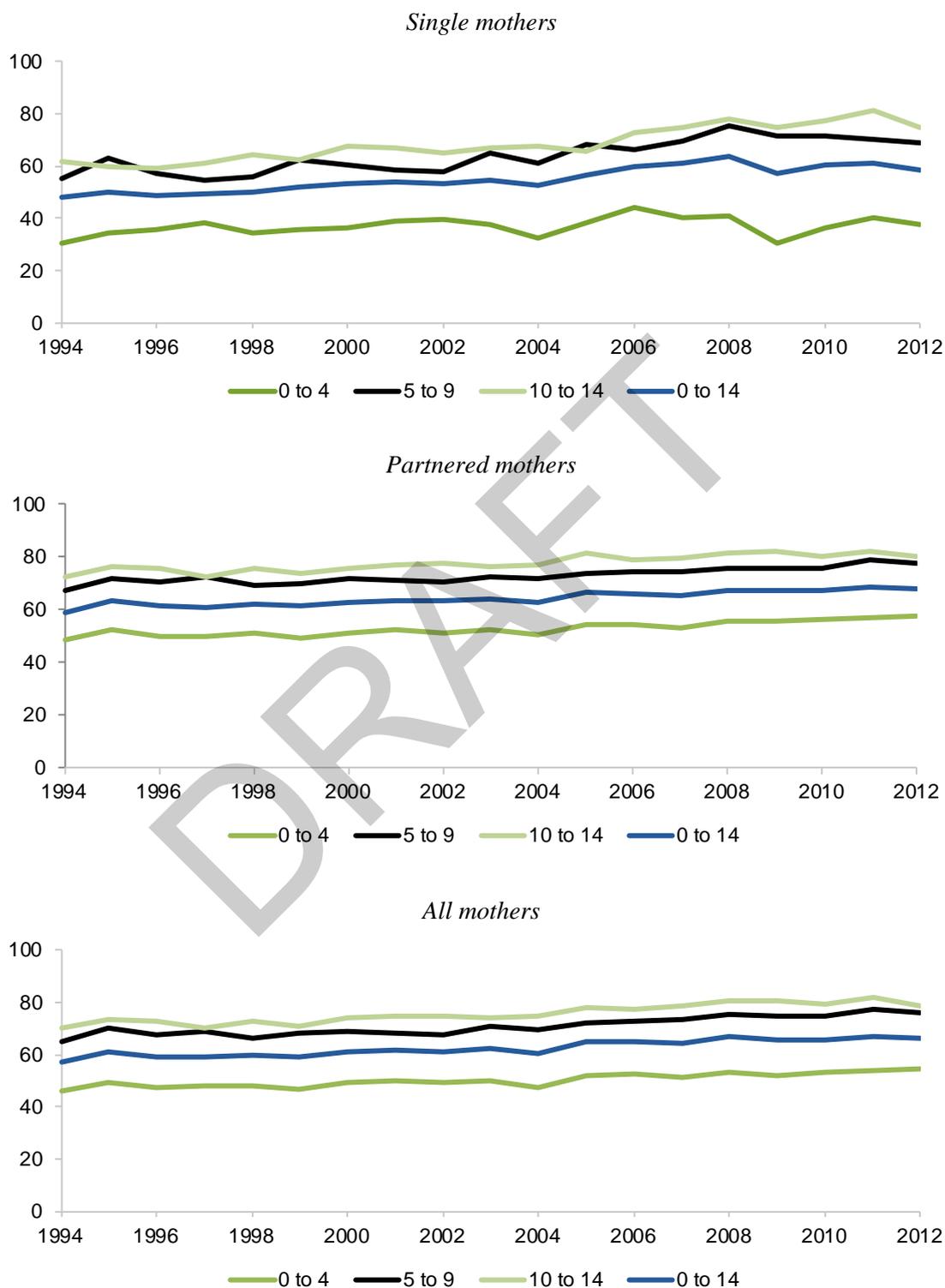
Mothers

The participation rate of mothers with a youngest child aged 0 to 14 years has grown substantially over the last 20 years (from 57 per cent to 66 per cent between 1993-94 and 2011-12) (figure D.1). Albeit at lower rates, this is consistent with the growth in the participation rate of all females aged 25 to 54 years — the age group typically comparable with that of mothers and including the highest fertility rates (from 68 per cent to 76 per cent) (figure D.2).

⁸⁰ The formula used for calculating the part-time share of employment in period i is:

$$PT_i = \frac{\text{Employed Part time}_i}{\text{Employed Part time}_i + \text{Employed Full time}_i}$$

Figure D.1 Participation rates of mothers by age group of youngest child^a
Per cent

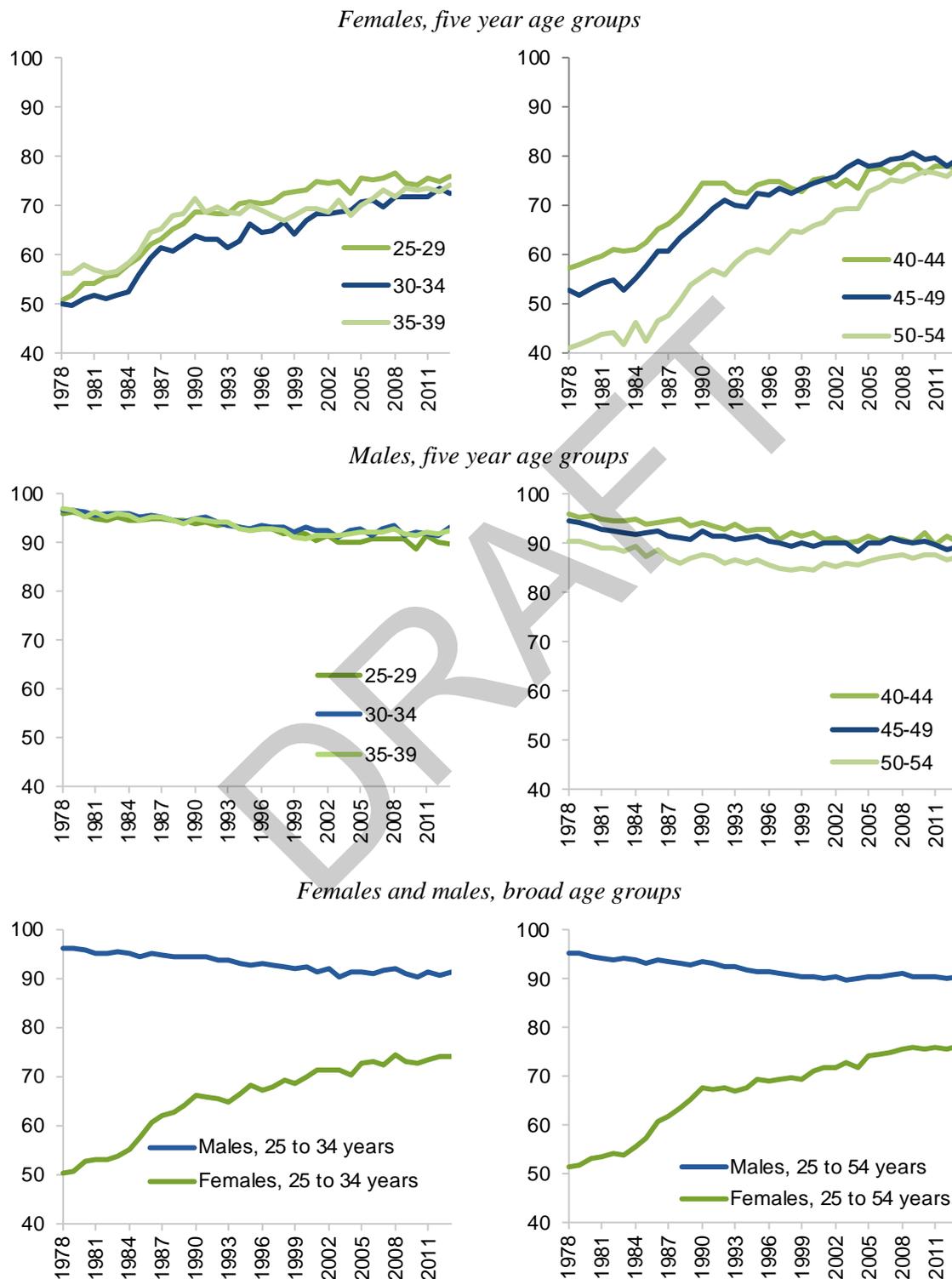


^a Year ended June.

Data sources: Commission calculations based on ABS (2005, 2013).

Figure D.2 Female and male participation rates by typical age groups of parents of children aged under 15 years^{a, b}

Per cent



^a Year ended June. ^b Fertility rates were highest in females aged 25 to 34 years in 2012 — data supporting PC (2013).

Data source: Commission calculations based on ABS (2014a).

Despite the growth in maternal participation rates, the participation rate of mothers aged 25 to 54 years of children aged under 15 years remains below that of females in the same age group without children (figure D.3). In 2012-13, the participation rate of partnered mothers was 70 per cent compared with that of partnered females without children of 91 per cent. That participation rate of single mothers was 61 per cent compared with that of single females without children of 82 per cent. The participation rate of all mothers was 68 per cent compared with that of all females without children of 87 per cent.

The growth in maternal participation rates is mirrored for partnered and single mothers, as well as for mothers by different age groups of youngest child, and for mothers by numbers of children (figures D.1 and D.4).

There are notable variations in the workforce participation rates of these different groups of mothers.

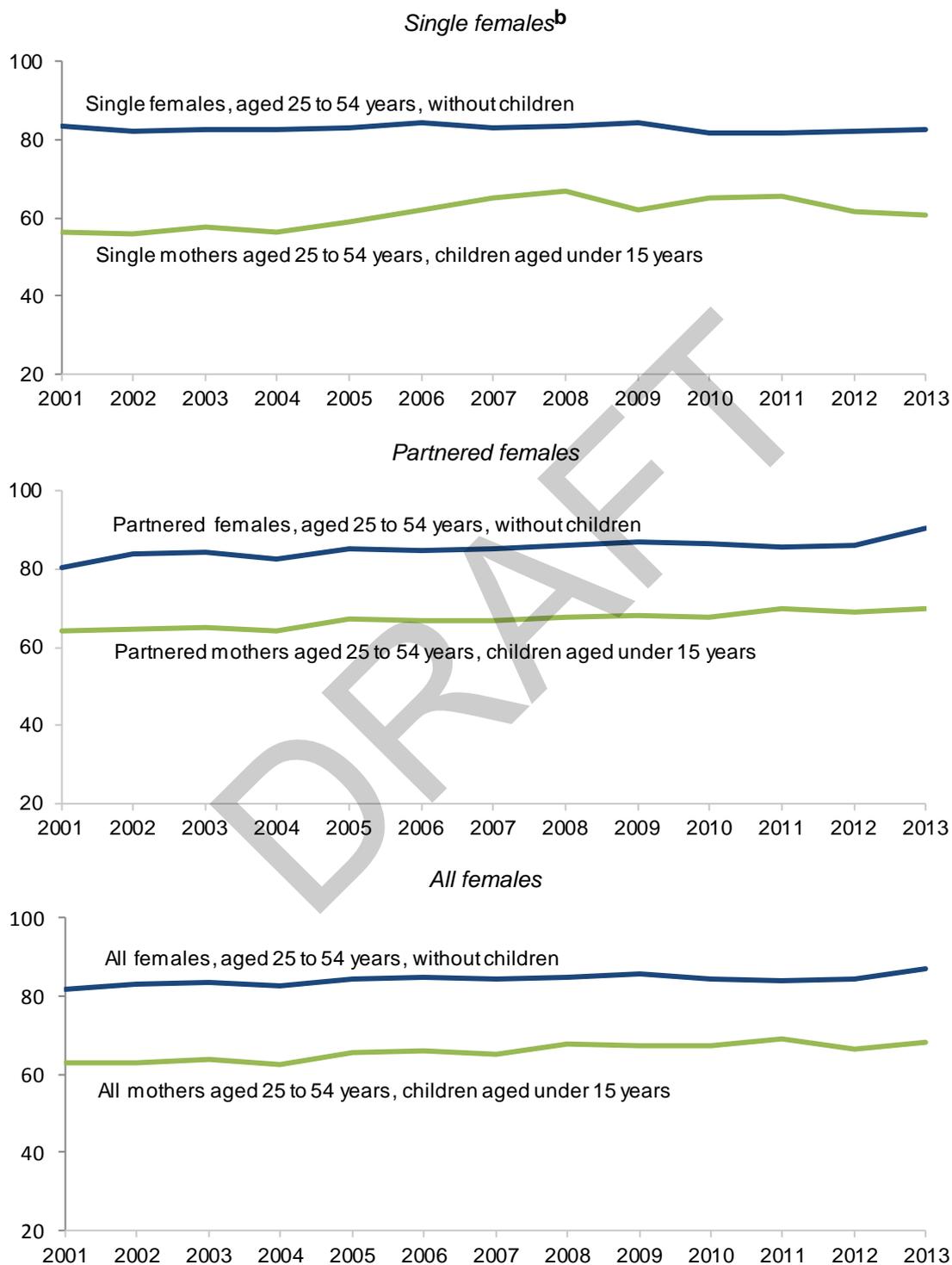
- The participation rates of partnered mothers are above that for single mothers across all age groups of children and by numbers of children (figures D.1 and D.4). For example, in 2011-12, the participation rate of partnered mothers with a youngest child aged 0 to 14 years was 68 per cent compared with that for single mothers of 59 per cent. As noted later, however, their part-time shares of employment are relatively higher.
- The participation rate of mothers increases with the age group of the youngest child (figure D.4). In 2011-12, the participation rate of mothers with a youngest child aged 0 to 4 years was 54 per cent compared with mothers with a youngest child aged 5 to 9 years of 76 per cent and mothers with a youngest child aged 10 to 14 years of 79 per cent.
- The participation rate of mothers decreases with the number of children (figure D.4). In 2011-12, the participation rate of mothers with one child aged 0 to 14 years was 69 per cent whereas the participation rate of mothers with more than two children was 65 per cent.

Fathers

Unlike the growth in the workforce participation rates of mothers, the workforce participation rates of fathers (particularly, partnered fathers) with a youngest child aged 0 to 14 years has remained largely unchanged in the last 20 years (sitting at 94 per cent in 2011-12). By comparison, there has been a slight decline in the workforce participation rate of males aged 25 to 54 years (from 92 per cent to 90 per cent) (figures D.2 and D.5).

Figure D.3 Participation rates of females aged 25 to 54 years with and without children^a

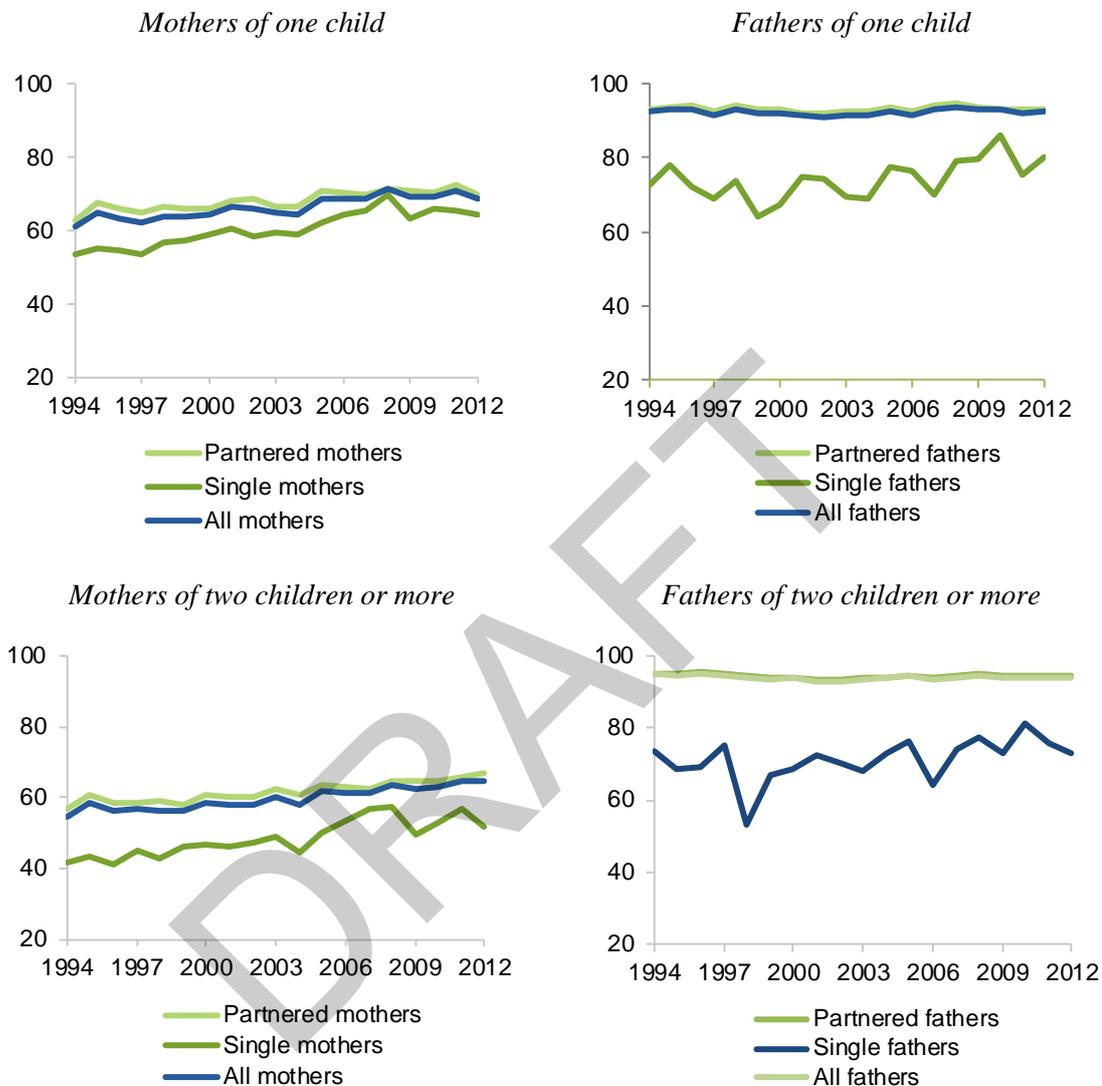
Per cent



^a Year ended June. ^b Single females without children are assumed to cover 'dependent students', 'non-dependent child', 'other family person', 'person living alone', and 'non-family member not living alone'.

Data source: Commission calculations based on ABS (2014a).

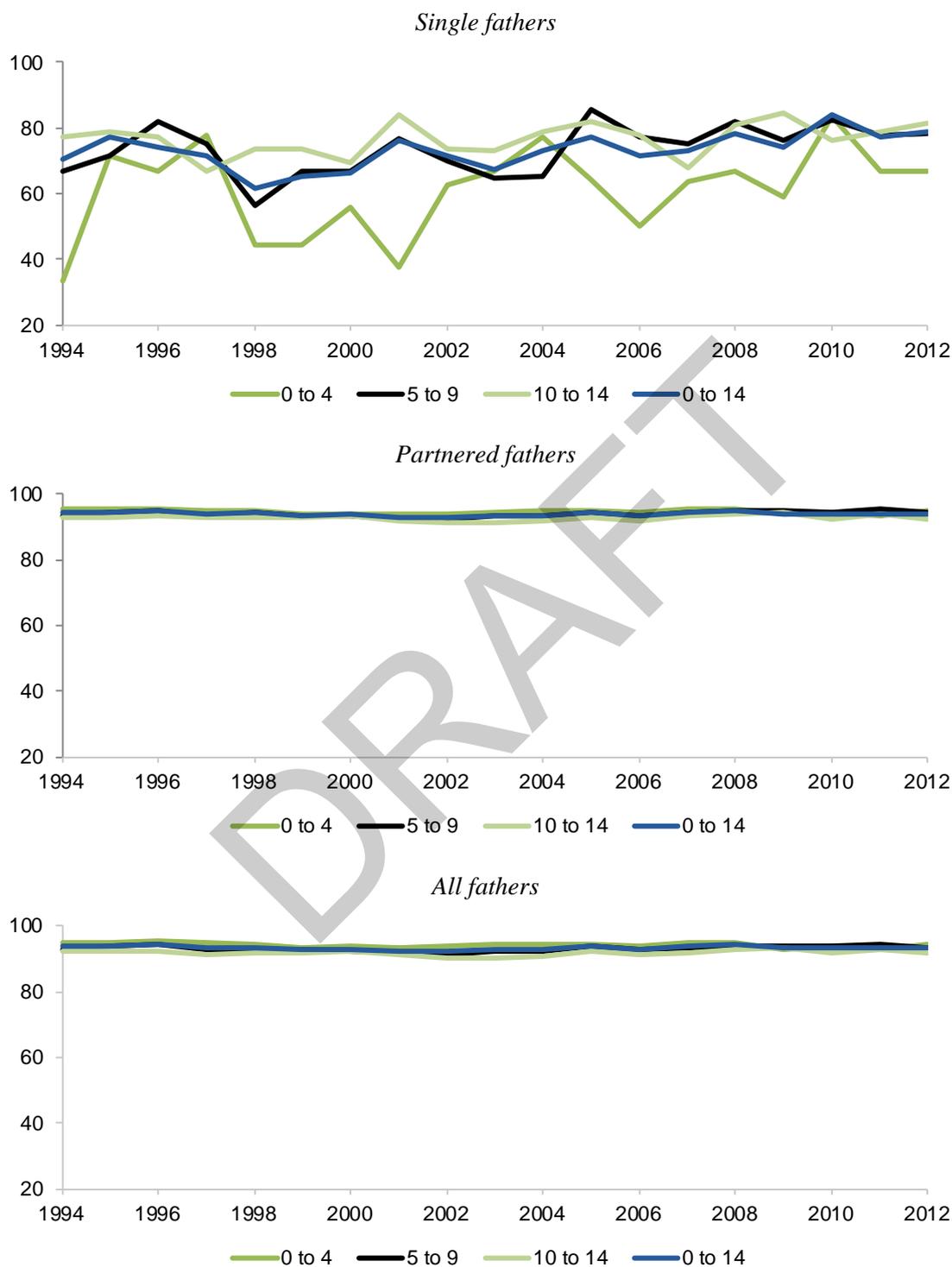
Figure D.4 Participation rates of mothers and fathers by number of children aged under 15 years^a
Per cent



^a Year ended June.

Data sources: Commission calculations based on ABS (2005, 2013).

Figure D.5 Participation rates of fathers by age group of youngest child^{a, b}
Per cent



^a Year ended June. ^b Some of the rates need to be treated with caution as the data on the components that are used to calculate them have relative standard errors exceeding 25 per cent, which the ABS considers may be subject to sampling variability too high for practical purposes. This particularly applies to rates for: single fathers with a youngest child aged 0 to 4 years in 1993-94, 1997-98, 1998-99, 2000-01 and 2005-06.

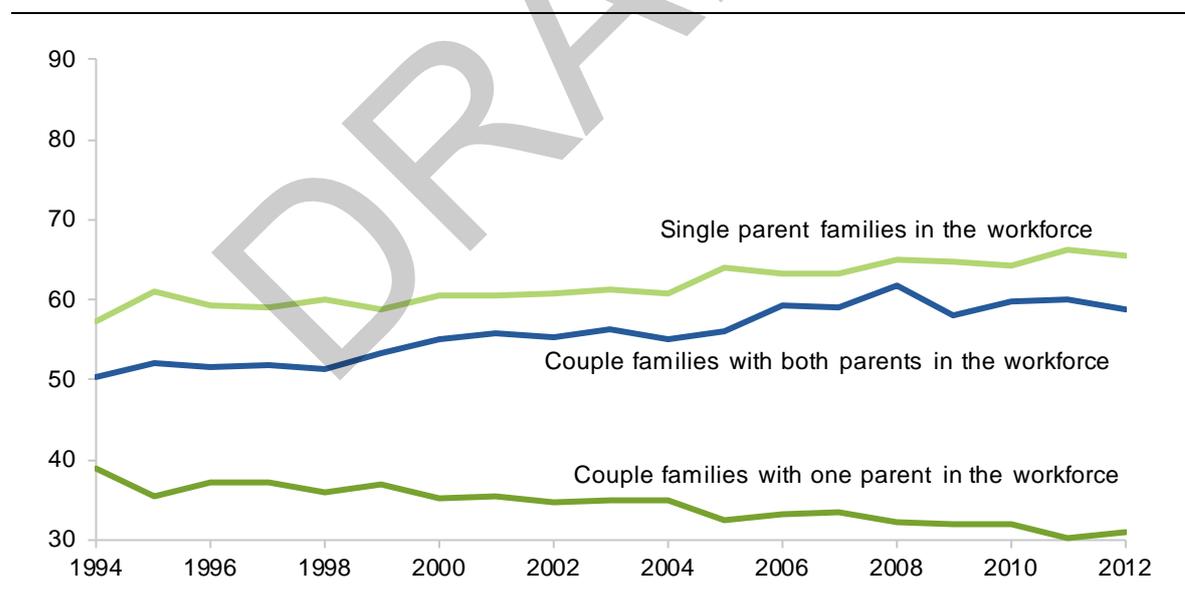
Data sources: Commission calculations based on ABS (2005, 2013).

At 94 per cent in 2011-12, the participation rate of fathers is much higher than that of mothers and slightly above that of males aged 25 to 54 years (90 per cent). Unlike mothers, whose participation rate increases with the age of the youngest child, the participation rate of fathers falls slightly (figure D.5). Moreover, unlike mothers whose participation rate falls with the number of children, the participation rate of fathers increases slightly (figure D.4).

Family types

In 2011-12, around 84 per cent of families with a youngest child under 15 years had a parent in the workforce, a fall from around 88 per cent of families in 1993-94. Over the period, there was a fall in the proportion of couple families with only one parent in the workforce and increases in the proportion of single parent families with a parent in the workforce and of couple families with both parents in the workforce (figure D.6).

Figure D.6 **Participant rates by family types, with a child aged under 15 years^{a, b}**
Per cent



a Year ended June. **b** Workforce participation is measured by the proportion of families within each family type that are in the workforce.

Data sources: Commission calculations based on ABS (2005, 2013).

Part-time employment

Mothers

The participation rates estimated above do not account for hours of work. More employed mothers work part time than full time largely irrespective of the age group of their youngest child or the number of children they have (figures D.7, D.8 and D.9). There has been little growth over the past two decades in the proportion of mothers with a youngest child aged 0 to 14 years working part time, despite the strong growth in their participation rates.

The part-time share of employment of mothers with a youngest child aged 0 to 14 years (58 per cent in 2011-12) is much higher than for all females aged 25 to 54 years (42 per cent) (figure D.10). The part-time share of employment of mothers aged 25 to 54 years was also well above females in the same age group without children (in 2012-13, 59 per cent compared with 21 per cent) (figure D.7).

Further, partnered mothers with a youngest child aged 0 to 14 and with two children or more have a higher part-time share of employment than single mothers (figures D.9). This suggests that partnered mothers' working hours are co-related to the workforce participation of the fathers in couple families.

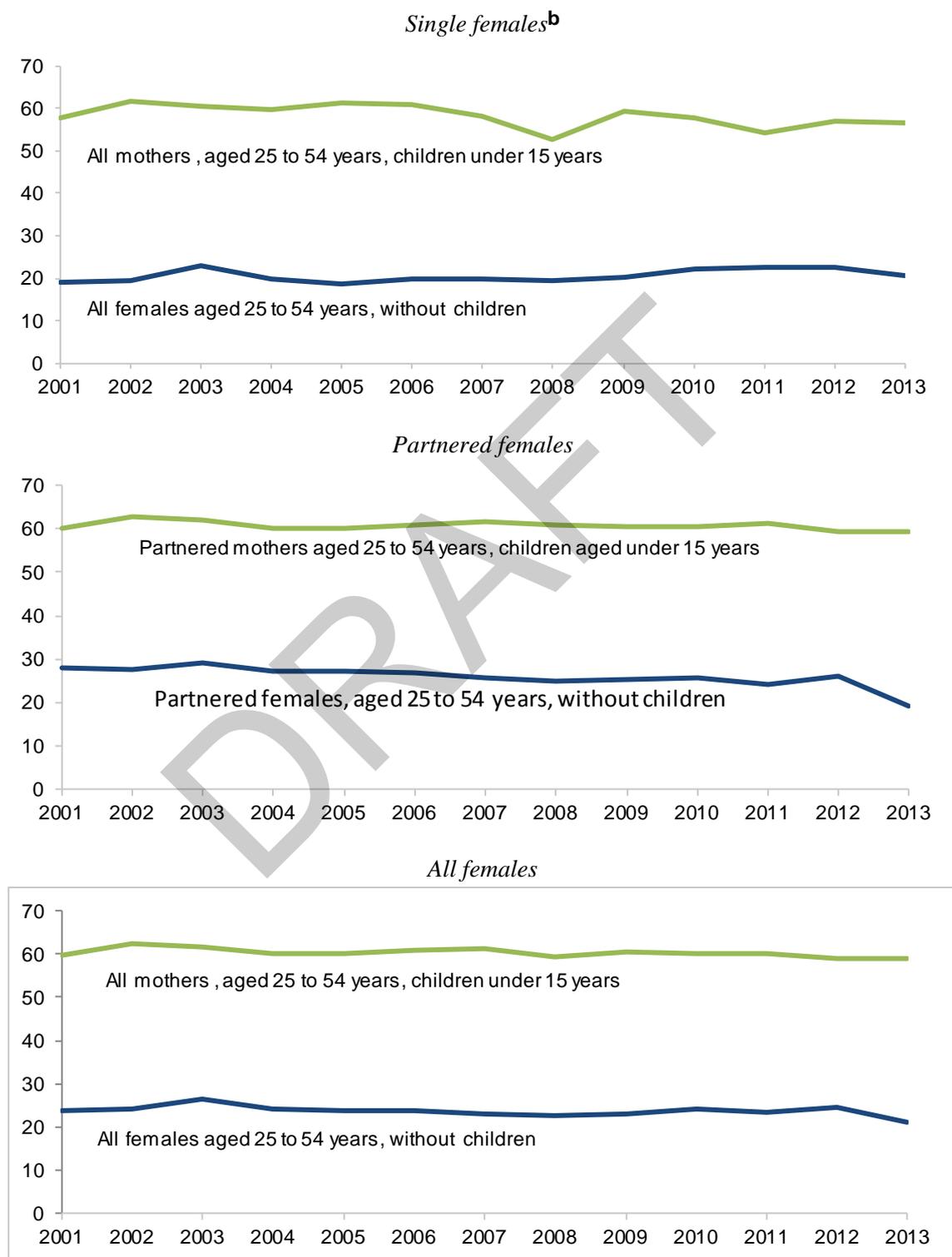
The part-time share of employment of mothers falls with increases in the age group of the youngest child (figure D.8) and increases with the number of children (figure D.9).

Fathers

Although fathers with a youngest child aged 0 to 14 years have a much lower part-time share of employment than mothers (7 per cent compared with 58 per cent), their part-time share of employment has grown substantially (from 4 per cent in 1993-94 to 7 per cent in 2011-12) (figure D.11).

Figure D.7 **Part-time shares of employment of females aged 25 to 54 years with and without children^a**

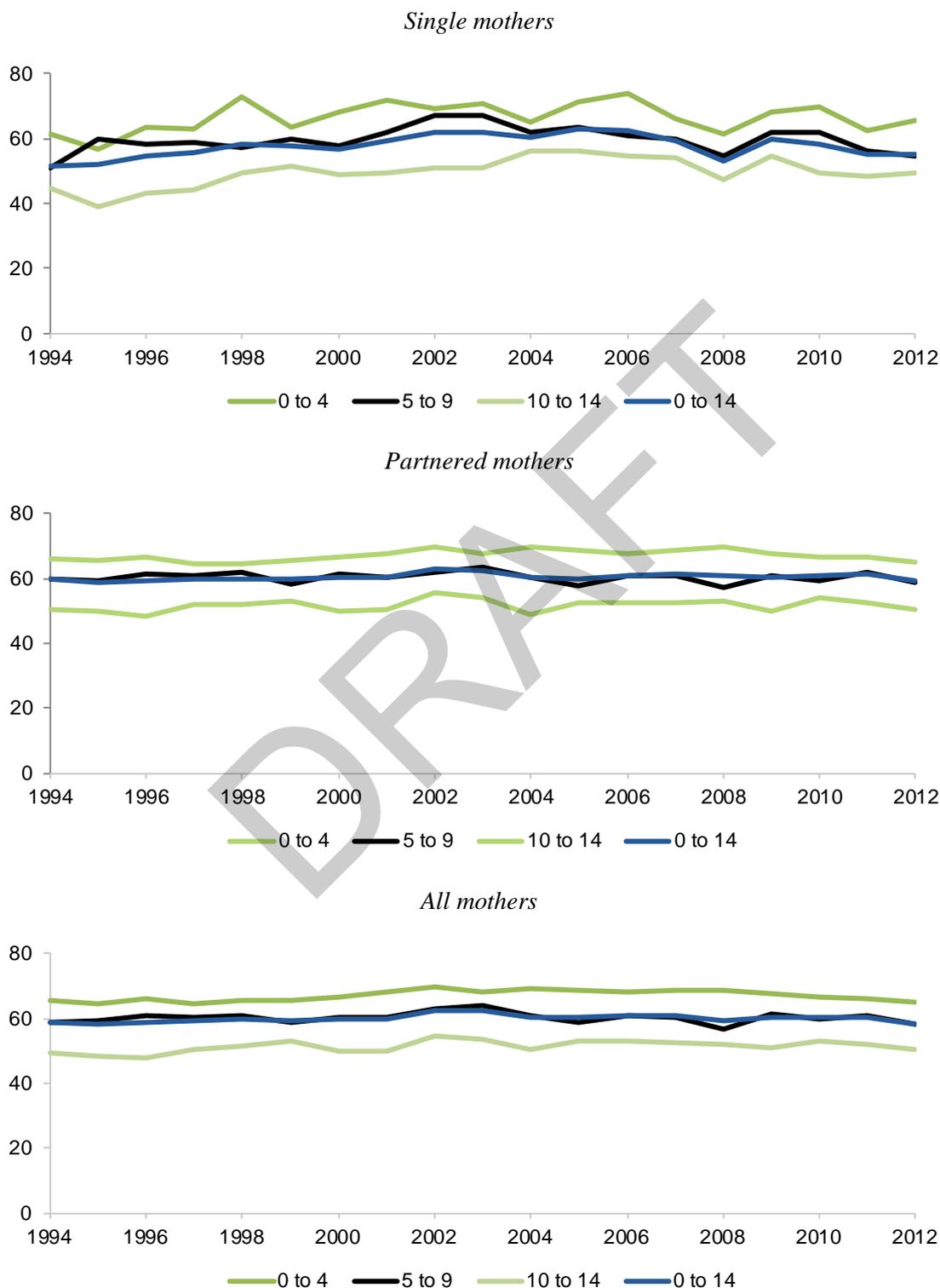
Per cent



^a Year ended June. ^b Single females without children are assumed to cover 'dependent students', 'non-dependent child', 'other family person', 'person living alone', and 'non-family member not living alone'.

Data source: Commission calculations based on ABS (2014a).

Figure D.8 Part-time shares of employment of mothers by age group of youngest child^a
Per cent

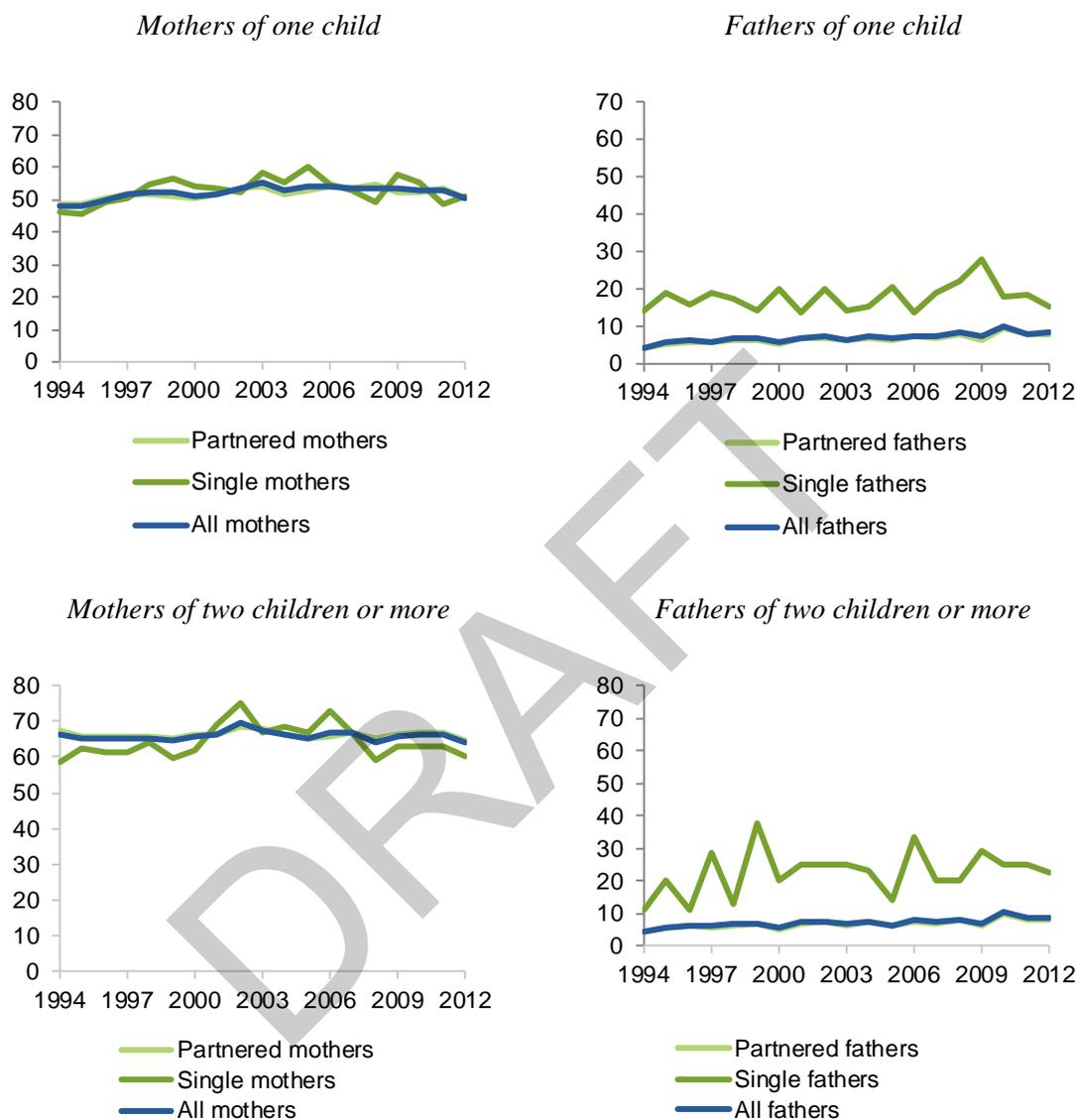


^a Year ended June.

Data sources: Commission calculations based on ABS (2005, 2013).

Figure D.9 Part-time shares of employment of mothers and fathers by number of children under 15 years^a

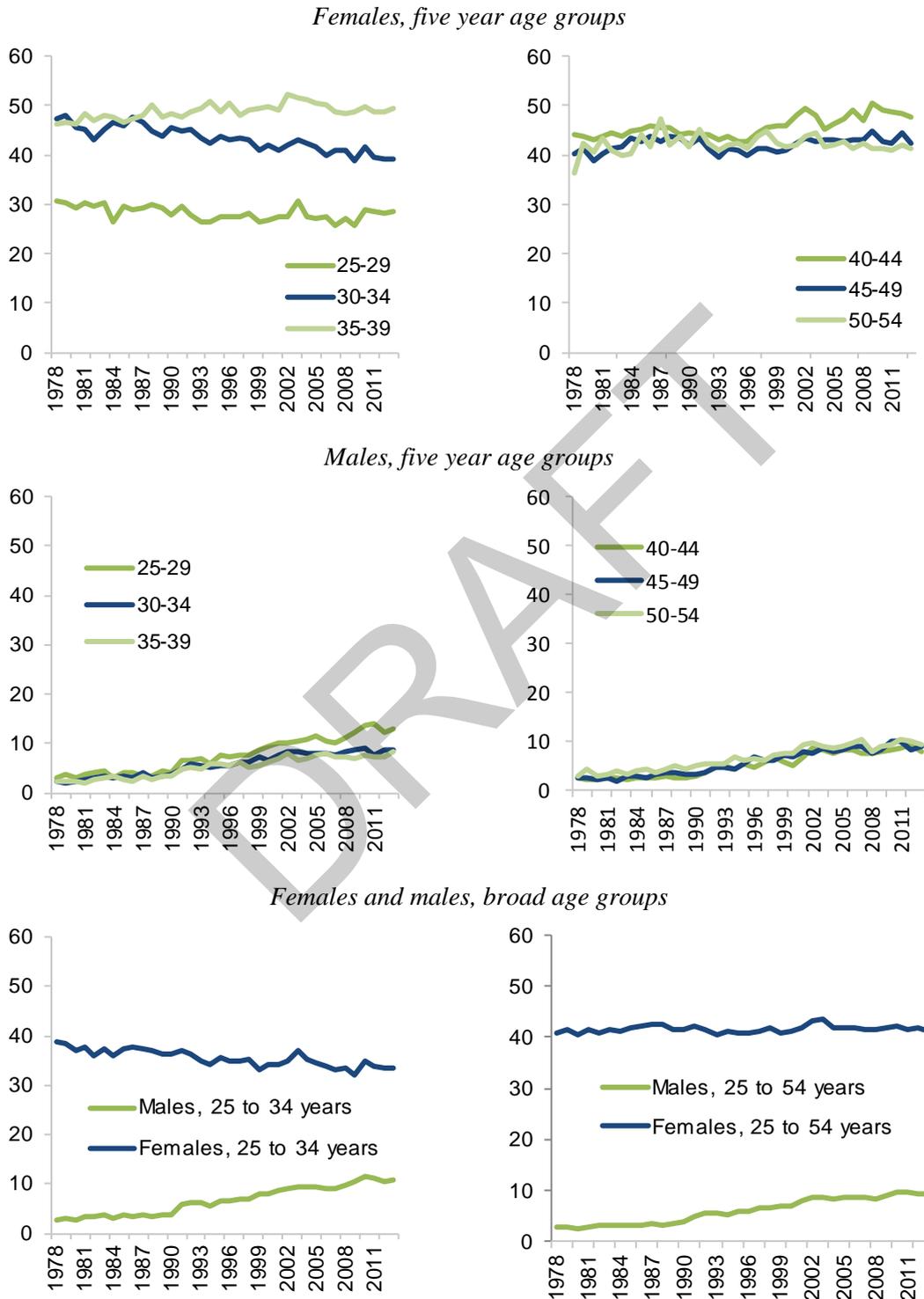
Per cent



^a Some of the rates need to be treated with caution as the data on the components that are used to calculate them have relative standard errors exceeding 25 per cent, which the ABS considers may be subject to sampling variability too high for practical purposes. This particularly applies to rates for: single fathers with one child (1993-94 to 2000-01, 2002-03 to 2003-04, 2005-06) and with two or more children (1993-94 to 2004-05, 2006-07 to 2007-08, 2011-12).

Data sources: Commission calculations based on ABS (2005, 2013).

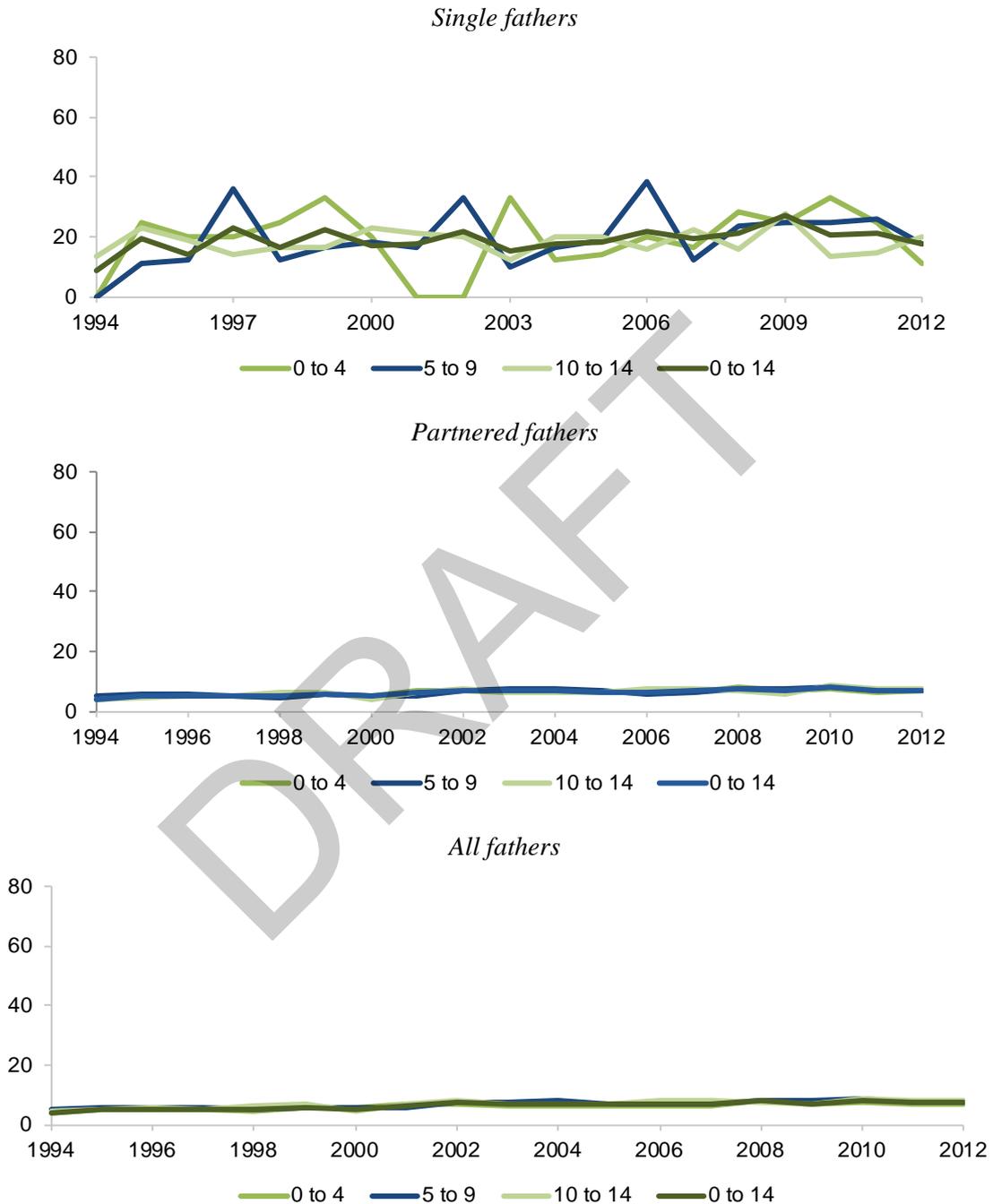
Figure D.10 Female and male part-time shares of employment by typical age groups of parents of children aged under 15 years^{a, b}
Per cent



^a Year ended June. ^b Fertility rates were highest in females aged 25 to 34 years in 2012 — data supporting PC (2013).

Data source: Commission calculations based on ABS (2014b).

Figure D.11 Part time shares of employment of fathers by age group of youngest child^{a, b}
Per cent



a Year ended June. **b** Some of the rates need to be treated with caution as the data on the components that are used to calculate them have relative standard errors exceeding 25 per cent, which the ABS considers may be subject to sampling variability too high for practical purposes. This particularly applies to rates for single fathers with a youngest child aged: 0 to 4 years in 1993-94 to 2011-12; 5 to 9 years in all years apart from 2005-06; 10 to 14 years in 1993-94 to 2011-12; 0 to 14 years in 1993-94, 1995-96, 1997-98.

Data sources: Commission calculations based on ABS (2005, 2013).

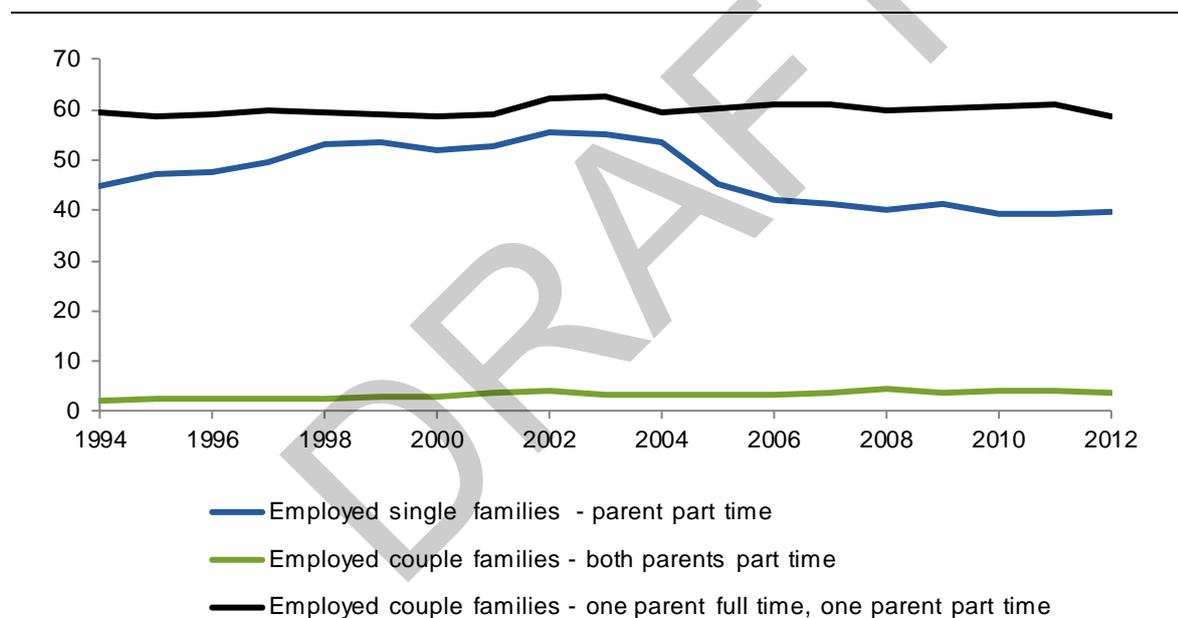
Family types

Around 56 per cent of all employed families with a youngest child aged 0 to 14 years worked part time in 2011-12, a fall from 59 per cent in 1993-94.

Of the couple families who were employed in 2011-12, 59 per cent involved one parent working full time and one parent working part time (a slight decrease from 60 per cent in 1993-94), and 4 per cent involved both parents working part time (a slight increase from 2 per cent in 1993-94) (figure D.12). Around 40 per cent of employed single parent families worked part time in 2011-12, a drop from 45 per cent in 1993-94.

Figure D.12 **Part-time shares of employment by family types, with youngest child aged under 15 years^a**

Per cent



^a Year ended June.

Data sources: Commission calculations based on ABS (2005, 2013).

Other patterns and trends

More women are becoming self-employed

Several participants and other parties (for example, AWCCI, sub. 336; AIFS, sub. 391; Baird 2013; Bankwest 2013) noted an emerging trend in women and mothers moving into self-employment. AWCCI (sub. 336 p. 11) considered that women were doing so with the aim of creating greater flexibility.

Bankwest (2013, p. 15) reported ABS data that show that over the past ten years, the number of women ‘running their own business’ has grown by 5 per cent, whereas the number of men running their own business has dropped by 9 per cent. This is made up of ‘own account workers’ (person who operate their own unincorporated economic enterprise or engage independently in a profession or trade and has no employees) and ‘employers’ (persons who operate their own unincorporated economic enterprises or engage independently in a profession or trade and hires one or more employees). While the number of female (and male) employers have dropped over the ten year period by 22 per cent (20 per cent), the number of female women ‘own account workers’ has increased by 14 per cent compared with the number of men ‘own account workers’ which dropped by 5 per cent.

Baird (2013, pp. 10–12) noted the emerging shift towards ‘mumpreneurs’.

- There has been a 25 per cent increase in the proportion of women in self-employment between 2002 and 2012, compared with just a 1 per cent increase for men. Around 9 per cent of women compared with 13 per cent of men now run their own businesses or are sole traders.
- A study of a small sample of 60 women in self-employment, found that the main elements driving these women to self-employment related to their role as mothers and the desire to continue in paid work. The lack of flexibility and autonomy, and the (explicit or implicit) expectations of organisational employment, combined with ‘good mother’ demands prevalent in our society acted as ‘push factors’ for many women.

More women are becoming the primary breadwinners in families

The trend towards women becoming the primary breadwinners in couple families has been noted by Baird (2013) and Cassells et al. (2013). For example, Cassells et al. (2013, pp. 26–29) noted the following from their examination of HILDA data:

-
- Over the past ten years households with breadwinners who are women increased from 22 per cent in 2001 to 24 per cent in 2011.
 - While men predominantly take the role of breadwinner in dual-earner couples, families on very low and middle combined incomes are relatively more reliant on women as breadwinners. In around 27 per cent of families in the lowest decile of household earnings and 25 per cent of middle income families, the breadwinner is the woman. As families become more affluent the proportion of female breadwinners drops to 17 per cent for families with earnings in the highest decile of household earnings.
 - There appears to be a distinction between families with and without children. Female breadwinner households are more likely to comprise of couple only households — 52 per cent compared with 39 per cent of male breadwinner households — whereas male breadwinner households are more likely be couples with dependent children — 55 per cent compared with 42 per cent of female breadwinner households.
 - The role of women as breadwinners also appears to take on a dynamic U-shape — with younger age households (typically before children) more likely to be female breadwinners, but during the childbearing and rearing years the proportion of female breadwinner households declines, and then increases again as women age.

D.2 Workforce participation in Australia compared with other OECD countries

The OECD family database contains estimates of employment rates for parents from data drawn from national labour force surveys. These estimates are largely available for mothers rather than for fathers, and are presented for 2009 or the most recent year available.

Three groups of countries are the focus of comparison with Australia:

- ‘English-speaking countries’ with a similar cultural and socio-economic background — Canada, New Zealand, the United Kingdom and the United States.
- ‘Nordic countries’ — Denmark, Finland, Iceland and Sweden.⁸¹
- ‘Other European countries’ — Austria, Belgium, France, Germany, Netherlands

⁸¹ Estimates of employment rates for parents for Norway, however, are not available.

While the OECD family data base enables international comparisons among countries, each country's data may not be consistently collected in the national labour force surveys. The surveys can differ in a number of aspects such as: the time periods to which they refer, meaning that the data are not always temporally consistent; their treatment of residents who are military personnel; the minimum ages of persons covered; and their treatment of persons on maternity (or paternity) leave as being in, or outside of, the labour force (table D.1).

For example, in all OECD countries under comparison, women on maternity leave are counted as employed, as are most parents on parental leave with duration of a few months. However, persons on parental leave of prolonged duration are treated differently across countries. These aspects need to be considered when assessing differences between Australia and other countries' employment rates.

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Table D.1 Key differences in labour force data collected in selected OECD countries

Country	Coverage	Treatment of persons on maternity leave, paternity leave and on long absences from a job
Australia	Resident civilian population (excluding members of the permanent defence forces, diplomatic personnel, members of non-Australian defence forces and their families stationed in Australia) aged 15 years and over living in private households or sampled separately in collective households (i.e. hotels, motels, hostels, religious and educational institutions including college residences, prisons, boarding houses and private hotels, Aboriginal settlements, short term caravan parks and camping grounds). Also excludes overseas residents in Australia.	Persons are considered as employed if they are away from work for more than four weeks up to the end of the reference week and received pay for some or all of the four week period to the end of the reference week.
Austria	Resident population aged 15 years and over living in private households including all armed forces and excluding conscripts (as of 2004).	People on maternity leave are considered in employment. People in full-time parental leave considered as a case of long term absence from work. Persons away from work for more than 3 months are considered to have a job if continuing to receive 50 per cent of their wage or salary from the employer.
Belgium	Resident population aged 15 years and over living in private households.	People on maternity leave are considered in employment. People in full-time parental leave considered as a case of long term absence from work. Persons away from work for more than 3 months are considered to have a job if continuing to receive 50 per cent of their wage or salary from the employer.
Canada	Civilian resident non-institutional population aged 15 years and over living in private households and in collective households via their parents, including non-permanent residents.	Considered as employed if they have a job to go back to.
Denmark	Resident population aged 15 years and over living in private households or collective households.	People on maternity leave are considered in employment. People in full-time parental leave considered as a case of long term absence from work. Persons away from work for more than 3 months are considered to have a job if continuing to receive 50 per cent of their wage or salary from the employer.

(continued next page)

Table D.1 (continued)

<i>Country</i>	<i>Coverage</i>	<i>Treatment of persons on maternity leave, paternity leave and on long absences from a job</i>
Finland	Persons aged 15 to 74 who are permanent residents of Finland. The data for labour force and employed includes career military and conscripts.	Parents on maternity, paternity or parental leave are classified as employed. During child homecare leave (until the child reaches age 3), parents are classified as not in the labour force. After 2008, persons away from work for more than 3 months are considered to have a job if continuing to receive 50 per cent of their wage or salary from the employer.
France	Resident population aged 15 years and over living in private households in metropolitan France.	People on maternity leave are considered in employment. Persons on parental leave or on long absence from work is considered employed if they have a job to go back to and the total absence from work does not exceed 12 months for sick leave or 3 months for parental leave.
Germany	Resident population aged 15 years and over living in private or collective households (excluding those living in military barracks). It is based on the total labour force including the armed forces.	People on maternity leave are considered in employment. Persons on parental leave or on long absence from work is considered employed if the total absence from work does not exceed 3 months. Absences due to illness, accident or medical rehabilitation are also considered in employment if absent 3 months and longer.
Iceland	Resident population aged 16 to 74 years living in private and collective households, including all armed forces.	Information not available.
Netherlands	Resident non-institutional population aged 15 years and over living in private households, including all armed forces.	Persons on maternity leave or parental leave or on a long absence away from work belong to the employed labour force.
New Zealand	Civilian resident non-institutional population aged 15 years and over living in private households since second quarter 1998 and collective households (all non-private dwellings are included in scope but not sample, since Q2 1995).	Currently has no specific rules in place for how to treat those respondents who are on paid parental leave, maternity leave or on other long absences. These respondents are most likely considered to be 'not in the labour force' but to a certain extent it would be defined by the respondent themselves. They may respond that last week they had a job but were away because of sickness, holidays or another reason. In this situation they would be counted as 'employed.'

(continued next page)

Table D.1 (continued)

<i>Country</i>	<i>Coverage</i>	<i>Treatment of persons on maternity leave, paternity leave and on long absences from a job</i>
Sweden	All inhabitants of Sweden on the civil register including all armed forces and from 2009 aged 15 to 74. Earlier the population was 16-74 years. As from April 2005 persons registered in population records but employed abroad are included in the labour force.	The respondent has a job when he/she has an agreement with the employer to work after a schedule or to work a certain number of hours. The job must be regular. As long as the respondent has a job, he/she may have long periods of absence by example due to paid parental leave in conjunction with birth of child/adoption (parental benefit days, paternity leave) or other paid parental leave. There is no upper limit how long time the absence can be.
United Kingdom	Resident non-institutional population aged 16 years and over living in private households, including career military and excluding conscripts.	Respondents on special period of maternity or paternity leave that is allowed by law are considered as employed. Persons on long absences from work are considered as employed if at least one hour of paid work in the week prior to their LFS interview or if the person has a job that she/he is temporarily away from.
United States	Civilian resident non-institutional (excluding penal and mental facilities, and homes for the aged) population aged 16 years and over living in private households and in collective households (non-transient hotels, rooming and boarding houses, etc.) sampled separately.	Classified as employed. More specifically, they are classified as 'with a job, not at work.' As long as the absence from the job is temporary, regardless of whether or not the person is being paid during the absence, they person is still considered employed.

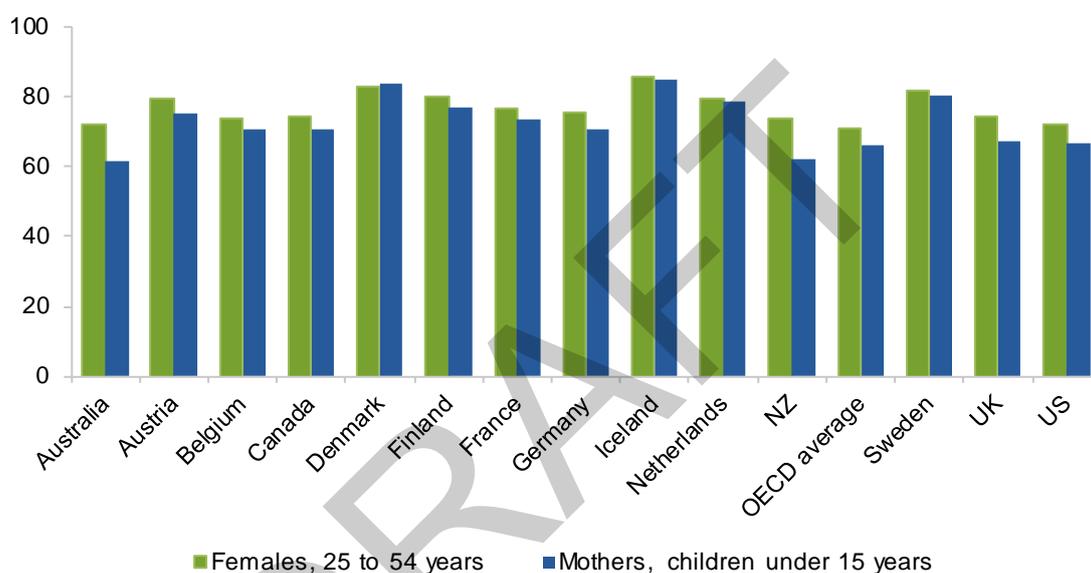
Sources: Australia — ABS (2014b, p. 40); other countries — OECD (2013a).

Mothers compared with females aged 25 to 54 years

For Australia and all countries under comparison other than Denmark, employment rates for mothers with a youngest child aged under 15 years were below that for females aged 25 to 54 years (figure D.13).

Figure D.13 **Employment rates of females aged 25 to 54 years and mothers in selected OECD countries, 2009^{a, b, c}**

Per cent



^a Some of the data underpinning the employment rates refer to different time periods: 2010 for Denmark; 2005 for the United States; 2002 for Iceland; 2001 for Canada. ^b Employment rates for mothers draw on data for children under 16 for Canada, Denmark, Iceland, and the United States; and dependent children under 25 for Denmark, Finland, and Sweden. ^c The OECD average covers the following countries: Australia, Austria, Belgium, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Data source: OECD (2013b).

Australia's employment rate for mothers (62 per cent) was below the OECD average (66 per cent) and below all other countries under comparison. The Nordic countries of Iceland, Denmark, and Sweden had the highest employment rates of all countries under comparison, with all exceeding 80 per cent. Canada's employment rate of 71 per cent was the highest of the English-speaking countries.

Employment rates of mothers of children under 15 years compared with total fertility rates

The total fertility rate in a specific year is the number of children that would be born to each woman if she were to live to the end of her childbearing years and if the likelihood of her giving birth to children at each age was the current prevailing age-specific fertility rates. It is generally estimated by summing up the age-specific fertility rates defined over a five year interval.

The relationship between the total fertility rate and female employment rates in OECD countries has changed over the past 30 years (OECD 2013e, p. 5). In 1980, there was a clear negative correlation between the two. In recent years, apart from the general increase in female employment, OECD countries with higher employment rates also had relatively high fertility rates.

For some countries under review, such as Austria, Denmark, and Germany there is a negative correlation between the total fertility rate and the employment rate of mothers with a youngest child aged 0 to 14 years (figure D.14). High (or low) employment rates occur with low (or high) total fertility rates of females. However, this pattern is not evident for other countries such as Australia, Canada, the United Kingdom and the United States, suggesting that high total fertility rates and employment rates can co-exist.

Employment rates of mothers by age group of youngest child

The OECD family database reports employment rates of mothers by age group of youngest child — under 3 years, 3 to 5 years, and 6 to 14 years (figure D.15).

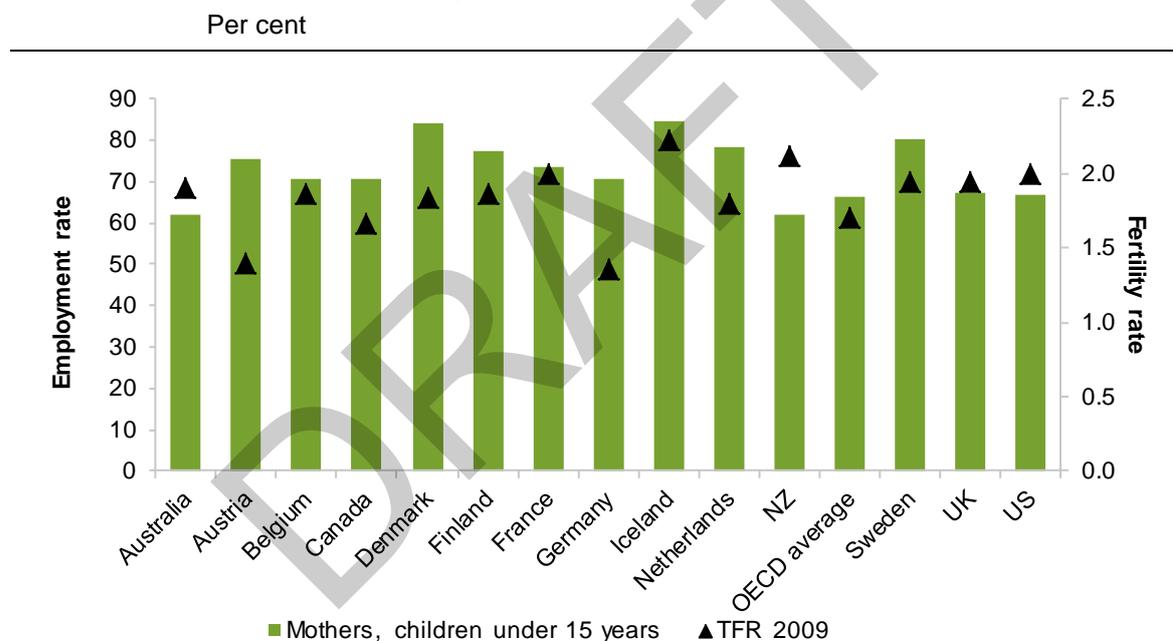
Unfortunately, the reported employment rate for Australia (along with that for Iceland) is for the 0 to 5 age group therefore biasing country comparability for the under 3 year and 3 to 5 year age groups.

Information supplied to the Commission by the Department of Social Services (DSS 2013) using 2011 Census data to adjust the employment rates by age group of youngest child has been incorporated into figure D.15. Based on this information, Australia's adjusted employment rate for mothers with a youngest child aged under 3 years (50 per cent) was just below the OECD average of 51 per cent. The countries with the highest employment rates were the Netherlands, Sweden and Denmark, all exceeding 70 per cent. New Zealand had the lowest employment rate (42 per cent) of the countries under comparison.

The adjusted employment rate for Australia for mothers with a youngest child aged 3 to 5 years (60 per cent) was below the OECD average rate of 64 per cent and that of all countries under comparison. Denmark and the Netherlands had the highest employment rates, all exceeding 77 per cent.

Australia's adjusted employment rate of mothers with a youngest child aged 6 to 14 years (74 per cent) slightly exceeded the OECD average rate of 73 per cent. However, it was below those for some countries under comparison such as Iceland, Austria, France, the Netherlands, and New Zealand, which had rates exceeding 78 per cent. Canada had the lowest employment rate (71 per cent) of all countries under comparison.

Figure D.14 **Employment rates of mothers and total fertility rates in selected OECD countries, 2009^{a, b, c}**

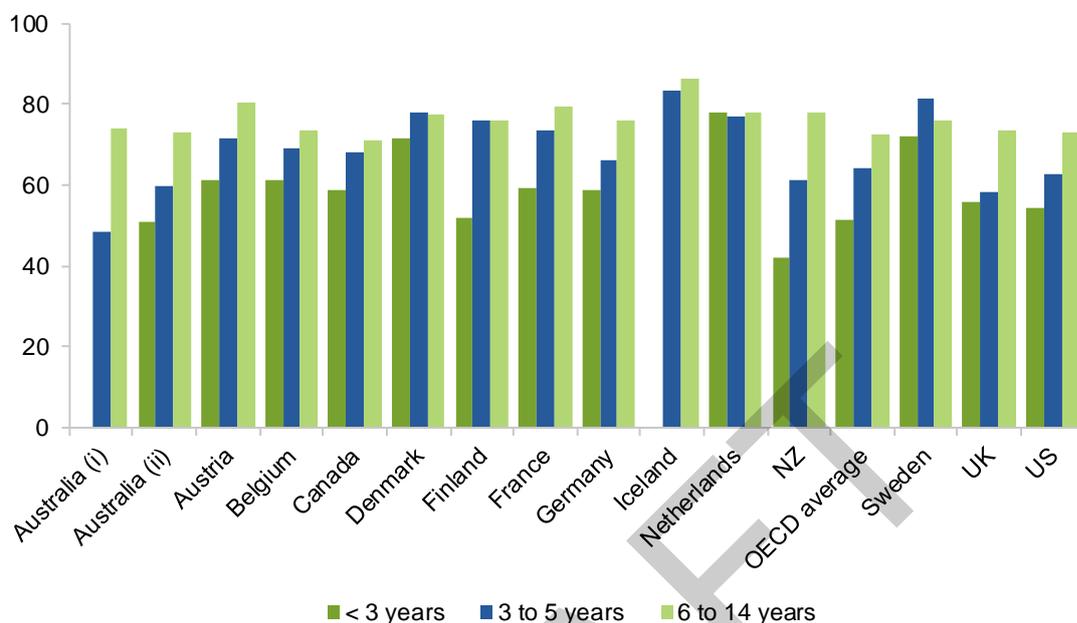


^a Some of the data underpinning the employment rates refer to different time periods: 2010 for Denmark; 2005 for the United States; 2002 for Iceland; 2001 for Canada ^b Employment rates for mothers draw on data for children under 16 for Canada, Denmark, Iceland, and the United States; and dependent children under 25 for Denmark, Finland, and Sweden. ^c The OECD average for employment rates covers the following countries: Australia, Austria, Belgium, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. In contrast, the OECD average for the total fertility rate covers 30 OECD countries, including many of the above.

Data source: OECD (2013b, 2013e).

Figure D.15 **Employment rates of mothers by age of child in selected OECD countries, 2009^a, b, c, d**

Per cent



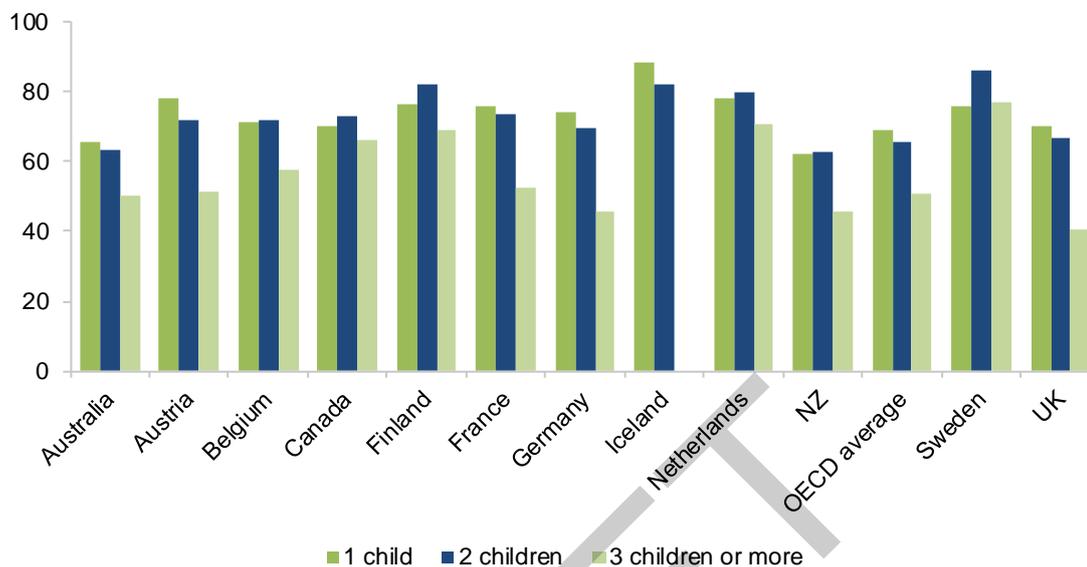
^a 2009. ^b Some of the data underpinning the employment rates refer to different time periods: 2011 for Australia (ii) 2007 for Sweden; 2005 for the United States; 2002 for Iceland; 2001 for Canada; 1999 for Denmark. ^c Some of the data underpinning employment rates refer to different ages of children: data for Australia(i) and Iceland refer to mothers with a child aged less than 5; data for Canada, Denmark, Iceland, Sweden, and the United States refer to mothers with a child aged between 6 and 16. ^d The OECD average covers Australia (i), Austria, Belgium, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Data sources: Australia (i) and all other countries — OECD (2013b); Australia (ii) — DSS (2013).

Employment rates of mothers by number of children

Consistent with most other countries under comparison, Australia's employment rate for mothers in 2009 declines with the number of children aged under 15 years (figure D.16). It is below the OECD average and the rates for most other countries under comparison (apart from New Zealand for all numbers of children, and Germany and the United Kingdom in respect of three children or more).

Figure D.16 **Employment rates of mothers by number of children aged under 15 years in selected OECD countries, 2009^{a, b, c, d}**



^a Some of the data underpinning the employment rates refer to different time periods: 2007 for Sweden; 2002 for Iceland; 2001 for Canada. ^b Estimates were not available for the United States or Denmark. ^c Data for Iceland refer to 2 or more children. ^d The OECD average covers the following countries: Australia, Austria, Belgium, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom.

Data source: OECD (2013b).

Employment rates of partnered and single mothers, and single fathers

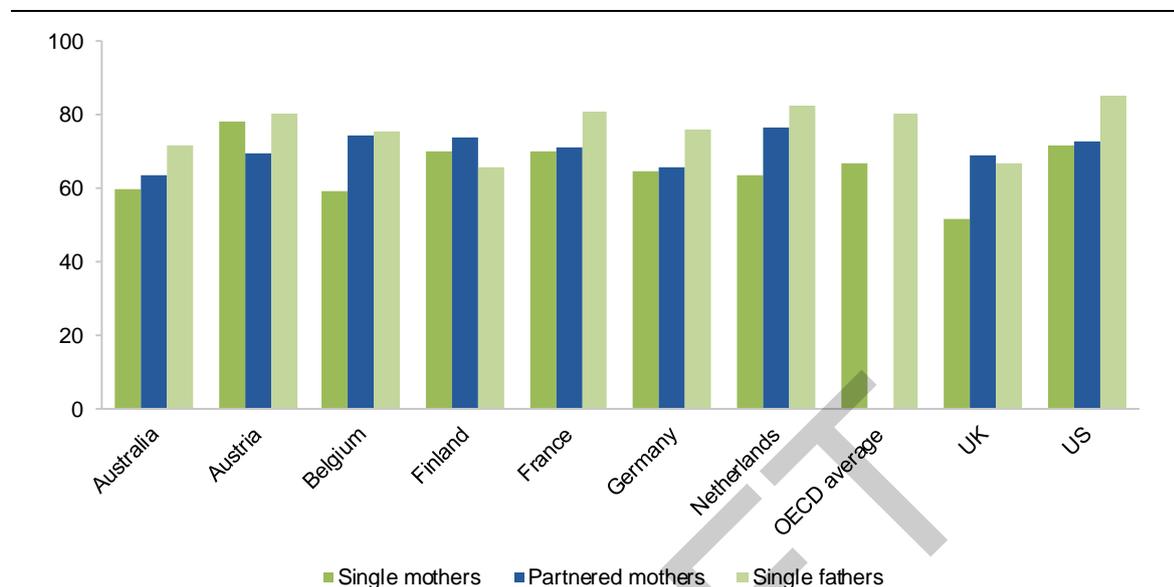
For Australia and most countries under comparison (apart from Austria and Finland), the proportion of single mothers in employment in 2009 is below that of partnered mothers and single fathers (figure D.17).

The employment rate differential between single and partnered mothers is particularly high for the United Kingdom (17 percentage points), Belgium (16 percentage points) and the Netherlands (13 percentage points).

The employment rate differentials between single mothers and fathers are also particularly high for Belgium (16 percentage points), the United Kingdom (15 percentage points), the United States (13 percentage points) and Australia (12 percentage points).

Figure D.17 **Employment rates of single and partnered mothers and single fathers in selected OECD countries, 2009^{a, b, c, d}**

Per cent



^a Single and partnered mothers and single fathers aged 15 to 64 years with dependent children. ^b Data refer to 2009 except for Australia where they refer to 2006. ^c In European countries, the data refer to dependent children aged 0 to 14 years, whereas in the United States, the data refer to at least one child under 18 years. ^d The OECD average covers Australia, Austria, Belgium, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Latvia, Luxembourg, Malta, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. ^d OECD average not reported for partnered mothers.

Data source: OECD (2013c).

Employment rates by hours of work and by family structure

Single parent families

Australia's proportion of single parent families with a youngest child 0 to 14 that work full time (27 per cent) is well below the OECD average (51 per cent) (figure D.18). Of the countries under comparison, the Netherlands has the lowest share of single parent families working full time (16 per cent) and France the highest (52 per cent).

Australia's proportion of single parent families working part time (29 per cent) is above the OECD average (17 per cent). Of the countries under comparison, Finland has the lowest proportion of single parent families working part time (9 per cent) and the Netherlands the highest (50 per cent).

Australia's proportion of single parent families not working is above the OECD average (43 per cent compared with 33 per cent). Countries with a higher share of single parent families not working are the United Kingdom (47 per cent) followed by New Zealand (44 per cent). Austria has the lowest share of single parent families not working (22 per cent).

The proportion of single parent families working full time or part time increases with the age of the youngest child. For the countries under comparison, the proportion of single parent families with youngest child aged 3 to 5 years is between 20 per cent and 85 per cent as high as the proportion of single parent families with youngest child aged 0 to 2 years.

Australia's proportions of single parent families in employment (whether full time or part time) by the two age groups of youngest child — 0 to 2 age group and 3 to 5 age group — are well below the OECD averages. For example, its proportion of single parent families with a youngest child aged 0 to 2 years is 29 per cent compared with the OECD average of 42 per cent.

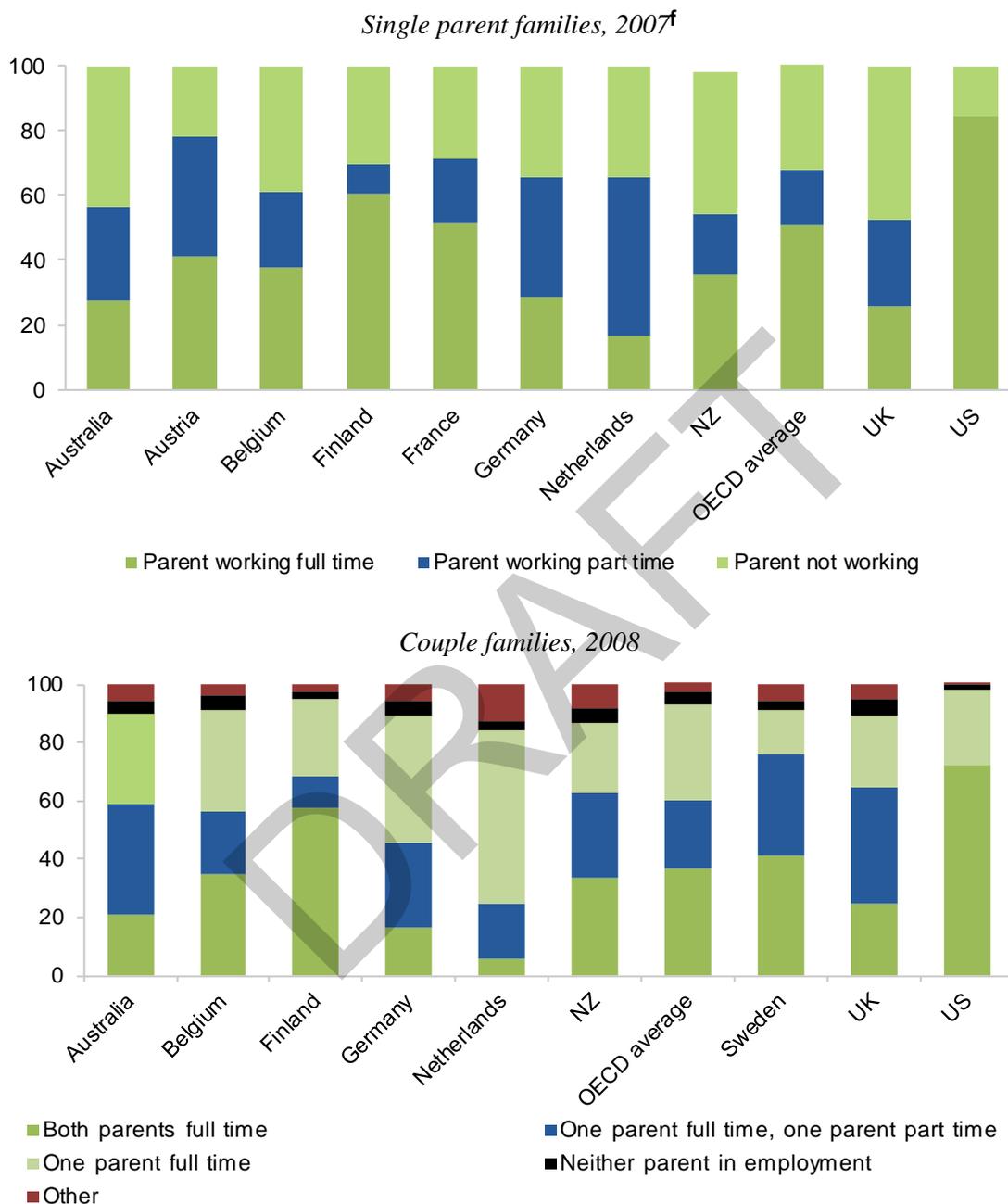
Couple families

In Australia and countries under comparison, it is common for both parents in couple families to be in employment (figure D.18). After the United Kingdom (40 per cent), Australia has the highest share of couple families (38 per cent) with one parent working full time and the other working part time, which is well above the OECD average (24 per cent). In relation to couple families where both parents work full time, Australia (21 per cent) was well below the OECD average, with the Netherlands (6 per cent) and Germany (17 per cent) being even lower.

The proportion of couple families with both parents in employment increases with the age of the youngest child.

Australia's proportions of couple families in employment by the two age groups of youngest child are below the OECD average for the 0 to 2 age group (43 per cent compared with 46 per cent) and above the OECD average for the 3 to 5 age group (62 per cent compared with 60 per cent) (figure D.19). Having said that, Australia is still below the proportions of other countries under comparison.

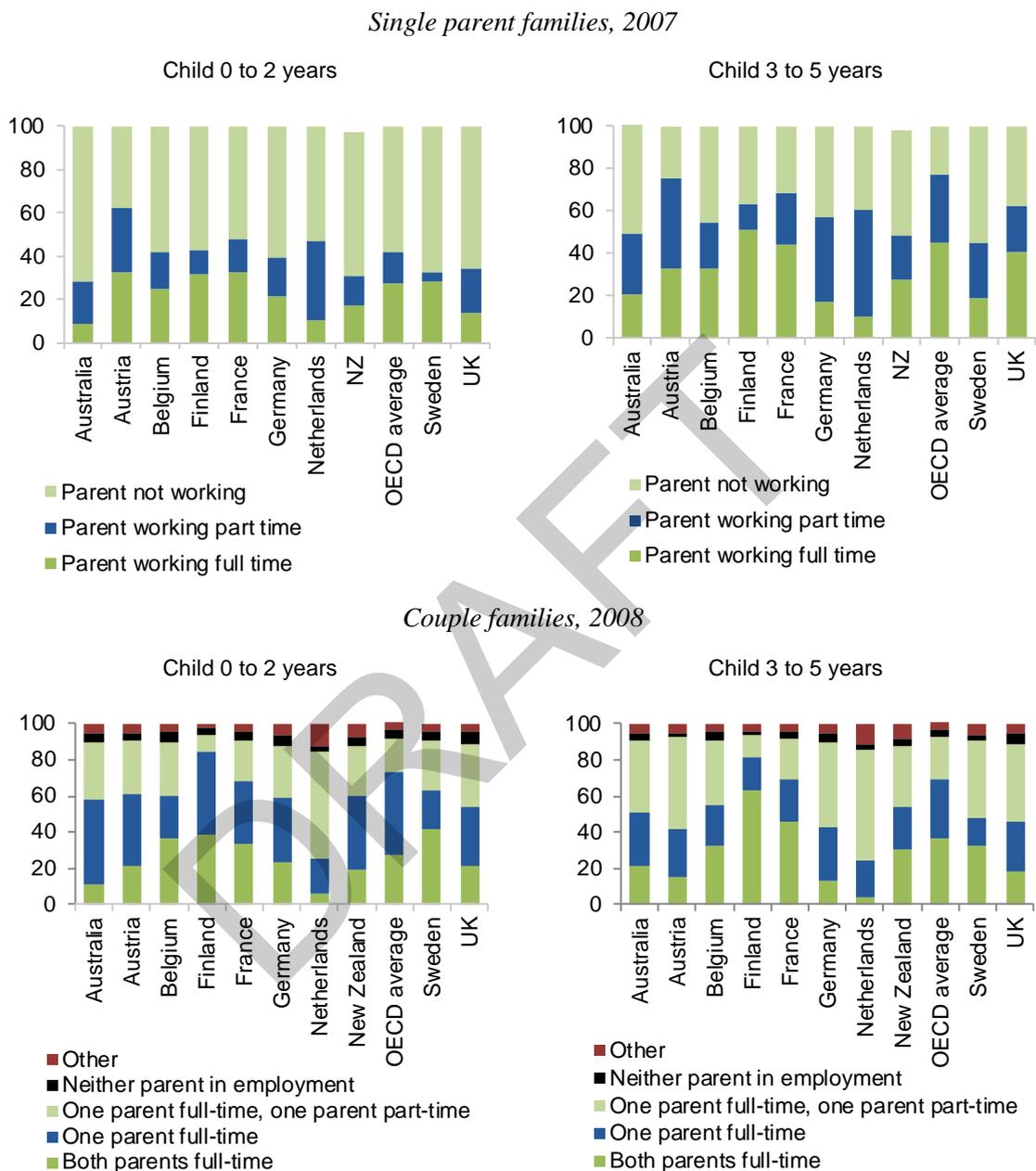
Figure D.18 Employment patterns of single parent and couple families with children under 15 years in selected OECD countries^{a, b, c, d, e}
Per cent



^a Single parent and couple families aged 15 to 64. ^b There is no distinction between full-time and part-time employment in the United States. ^c The OECD average for single parent and couple families covers the following countries: Australia, Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. ^d For couple families, 'other' includes any other combination (for example, both parents working part time, one parent working part time and one parent not working). ^e For sole parents in New Zealand and the United Kingdom, the proportions do not add to 100. ^f The original OECD data for New Zealand do not add to 100 and so the individual components have been rounded up in order to do so.

Data sources: OECD (2010, 2012).

Figure D.19 Employment patterns of single parent and couple families by age of youngest child in selected OECD countries^{a, b, c, d, e}
Per cent



^a Covers single parent and couple families aged 15 to 64. ^b There is no distinction between full-time and part-time employment in the United States. ^c The OECD average for single parent and couple families covers the following countries: Australia, Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom. ^d For couple families, 'other' includes any other combination (for example, both parents working part time, one parent working part time and one parent not working). ^e Data on the aged group of youngest child 6 to 14 years was not included as there are no data reported for Australia with which to make comparisons.

Data sources: OECD (2010, 2012).

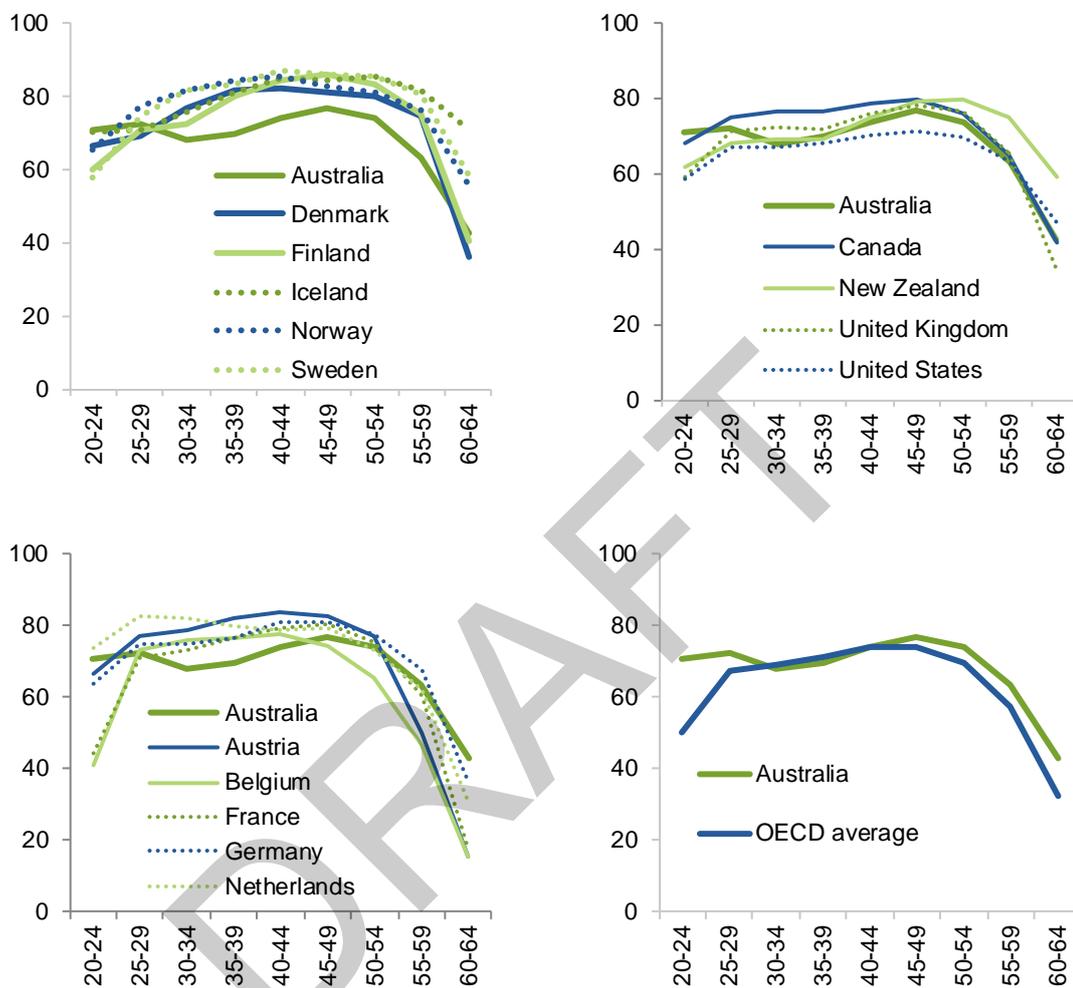
Employment rates over the life course

Employment rates by age group of females and males cast light on the patterns of entry to and withdrawal from the workforce over the life course (OECD 2013d). In most countries under comparison — for example, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, New Zealand, and Sweden — female employment rates do not dip during the principal childbearing years (25 to 35 years), but eventually increase till retirement age (figure D.20). However, in Australia, the United Kingdom and the United States, the employment profile over the life course can look like an ‘M’ curve as employment rates increase till the child-bearing years (25 to 35 years), during which time they dip, till they again increase as their children grow up. Of the countries under review, only the Netherlands shows female employment rates declining over the life course following the child-bearing years.

Compared with females, males are less likely to adjust their employment rates during the child-bearing years, although they tend to withdraw from employment at older age groups — for example, employment rates of Australian males begin to fall after ages 35 to 39 years (figure D.21).

Figure D.20 **Female employment rates by age group in selected OECD countries, 2011^a**

Per cent



^a The OECD average covers Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Data source: OECD (2013d).

Figure D.21 **Male employment rates by age group in selected OECD countries, 2011^a**

Per cent



^a The OECD average covers Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Data source: OECD (2013d).

E Unmet demand for ECEC

E.1 A framework for considering unmet demand

Demand for ECEC is driven by a number of factors including: parents' preferences for formal, informal and parental childcare; parents' employment opportunities; the availability of alternative forms of care; the quality of childcare; childcare fees; travel costs and the like; and family characteristics such as income, the number of and age of children (Gray and Hayes 2008).

Together, ECEC demand and supply (which also depends on a wide range of factors including government regulation, chapter 10) determine the number of places supplied and the market price for childcare.

Parents' *unmet demand* for ECEC services covers demand from those parents who would like to access ECEC services, but who are unwilling (or unable) to pay the prevailing market price (or ECEC fees). (At the same time, there are parents who are willing to pay at or above the market price.) While unmet demand in itself is not necessarily a policy concern, if it arises from particular family characteristics, this may suggest problems with accessibility and equity (for example, Giles, McLure and Dockery 2005). Government subsidisation of ECEC fees to parents can stimulate the provision of formal childcare places supplied possibly reducing unmet demand.

Unmet demand is different from *excess demand* — where parents are willing to pay the prevailing market price, but are unable to obtain a place. Excess demand for childcare can result in the rationing of places in some way such as through long waiting lists. Indeed, there may be a certain level of excess demand before new providers will enter a market — for example, the supply of ECEC places may be 'lumpy', with providers expanding their services in increments. Under these conditions, *frictional* mismatches between many different providers of ECEC and demand by many parents is likely to be unavoidable; and there may be excess demand by parents who are willing to pay the market price for ECEC services (that may coexist with vacancies or excess supply).

E.2 Do parents want to work more?

There are two key categories of unmet demand for childcare for workforce participation reasons: unmet demand by parents unable to find an ECEC place in order to enter the workforce; and unmet demand by parents who want to work longer hours (in their current or in an alternative job) but are unable to find ECEC to do so.

The Survey of Income and Housing (SIH)⁸² collects information from parents (and guardians of children aged 0 to 12 years) on whether:

- parents working part time were prevented from working longer hours by lack of childcare;
- unemployed parents considered a lack of childcare is an impediment to finding a suitable job; and
- parents not working would (or may) prefer to work if suitable childcare was available.

Parents who usually worked full time were assumed to have no capacity to increase their hours of work and consequently were not asked any questions about unmet demand in the SIH. Excluding full-time workers from questions on potential labour supply is consistent with the framework used by the ABS for underemployed workers (ABS 2014b).

The SIH module on unmet demand may capture unmet demand — where parents are unwilling (unable) to find suitable childcare at the prevailing price — as well as any excess demand — where parents are willing (able) to pay childcare fees but are unable to secure a place.

Parents who report facing unmet demand for childcare were also asked about the reasons childcare prevents them from working/working longer hours as well as the number of hours per week they would prefer to work if suitable childcare was available.

⁸² The SIH is conducted biennially, and from 2007-08 has collected data on the usage and cost of childcare as well as barriers to labour force participation due to childcare related reasons. Questions about type(s) of childcare used (formal, informal and other), pattern of care with other parent living elsewhere, school attendance, preschool attendance and cost of care were asked in relation to each child aged 0 to 12 years in the household. The SIH covers urban and rural areas (excluding very remote areas) of Australia covering about 97 per cent of the population (Australian Bureau of Statistics 2013). ABS (2013) note that while excluding very remote areas only has a minor impact on aggregate estimates, nearly a quarter of all households in the Northern Territory live in very remote areas.

There were 18 071 and 14 569 fully responding households to the 2009-10 and 2011-12 SIH, respectively.

Some parents do want to work or work longer hours

An estimated 444 000 parents with a child aged 0 to 12 years old were prevented from entering the workforce or working longer hours by lack of childcare in 2011-12 (table E.1). Around two-thirds of these parents were not working at all. A similar pattern of unmet demand for childcare was observed in 2009-10.

More than 9 out of 10 parents who are prevented from working or working more due to unmet demand for childcare are women (even higher when looking at parents not in the labour force). The high ratio of women with unmet demand is likely to reflect that mothers more often than fathers take time out of the workforce to care for children.

Taking into account all parents not working or parents working part time, unmet demand affected around 24 per cent of parents in 2011-12.

Table E.1 **Unmet demand for childcare**

Parents with children aged 0 to 12 years who are not working or are working part time

	Not working ^a	Part time	Total ^b
2011-12:			
Estimated number of parents with unmet demand ^c	297 000	147 000	444 000 [401 000, 487 000]
Percentage of parents with unmet demand (%)	33	16	24
2009-10:			
Estimated number of parents with unmet demand ^c	286 000	118 000	404 000 [363 000, 443 000]
Percentage of parents with unmet demand (%)	31	13	23

^a Parents not working includes parents not in the labour force and unemployed parents. The two categories were grouped together because of the low number of unemployed parents and the resulting high standard errors of estimates. ^b While a smaller number of parents with a child under 13 years old report unmet demand for childcare in 2009-10 compared with 2011-12, this difference is not statistically significant. ^c 95 per cent confidence interval in brackets. This indicates that if the survey methodology was repeated 100 times, the actual value of the variable in the general population would be expected to fall within the calculated confidence interval 95 times.

Source(s): Commission calculations based on ABS (2012, 2013b).

Choices about childcare and work are usually jointly determined by couple families and, as noted above, are influenced by many factors. The outcome of these joint

family decisions — the type of work, the number of hours worked and the number of hours and type of ECEC used — will vary between families and over time.

Unmet demand as measured in the SIH is trying to capture a particular outcome of joint family care and work decisions, where parents would like to participate (more) in the workforce but at the prevailing price for childcare are unable to find childcare to suit their particular family circumstances.

To determine whether the estimated 444 000 parents reporting unmet demand for ECEC is of policy concern, it is useful to examine the characteristics of parents with unmet demand and the nature of (reasons driving) unmet demand.

Unmet demand is more prevalent for parents with relatively low economic resources

Unmet demand for ECEC services can be studied using household income as a very broad indicator of the level of economic resources available to parents.⁸³

Parents can be divided into income groups by ranking all households in ascending order on the basis of gross household income (ABS 2013a). Low income households have a gross household income in the bottom 30 per cent of households (\$850 or less per week in 2011-12 and \$813 or less per week in 2009-10).⁸⁴ High income households have income ranking in the top 20 per cent of households (\$2231 or more per week in 2011-12 and \$2118 or more per week in 2009-10). Middle income households makeup the remaining households.

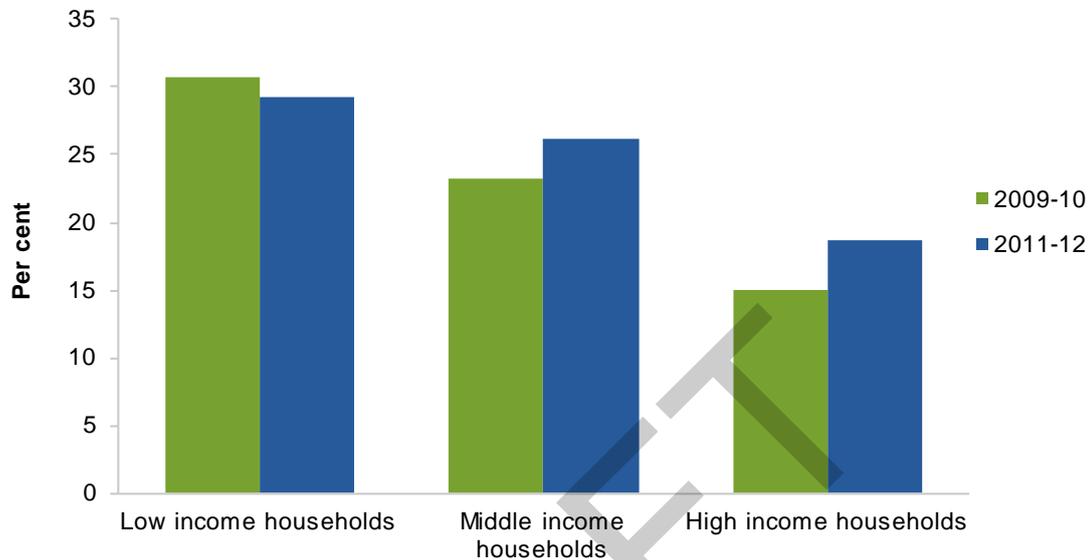
While around 30 per cent of parents in low income households reported having unmet demand for childcare, less than 20 per cent of parents in high income households were affected (figure E.1). There appears to be an increase in the share of parents in middle and high income households with unmet demand between 2009-10 and 2011-12, however the estimates were not statistically different from each other.

⁸³ Economic resources are also dependent on household wealth (assets and liabilities), which can allow households to borrow money and, therefore, can generate household income.

⁸⁴ The ABS usually defines low income households to be those households in the second and third income deciles: ‘... households in the bottom income decile and with negative gross incomes tend to have expenditure levels that are comparable to those of households with higher income levels ... It can therefore be reasonably concluded that many of the households included in the lowest income decile are unlikely to be suffering extremely low levels of economic wellbeing’ (ABS 2013a, p. 50).

Figure E.1 Parents who are prevented from working due to unmet demand by household income

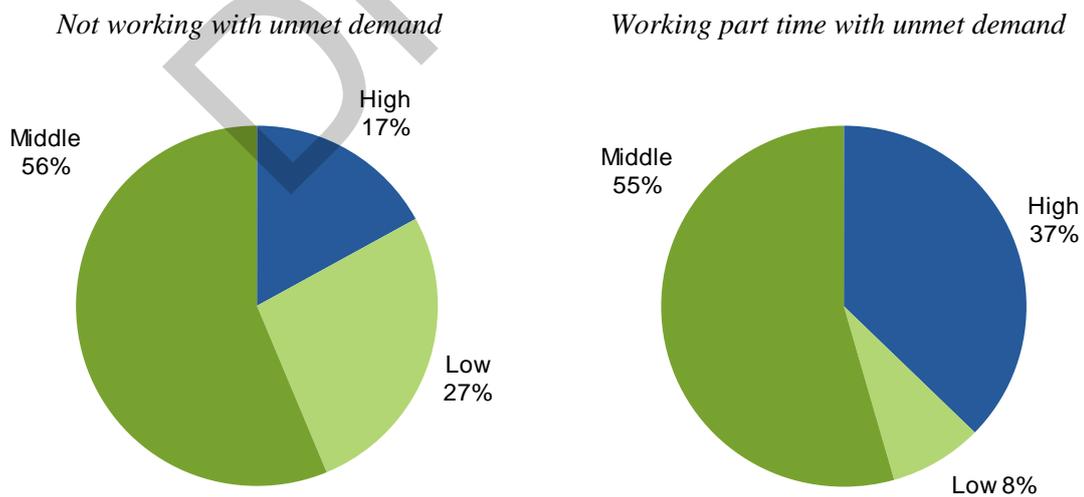
Per cent of parents with children aged 0 to 12 years who are not working or are working part time



Data source: Commission calculations based on ABS (2012, 2013b).

Figure E.2 Unmet demand by labour force status and household income

Parents with children aged 0 to 12 years who are not working or are working part time, 2011-12



Data source: Commission calculations based on ABS (2013b).

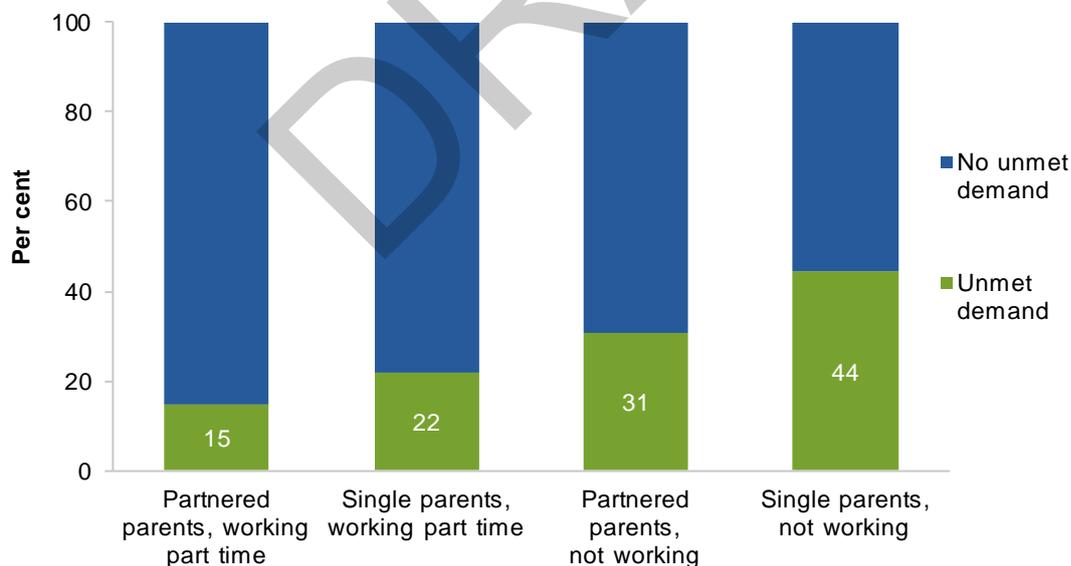
As can be expected, workforce participation and household income are related in that a relatively high share of parents who are unable to find suitable childcare to enable them to participate in the workforce live in low income households (27 per cent). In contrast, less than 10 per cent of parents with unmet demand but working part time, live in low income households (figure E.2).

In addition to parents not working and those in low income households, unmet demand is also more prevalent for single parents (figure E.3). Indeed, there is an association between family type and household income. In 2011-12, persons in 'one parent families with dependent children' accounted for 7 per cent of all persons but 18 per cent of persons in 'low economic resource households' (ABS 2013a).

Parents and children living in low economic resource households are of particular interest because of their greater risk of experiencing economic hardship and reliance on welfare. In this context, access to ECEC services for the 76 000 single parents who would like to work but are prevented from participating in the workforce by childcare in 2011-12 (62 per cent of which are in low income households) are of particular policy concern.

Figure E.3 **Unmet demand is more prevalent for single parents^a**

Parents with children 0 to 12 years who are not working or are working part time, 2011-12



^a Partnered parents include parents in a registered marriage or a de facto relationship.

Data source: Commission calculations based on ABS (2013b).

Unmet demand for ECEC changes as children age

Parents' ability to access and afford ECEC services will depend, among other things, on the number of hours of care required, out-of-pocket costs (related to the age of the child) and employment opportunities.

Parents, and single parents in particular, with children not yet at school more frequently reported unmet demand for childcare compared with parents of older children (figure E.4). The affordability of childcare was the most commonly reported barrier to workforce participation for parents with children under 5 years old. Half of all parents with unmet demand and whose youngest child is aged 3 to 4 years reported the out-of-pocket cost of care as the main childcare barrier to workforce participation (figure E.7).

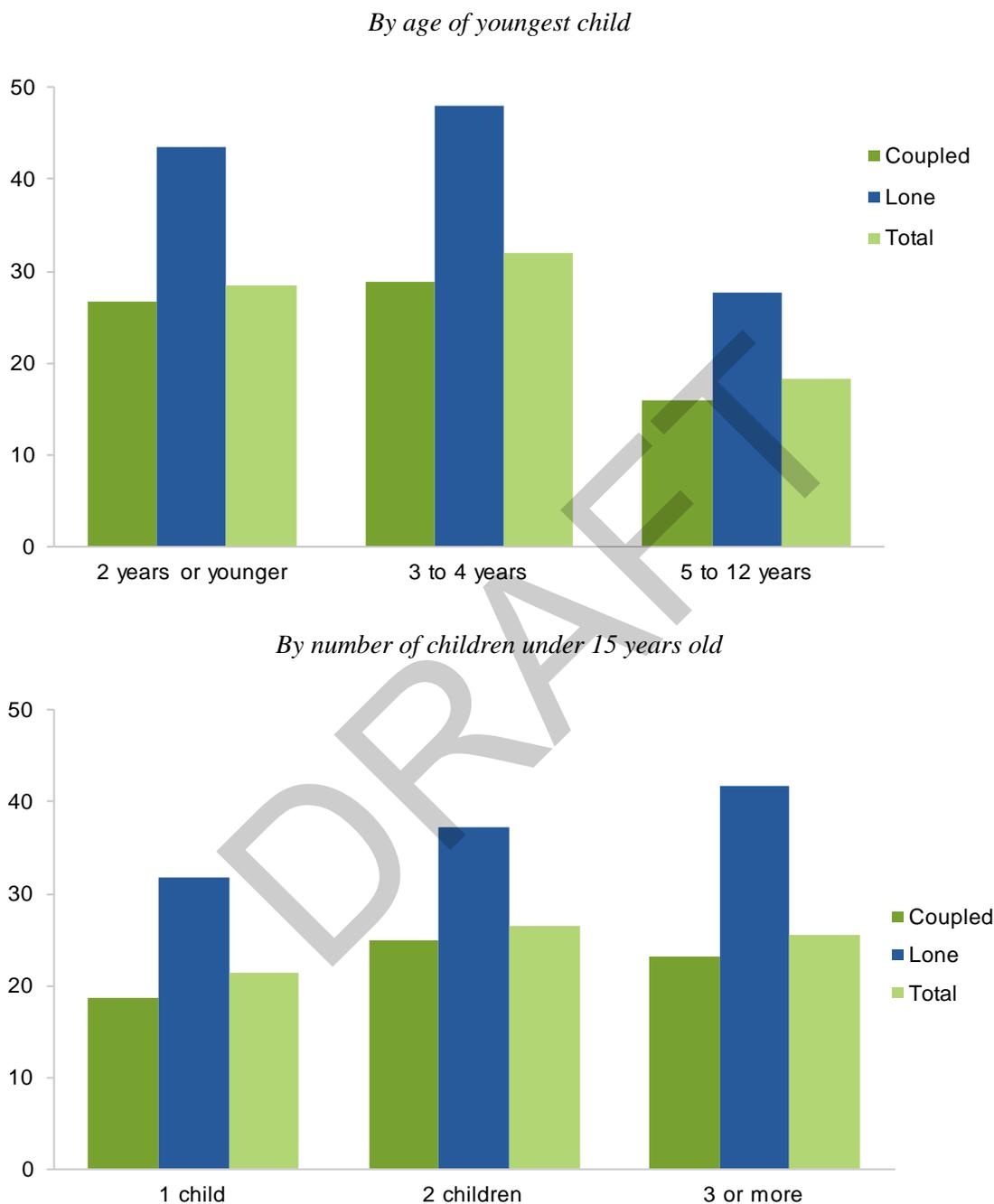
Clearly as children grow older and enter formal schooling, the number of hours of ECEC required in order for parents to participate in the workforce (at least on a part-time basis) declines. Figure E.4 shows that a smaller proportion of parents whose youngest child is aged 5 to 12 years report unmet demand for ECEC services relative to parents whose youngest child is under 5 years.

The availability and flexibility of childcare as the main childcare barrier to participation was slightly more common for parents with all children at school relative to parents with younger children (figure E.7).

The SIH suggests that the prevalence of unmet demand also increases as the number of children in the household under 15 years increases. For parents working part time or not working, unmet demand increases from 21 per cent of parents with one child to 26 per cent of parents with three or more children (figure E.4). The prevalence of unmet demand is highest for single parents with three or more children — 42 per cent in 2011-12.⁸⁵

⁸⁵ This estimate should be treated as indicative only due to the low number of observations for this category and the resulting high relative standard error (18 per cent).

Figure E.4 Parents who are prevented from working due to unmet demand
 Parents with children 0 to 12 years who are not working or are working part time, 2011-12



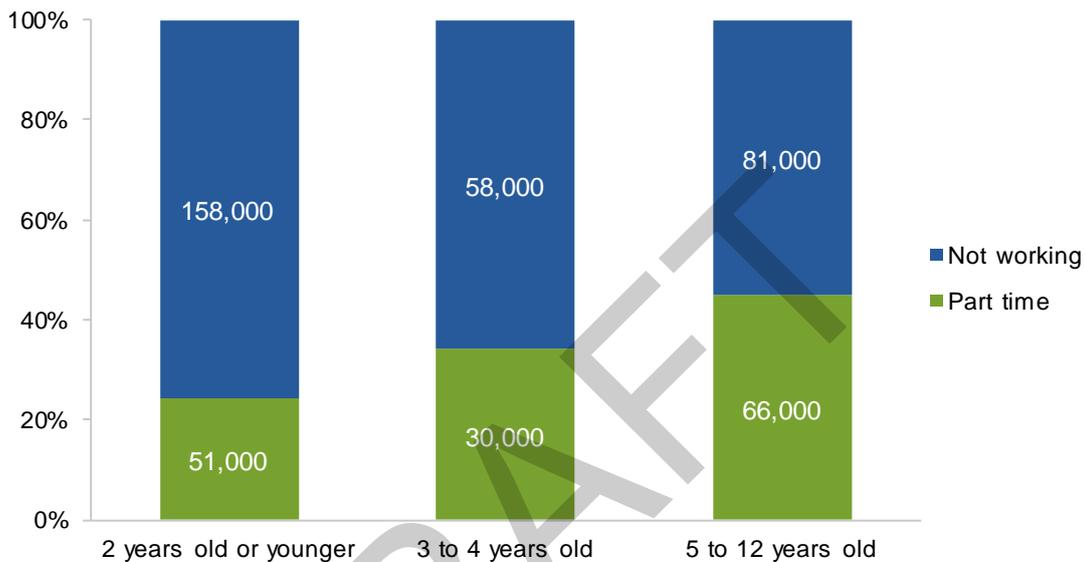
Data source: Commission calculations based on ABS (2013b).

The proportion of parents with unmet demand who are working part time increases with the age of the youngest child — from 24 per cent of parents with unmet demand and a child 2 years old or younger to 45 per cent of those with school-aged children (figure E.5). This implies that there is scope to increase working hours for

parents of school-aged children (5 to 12 years old) who are working part time. Even so, the number of parents with unmet demand who are not working far outstrips the number working part time.

Figure E.5 Unmet demand by age of youngest child and labour force status

Parents with children 0 to 12 years with unmet demand, 2011-12



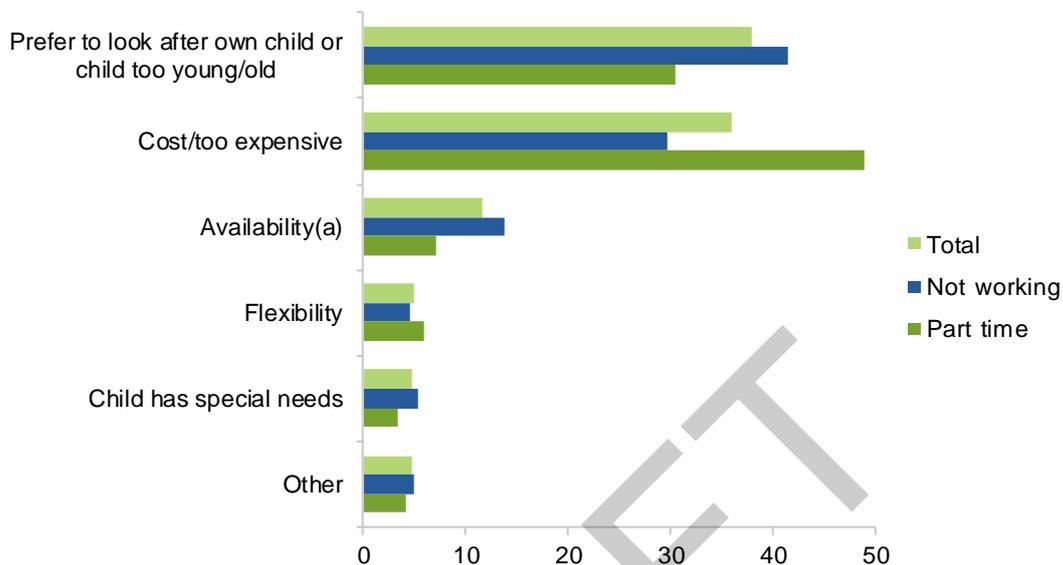
Data source: Commission calculations based on ABS (2013b).

Why is it that some parents could not find ECEC services to match their employment and family circumstances?

Examining the main reasons why childcare is a barrier to participation shows two strong themes. First, the out-of-pocket cost of care prevents many parents who want to participate more from doing so (figure E.6). Affordability of care was the main barrier to participating more for nearly half of all part-time workers with unmet demand.

Second, 38 per cent of parents with unmet demand had a preference to care for their own child(ren) — that is, they reported a preference to look after their own children or felt that their child was too young/old to be in childcare. Notably, a higher proportion of parents with unmet demand who were not working reported a preference to care for their own child (42 per cent) compared to those working part time (31 per cent). These parents who are not working may feel that the range of ECEC services available to them are not highly substitutable with caring for their children themselves.

Figure E.6 Main reason that childcare stops parents from working (or working more) by labour force status
Per cent of parents with children aged 0 to 12 years with unmet demand, 2011-12



^a Availability includes: booked out/no places; and time/days available not suitable. Flexibility where parents indicated that the main reason was childcare being not flexible enough/not available at short notice. Other includes: transport/distance; child's preference; and other childcare reason.

Data source: Commission calculations based on ABS (2013b).

The remaining 26 per cent of parents with unmet demand expressed a range of issues with accessing ECEC services — booked out or no places or times/days not suitable; not flexible enough or not available at short notice; transport or distance; or that the child has special needs or other childcare reasons. This may in part reflect difficulty faced by some casual and shift workers with the flexibility of ECEC services.

Availability and flexibility is also more of an issue for single parents compared with partnered parents, with proportionately more single parents reporting these reasons as the main barrier to them finding suitable childcare in order to participate (more) in the workforce (figure E.7).

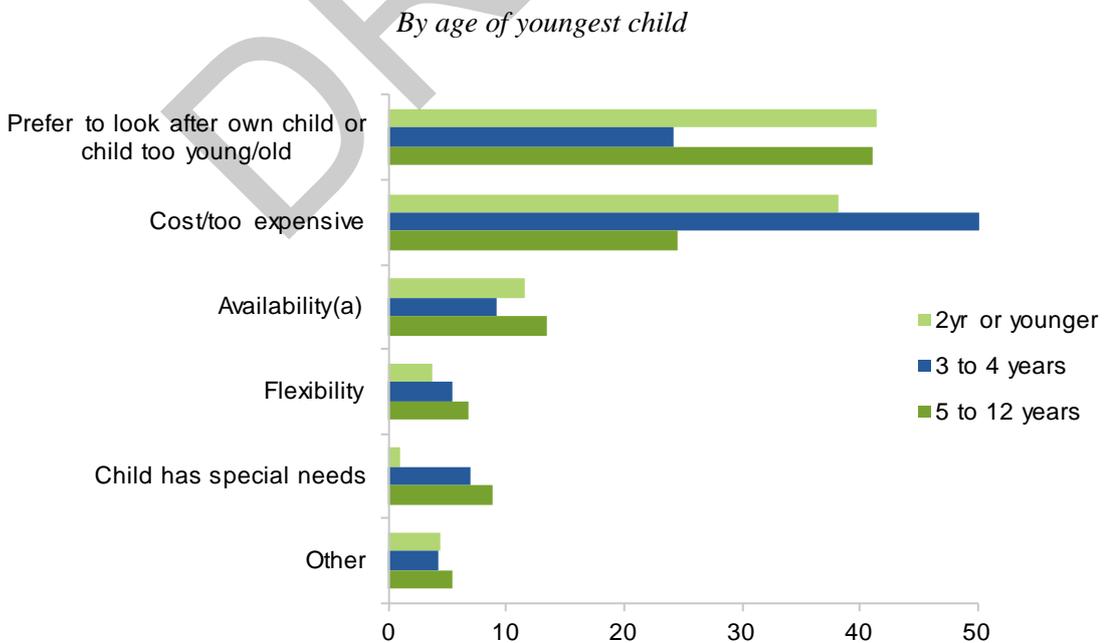
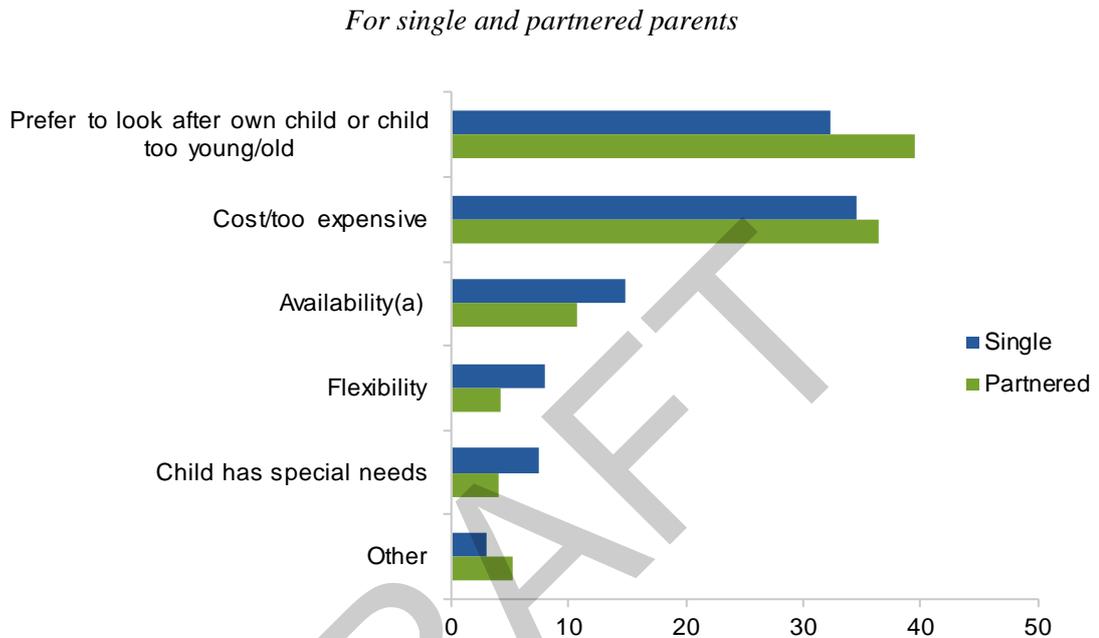
An important subgroup of parents with unmet demand maybe the estimated 5 per cent (indicatively 21 000) parents who were unable to find suitable childcare to work because their 'child has special needs' (figure E.6). The share of these parents appears to increase with the age of the youngest child:

- 1 per cent of parents whose youngest child is aged two years or younger;
- 7 per cent of parents whose youngest child is three to four years old;
- 9 per cent of parents whose youngest child is in formal schooling (figure E.7).

This low number of parents with children two years or younger may reflect that disabilities in children are often not diagnosed until children are somewhat older.

Figure E.7 Main reason that childcare stops parents from working (or working more) by family characteristics

Parents with children aged 0 to 12 years with unmet demand, 2011-12



^a Availability includes: booked out/no places; and time/days available not suitable. Flexibility where parents indicated that the main reason was childcare being not flexible enough/not available at short notice. Other includes: transport/distance; child's preference; and other childcare reason.

Data source: Commission calculations based on ABS (2013b).

Considering the group of parents with unmet demand because of accessibility reasons⁸⁶, the overall number of parents reporting unmet demand account for only an estimated 3 per cent (or 30 000) of all parents working part time, and around 8 per cent (or 84 000) of all parents not working in 2011-12.

How many hours would parents like to work?

On average, parents not working but with unmet demand for childcare would have liked to work 25 hours per week in 2011-12 if suitable childcare was available (table E.2). Parents working part time with unmet demand for childcare, in comparison, would have preferred to work an additional 13 hours per week. The average number of preferred hours is only slightly higher for families with the youngest children attending full-time school.

Figure E.8 presents the distribution of the preferred number of hours per week that parents would like to work showing that most parents with unmet demand want to work part time. A similar distribution of preferred additional hours was found in 2009-10.

For part-time workers, examining the total number of hours that parents with unmet demand would like to work — the number of hours worked in all jobs plus the additional hours they would like to work if suitable childcare was available — indicates that while the majority of parents working part time with unmet demand would still prefer to work part time, 37 per cent would prefer to work full time.

⁸⁶ Accessibility reasons include: booked out or no places or times/days not suitable; not flexible enough or not available at short notice; transport or distance; or that the child has special needs or other childcare reasons.

Table E.2 Preferred number of hours per week parents would like to work if suitable childcare was available

By labour force status for parents with children aged 0 to 12 years with unmet demand

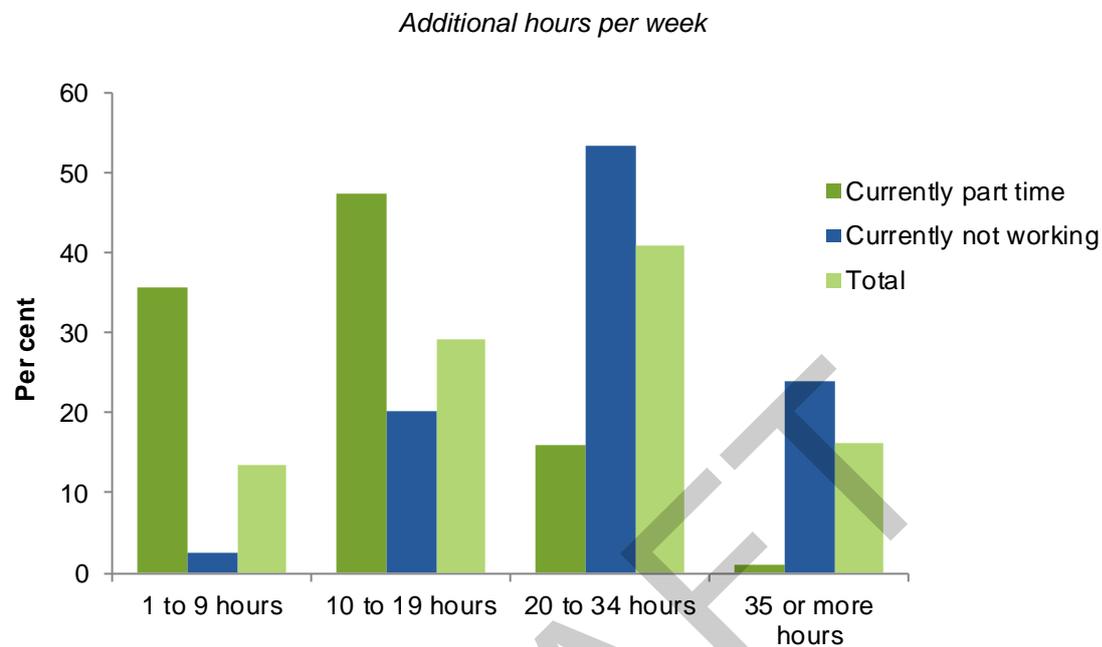
	<i>Working part time</i>	<i>Not working</i>	<i>Total</i>
2011-12:			
Mean preferred (additional) hours:			
If youngest child is 2 years or younger	12	24	21
If youngest child is 3 to 4 years old	13	24	20
If youngest child is 5 to 12 years old	13	26	20
All parents with unmet demand	13	25	21
Total preferred (additional) number of hours per week if all unmet demand for childcare was met ^a	1 849 000 [1 529 000, 2 168 000]	7 315 000 [6 301 000, 8 330 000]	9 164 000 [8 098 000, 10 200 000]
FTE number of hours per week ^b			38
FTE number of workers	40 000	193 000	242 000
2009-10:			
Mean preferred (additional) hours:			
If youngest child is 2 years or younger	11	23	21
If youngest child is 3 to 4 years old	16	25	23
If youngest child is 5 to 12 years old	14	23	19
All parents with unmet demand	13	23	20
Total preferred (additional) number of hours per week if all unmet demand for childcare was met ^a	1 580 000 [1 257 000, 1 903 000]	6 666 000 [5 943 000, 7 389 000]	8 246 000 [7 302 000, 9 189 000]
FTE number of hours per week ^b			38
FTE number of workers	42 000	175 000	217 000

^a 95 per cent confidence intervals are in parentheses. ^b Full-time equivalent (FTE).

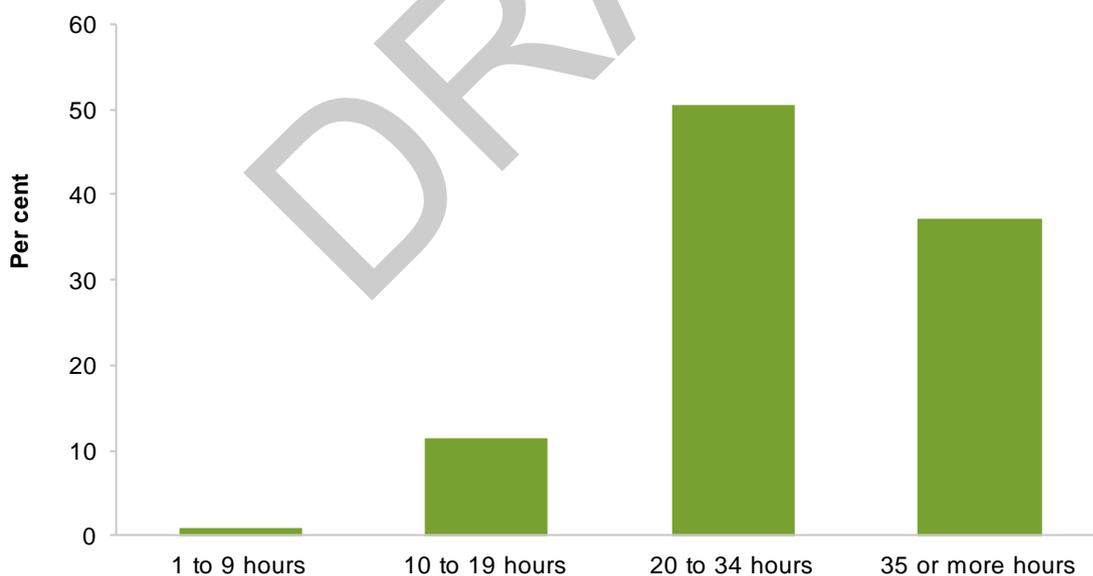
Source(s): Commission calculations based on ABS (2012, 2013b).

Figure E.8 Distribution of preferred number of hours per week that parents would like to work

Parents with children aged 0 to 12 years with unmet demand, 2011-12



Total preferred hours per week – for parents currently working part time^a



^a Total number of hours part time workers would like to work is estimated as the number of hours usually worked per week (in main and second job) plus the additional hours they would like to work.

Data source: Commission calculations based on ABS (2013b).

Potential increase in workforce participation

If suitable childcare became available that facilitated all parents to work their preferred number of hours, an estimated full-time equivalent (FTE) of 242 000 parents in 2011-12 potentially could have been added to the workforce (table E.2).⁸⁷ The estimated number of FTE workers was 217 000 in 2009-10, however this was not statistically different from the estimated number in 2011-12.

The ‘additional’ workers are predominately made up of mothers who are *marginally attached* to the labour force in that they are not currently working or actively looking for work but would like to enter the workforce if suitable childcare became available.

Arguably, the 38 per cent of parents in 2011-12 who reported the main reason that childcare prevented them from working was a preference to care for their own child(ren) at home (or that their child is too young/old) may have great difficulty finding childcare to suit their preferences. Excluding these parents, the estimated number of potential FTE workers was roughly 156 000 (table E.3).

The potential labour supply could be constrained further to look exclusively at meeting the demand for 26 per cent of parents whose main difficulty is accessing ECEC services — including parents reporting difficulty due to the availability or flexibility of ECEC services, with transport or distance to services, or that their child has special needs. For these parents, the estimated FTE number of workers was 72 000 in 2011-12 (table E.3).

Using a more recent estimate of the population of parents (ABS 2014a) and assuming that the share of parents with unmet demand is unchanged⁸⁸, an estimated 165 000 FTE parents could have potentially been added to the workforce in April 2014 if unmet demand could be addressed for parents with difficulties with the affordability and accessibility of suitable childcare.

⁸⁷ The FTE number of additional workers was derived by dividing the total number of additional hours parents with unmet demand would prefer to work by 38 hour per week.

⁸⁸ In the 2011-12 SIH, the 156 000 FTE number of additional workers accounted for 7.5 per cent of all parents with a child(ren) under 15 years old and working part time or not working.

Table E.3 Potential workforce participation if unmet demand was met for certain parents

By labour force status for parents with children aged 0 to 12 years

	<i>Working part time</i>	<i>Not working</i>	<i>Total</i>
2011-12:			
<i>Unmet demand for affordability or accessibility reasons^a</i>			
Total preferred (additional) number of hours per week	1 311 000	4 599 000	5 910 000
FTE number of hours per week ^b			38
FTE number of workers	35 000	121 000	156 000
<i>Unmet demand for accessibility reasons only</i>			
Total preferred (additional) number of hours per week	413 000	2 334 000	2 747 000
FTE number of hours per week			38
FTE number of workers	11 000	61 000	72 000
2009-10:			
<i>Unmet demand for affordability or accessibility reasons^a</i>			
Total preferred (additional) number of hours per week	879 000	3 718 000	4 597 000
FTE number of hours per week			38
FTE number of workers	23 000	98 000	121 000
<i>Unmet demand for accessibility reasons only</i>			
Total preferred (additional) number of hours per week	277 000	1 326 000	1 603 000
FTE number of hours per week			38
FTE number of workers	7 000	35 000	42 000

^a Excludes parents who state the main reason that childcare prevents them from working/working more is that they 'prefer to look after own child' or 'child is too young/old'. ^b Full-time equivalent (FTE).

Source(s): Commission calculations based on ABS (2012, 2013b).

E.3 Persistent problems with childcare

As noted earlier, given the complex nature of demand for and supply of ECEC services, some difficulty with finding childcare to match individual preferences and circumstances may be expected. However if parents face difficulty on an ongoing (persistent) basis, this may be indicative of a deeper issue with parents' ability to engage in the workforce.

Households with children under 15 years old who had used, or had thought about using childcare so either partner could undertake paid work in the last year were asked in the HILDA survey to indicate the level of difficulty they experienced with

childcare on a scale of 0 to 10 — with 0 being ‘not a problem at all’ and 10 being ‘very much a problem’.⁸⁹

In particular, the HILDA survey asks about a broad range of potential difficulties that households may face with the *availability* of childcare, namely:

- ‘finding care during the school holidays’
- ‘finding care for a difficult or special needs child’
- ‘getting care for the hours needed’
- ‘finding a child care centre in the right location’
- ‘finding care for a sick child’
- ‘finding care at short notice’ and/or
- ‘juggling multiple child care arrangements’.

In the following analysis, the Commission assumed that parents who scored 5 or more out of 10 on one or more of the above experienced difficulty with the *availability* of ECEC.

Parents were assumed to experience difficulty with the *quality* of childcare if the household reported a level of difficulty of 5 or more out of 10 with:

- ‘finding good quality childcare’
- ‘finding the right person to take care of my child’ and/or
- ‘finding care my children are happy with’.

Similarly, parents in households rating difficulty with ‘the cost of childcare’ of 5 or more are described as having difficulty with *affordability*.

Parents can simultaneously report difficulty with multiple aspects of childcare — availability, quality and cost. Furthermore, the aspects of ECEC that parents report difficulty with may change from year to year. In the following discussion, the category *any difficulty* counts the total number of parents reporting difficulty irrespective of the type or number of categories of childcare they report difficulty with.

The analysis tracks partnered mothers and single parents for the three most recent years of the HILDA survey — that is, parents who had responded to the HILDA

⁸⁹ In the HILDA survey parents who did not use, or think about using, childcare to undertake paid work over the past 12 months were not asked about any difficulty they experience with childcare.

survey in 2010, 2011 and 2012. The analysis is limited to partnered mothers and single parents who had a child aged 12 years or under living in the household in 2010. As the workforce status of mothers is more commonly associated with childcare use relative to fathers in couple families, the analysis focuses on partnered mothers. Similarly, McNamara et al. (2005) examination of the persistence of problems with childcare (using wave 2 and 3 of the HILDA survey) focuses on mothers.

Parents in multi-family households have been excluded for the analysis. This is unlikely to make a substantial difference to the analysis, as partnered mothers and single parents living in multi-family households only account for a small percentage (around 3.3 per cent when weighted) of all partnered mothers and single parents.

A small proportion of parents experience persistent difficulties with childcare

Roughly half of mothers and single parents did not use or think about using childcare so that they or their partner could undertake paid work. These parents were not asked any questions about difficulty with childcare. Of the remaining parents, 68 per cent of mothers and single parents reported experiencing difficulty with one or more aspect of childcare in 2010.

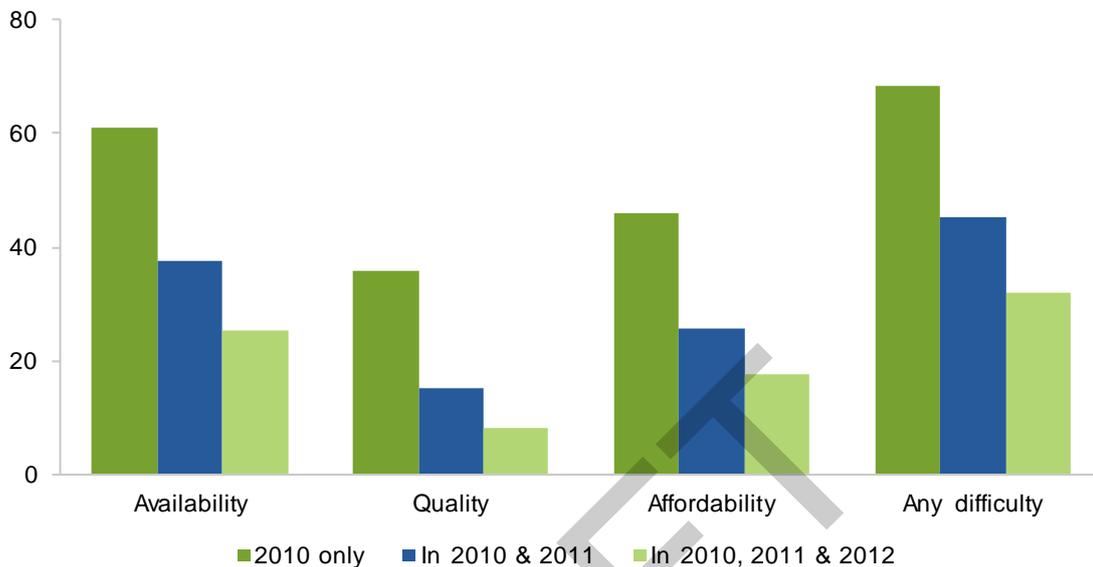
For partnered mothers and single parents who reported difficulty with childcare in 2010, figure E.9. tracks how persistent difficulty with childcare was between 2010 and 2012. For example, of the partnered mothers and single parents who used or thought about using childcare in 2010:

- 68 per cent reported difficulty with one or more aspects in 2010;
- 45 per cent reported difficulty in both 2010 and 2011; and
- 32 per cent reported persistent problems with childcare for the three years from 2010 to 2012.

If the population of parents is expanded to include parents who did not use or think about using childcare to undertake paid work in 2010, then 22 per cent of all partnered mothers and single parents reported persistent difficulty with some aspect of childcare for the two years to 2012; and 16 per cent for the three years to 2012.

Figure E.9 Persistence of difficulty with childcare

Per cent of partnered mothers and single parents with children aged 0 to 12 years who used or thought about using childcare to undertake paid work in 2010



Data source: Commission calculations based on HILDA release 12, waves 10–12.

ECEC availability was the most common persistent childcare issue for parents. Difficulties with quality of childcare were not as common and less persistent compared with the availability and cost of care (figure E.9).

Labour force status

An important question to consider is what difficulty (and persistent difficulty) with childcare measures? Broadly, parents reporting difficulty with childcare will either be: accessing ECEC services but may be dissatisfied with current centre/program or type of care and may wish to change ECEC location or type; or are not accessing (enough) ECEC to be able to work the desired number of hours they would like to work.

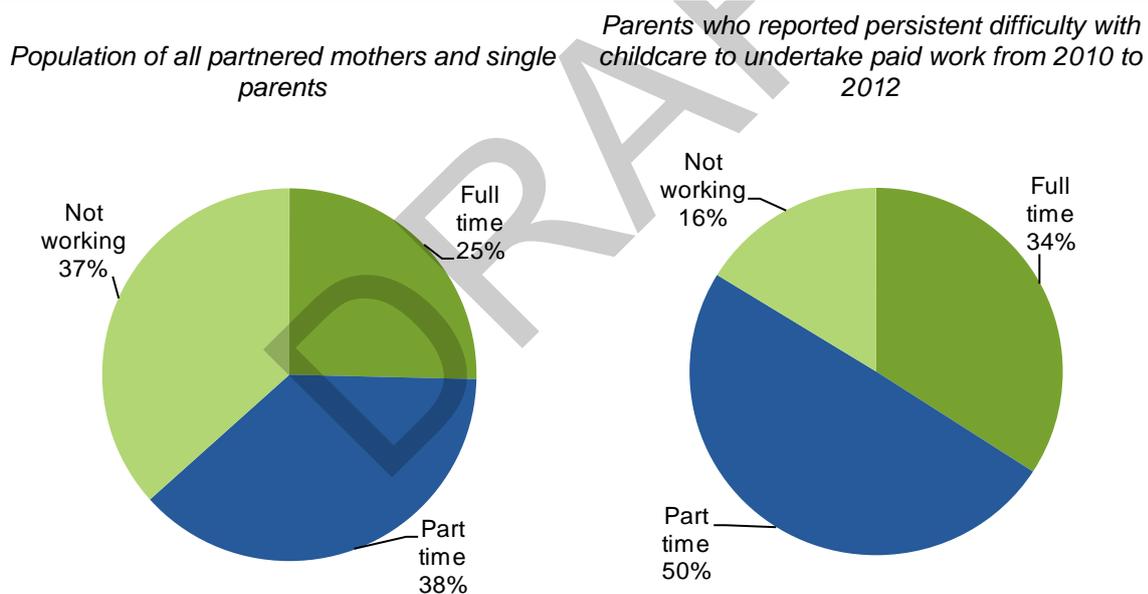
It is this second group of parents for whom difficulty with childcare may be preventing them from working or from working their preferred number of hours. In this context, it is useful to consider difficulty with childcare and the labour force status of parents.

Parents working full time

Difficulty with childcare reported by mothers and single parents working full time is likely to be due to not being able to access ECEC that meet their preferences (rather than not being able to access some formal or informal ECEC at all).

The large representation of parents working full time in the group reporting persistent difficulty between 2010 and 2012 (figure E.10), may reflect difficulties with the out-of-pocket cost of care that parents face once reaching the \$7500 cap on CCR. Full time workers were the most common group to report persistent difficulties with the affordability of childcare — 21 per cent of full-time workers who used or thought about using childcare in 2010 reported difficulties with the affordability of care between 2010 to 2012, compared to 15 per cent and 17 per cent of parents working part time and not working respectively.

Figure E.10 Composition by labour force status^a
Partnered mothers and single parents with children aged 0 to 12 years



^a Based on parents' labour force status in 2010.

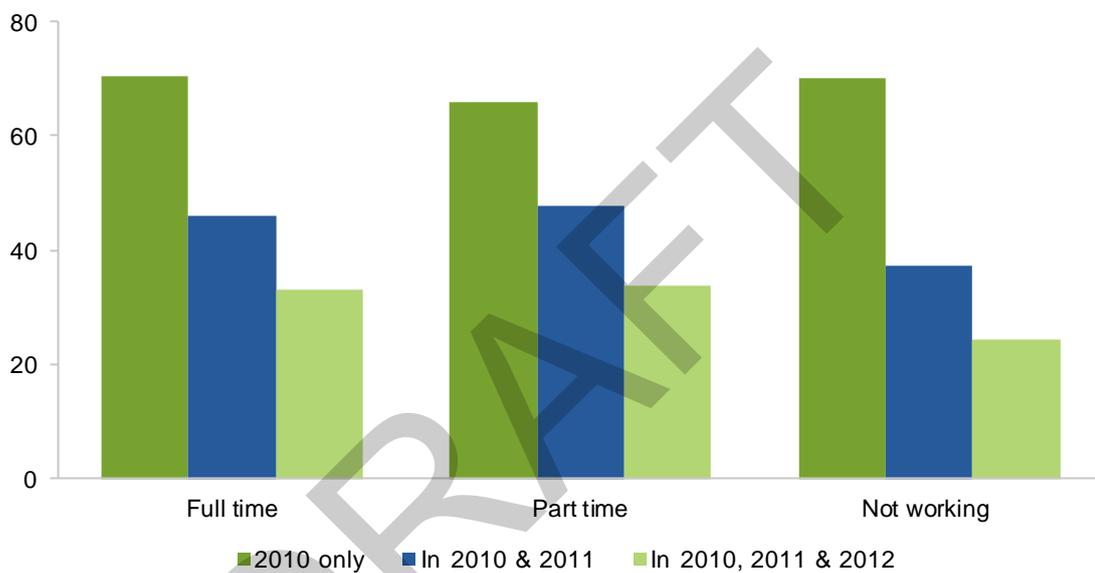
Data source: Commission calculations based on HILDA release 12, waves 10–12.

Broadly, parents working full time do not have capacity to increase their workforce participation if they could find suitable childcare. What's more, nearly all (92 per cent) partnered mothers reporting difficulty with childcare while working full time also had a partner working full time in 2010. While parents working full time may not be able to (substantially) increase their hours of work, it may be that those parents who report difficulty with childcare in one period will reduce the hours they work or withdraw from the labour force in a later period.

Around one third of all partnered mothers and single parents working full time who used or thought about using childcare in 2010 experienced persistent difficulties with one or more aspects of childcare between 2010 and 2012 (figure E.11). Interestingly, the level of persistent difficulty was similar for parents working full time and part time in 2010.

Figure E.11 Persistence of any difficulty with childcare by labour force status^a

Per cent of partnered mothers and single parents with children aged 0 to 12 years who used or thought about using childcare to undertake paid work in 2010



^a Based on parents' labour force status in 2010.

Data source: Commission calculations based on HILDA release 12, waves 10–12.

Parents working part time

There is potentially scope to increase the workforce participation of parents who report difficulty with childcare and work part time or do not work. Part-time workers account for 38 per cent of all partnered mothers and single parents in 2010 but half of the group reporting persistent difficulty lasting two or more years (figure E.10).

An estimated 34 per cent of partnered mothers and single parents working part time in 2010 who used or thought about using childcare reported difficulties with childcare on an ongoing basis between 2010 and 2012 (figure E.11). Part-time workers in particular had persistent difficulty with ECEC availability.

Parents not working

Parents not working (in the base year 2010) were less likely to use or think about using childcare to undertake paid work and, therefore, accounted for a disproportionately small proportion of parents experiencing difficulties with childcare in 2010. However, of those parents not working who did think about using childcare to undertake paid work in 2010, 70 per cent reported having difficulties (figure E.11) — most commonly with the availability of care.

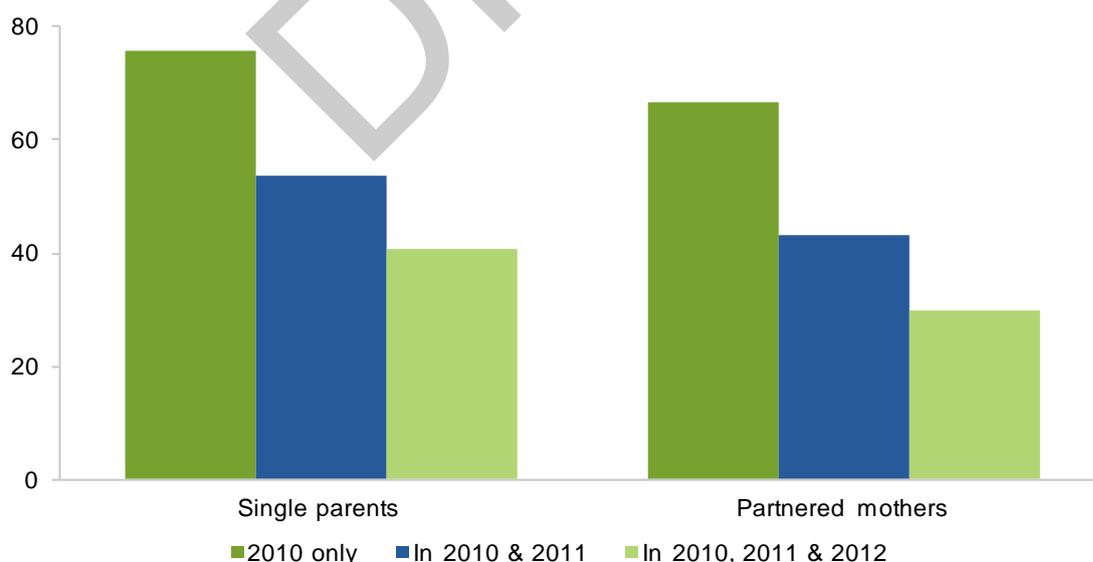
A lower proportion of parents not working, reported persistent difficulties with childcare compared to working parents (figure E.11).

Single and partnered parents

Relative to partnered mothers, single parents more often reported difficulty with childcare in 2010 — 76 per cent of single parents compared to 66 per cent of partnered mothers (figure E.12). Moreover, of those parents who report difficulty with childcare in 2010, a higher proportion of single parents experienced persistent difficulties.

Figure E.12 **Persistence difficulty with childcare for single and partnered parents**

Per cent of partnered mothers and single parents with children aged 0 to 12 years who used or thought about using childcare to undertake paid work in 2010



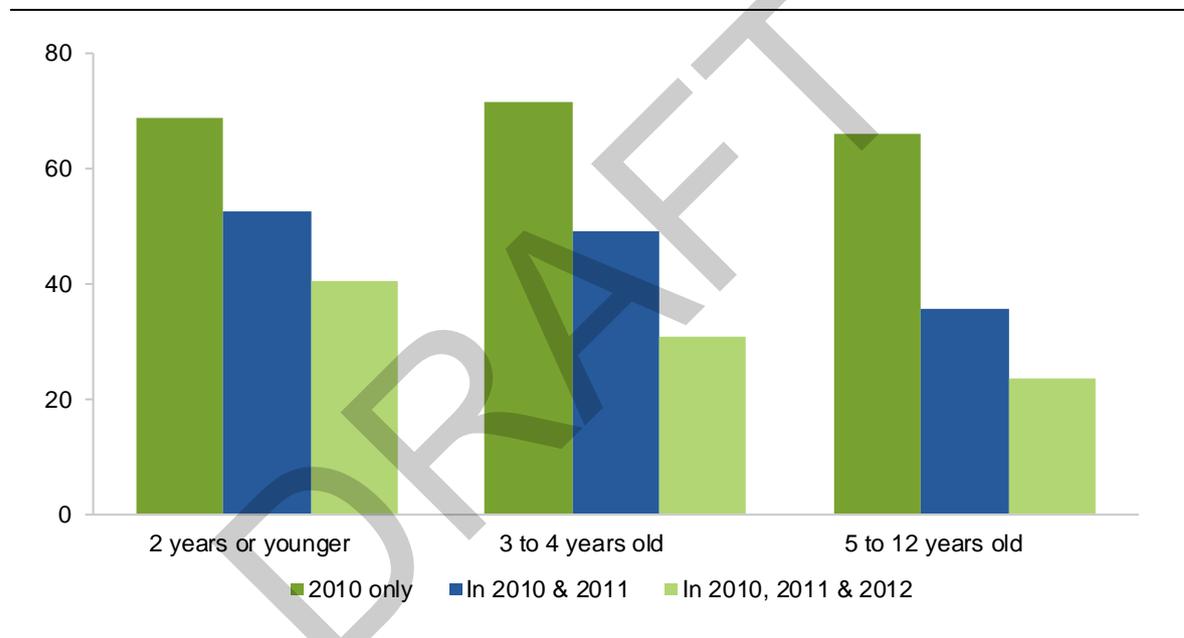
Data source: Commission calculations based on HILDA release 12, waves 10–12.

Age of youngest child

A similar proportion of parents whose youngest child is not yet at school and those whose youngest child is at school reported difficulties with childcare in 2010 (figure E.13). However, looking forward to 2011 and 2012, parents with children not yet at school were more likely to experience persistent difficulty. Further, parents with younger children were more likely to report persistent difficulty with the availability and affordability of childcare.

Figure E.13 Persistence of any difficulty with childcare by age of youngest child in household^a

Per cent of partnered mothers and single parents with children aged 0 to 12 years who used or thought about using childcare to undertake paid work in 2010



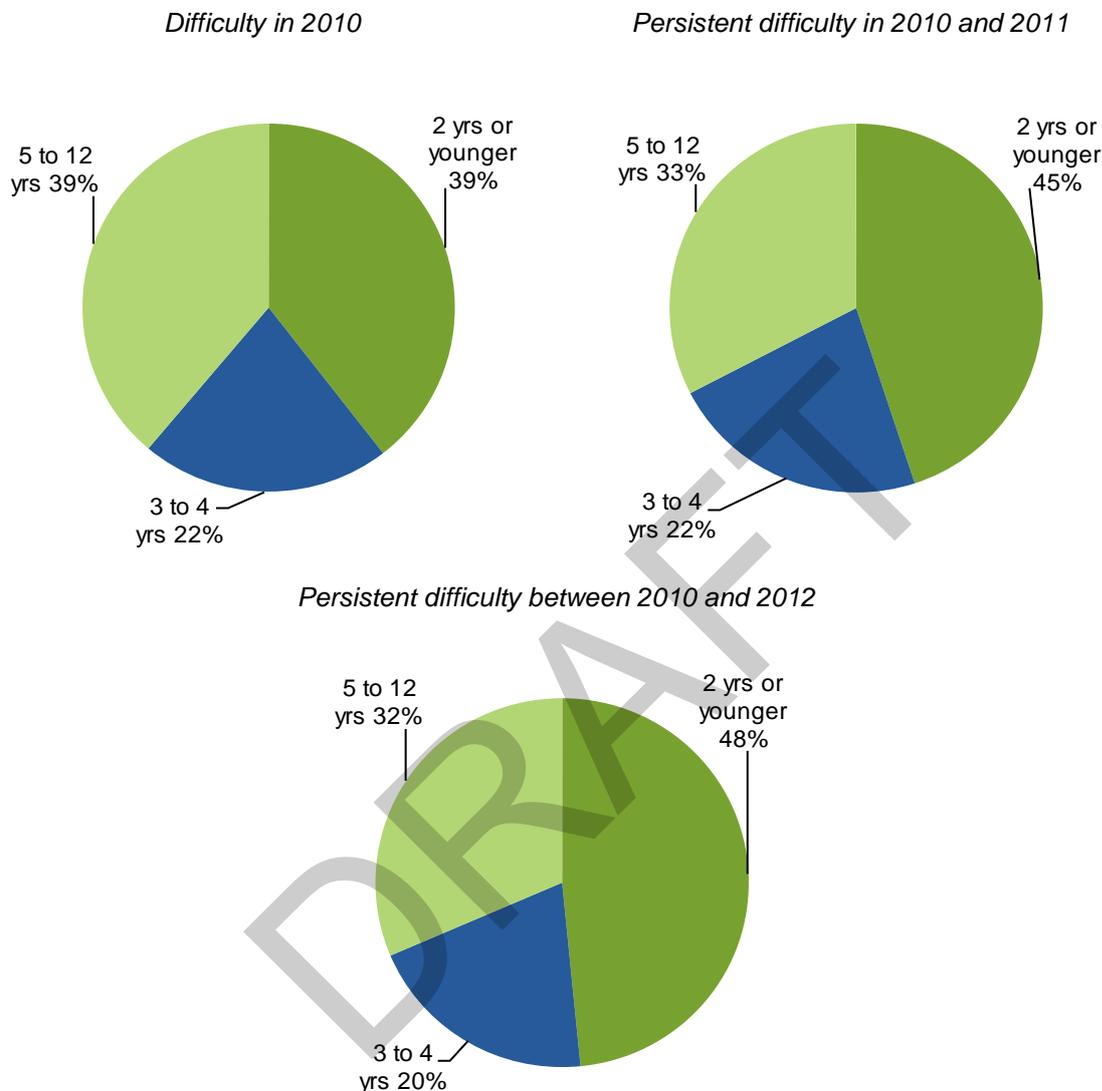
^a Based on the age of the youngest child in 2010.

Data source: Commission calculations based on HILDA release 12, waves 10–12.

While the number of parents reporting difficulty with childcare on an ongoing basis decreases over time, the makeup of the group experiencing persistent difficulties changes. In particular, figure E.14 shows how parents with children aged two years or younger account for 39 per cent of all parents reporting difficulty in 2010 but nearly half of all parents reporting difficulty between 2010 and 2012.

Figure E.14 **Composition of persistent difficulty with childcare to undertake paid work by age of youngest child^a**

Partnered mothers and single parents with children aged 0 to 12 years



^a Based on the age of the youngest child in 2010.

Data source: Commission calculations based on HILDA release 12, waves 10–12.

E.4 Unmet demand for non-work related reasons

The Australian Institute of Family Studies (AIFS) submission (sub 391) includes a detailed analysis of unmet demand for formal care and preschool, based on the ABS 2011 Childhood Education and Care Survey.

The Childhood Education and Care Survey asks parents whether they would like their child to attend:

- more days or hours of preschool/kindergarten than they are currently attending, either now or in the next twelve months (for children aged 2 to 6 years old).
- any/more days or hours of formal care (such as long day care, before or after school care, family day care and occasional care) than they are currently attending, either now or in the next twelve months.

The ABS Childhood Education and Care Survey captures a somewhat different concept of unmet demand compared to the SIH, and for this reason estimates of unmet demand may be expected to differ between the two surveys (box E.1).

Box E.1 The Childhood Education and Care Survey and the SIH are measuring slightly different concepts of unmet demand

The estimated number of parents with unmet demand for childcare in 2011-12 reported in the SIH is around 444 000 or 24 per cent of parents with children aged 0 to 12 years old and working part time or not working (table E.1). In comparison, the Childhood Education and Care Survey suggests that around 196 500 or 6 per cent of children aged 0 to 12 years currently require some or additional formal ECEC.

The ABS Childhood Education and Care Survey asks different unmet demand questions compared to the SIH and this may partially explain the differences in the estimates. In particular:

- The SIH focuses on unmet demand for work related reasons only, whereas the Childhood Education and Care Survey asks parents about unmet demand generally.
- The Childhood Education and Care Survey asks about unmet demand for formal care and, therefore, excludes parents who would like if they could access suitable informal care (such as grandparent care).
- In the 2011-12 SIH, 36 per cent of parents with unmet demand said that cost was the main reason that childcare prevents them from working/ working more (figure E.6). These parents may be characterised as wanting to participate more in the workforce and are prevented from doing so due to the cost of ECEC, and as such are counted in unmet demand in the SIH. However, it is not clear that these parents would report that they want their child(ren) to attend some/more formal ECEC and, in which case, they would not be counted in unmet demand in the Childhood Education and Care Survey.

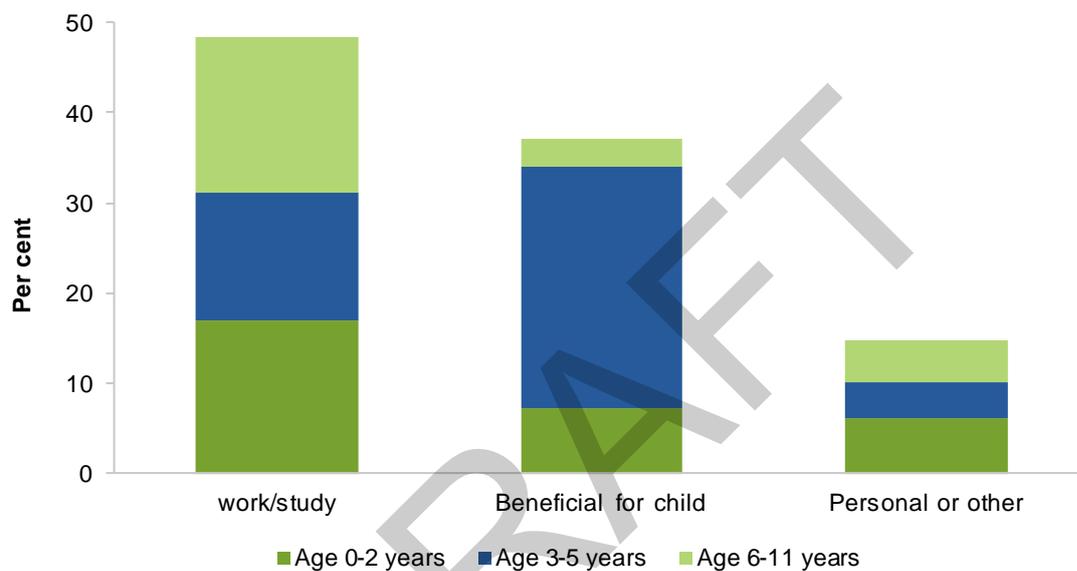
Evidence from the Childhood Education and Care Survey suggests that around half of all unmet demand for formal care (including preschool) is for non-work/study related reasons (figure E.15).

Benefit to child development was the most common main non-work related reason given by parents with unmet demand for formal childcare, especially by parents

with children aged 3 to 5 years — the majority of which identified as requiring at least some additional preschool (AIFS sub 391, table 23). The introduction of universal access to 15 hours of preschool through the National Partnership on Early Childhood Education in 2013 may have addressed some of this unmet demand for preschool/childcare for the development of 3 to 5 year olds.

Figure E.15 Main reason children require additional care, by age of child

Composition of children currently require some or additional formal ECEC (care or preschool), 2011



Data source: AIFS (sub 391, table 24, p. 41).

E.5 What can be concluded about unmet demand?

Unmet demand for ECEC is driven by a range of reasons. Many parents want to access services for child development reasons. In 2011, an estimated 52 600 children aged 3 to 5 years were reported as requiring additional ECEC (care or preschool) for developmental reasons (AIFS, sub. 391). However, the introduction of universal access to preschool in 2013 may have addressed some of this unmet demand for preschool services.

For many parents, unmet demand is largely about wanting to access ECEC in order to enter the workforce, or to increase the number of hours they work (especially as their children begin formal schooling). Finding suitable childcare was a barrier to increased workforce participation for around one in four parents (444 000 in 2011-12) with a capacity to increase their hour of work with children under 13 years. Around two-thirds of these parents were not working at all.

Included in the 444 000 parents with unmet demand, were around 169 000 parents (38 per cent) who reported that the main childcare impediment to greater workforce participation was that they preferred to look after their own child or the child was too young/too old. For an additional 160 000 parents (36 per cent) childcare fees was the main reason childcare was a barrier to participation. The remaining 115 000 parents report unmet demand for accessibility reasons. This suggests that the latter two groups of parents (experiencing unmet demand due to the out-of-pocket cost of, or access to, suitable childcare) may respond to: additional government fee subsidies; and/or to policies that increase the flexibility and supply of ECEC services and in doing so place downwards pressure on fees. Further, as unmet demand appears to be higher for single parents and low income families and in the few years before children start school, policies aimed at reducing unmet demand could target these groups.

Considering parents with unmet demand due to cost of and access to suitable childcare and taking into account parents' preferred number of working hours (which range from less than 9 to over 35 hours per week), an estimated 156 000 parents could have potentially been added to the workforce on a full-time equivalent basis (FTE) in 2011-12. Based on population estimates for April 2014, the potential increase in workforce participation was roughly 165 000 FTE parents.

Given the complex and lumpy nature of family joint work and childcare decisions as well as the supply of ECEC, some friction and unmet demand for ECEC may be expected (at least in the short term). The persistence of unmet demand over time is of policy concern as it may reduce parents' attachment to the workforce. Evidence from the HILDA survey suggests that the majority of parents do not experience persistent difficulties with childcare. Even so, an estimated 22 per cent of partnered mothers and single parents with children aged 0 to 12 years reported ongoing difficulty with childcare for work-related reasons for the two years to 2011; and 16 per cent for the three years to 2012.

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F Workforce participation elasticities

Australian studies indicate a broad range of estimates for the responsiveness of workforce participation of mothers to changes in childcare prices ('elasticities') (table F.1). Both 'gross price' and 'net price' elasticities are reported. Gross price is the advertised price of a childcare centre. The net price is what families actually pay out-of-pocket. Net price elasticities are the more relevant in assessing the responsiveness of workforce participation decisions of mothers to childcare prices (box F.1).

It is difficult to compare the estimates of the different studies or to draw firm conclusions about the magnitude of mothers' workforce participation responsiveness to changes in childcare prices. For example, the studies employ different estimation techniques, or data that relate to different time periods. Having said that, recent studies confirm that there is a negative and statistically significant relationship between the workforce participation of mothers and childcare prices.

A number of the studies find that the workforce participation of certain groups of mothers are more responsive than that of other groups. For example, Gong and Breunig (2012a) found larger elasticities for partnered mothers of children aged under 5 years: in lower income households than in higher income households; who did not have a tertiary education compared with those who did; with more than one child compared with those with only one child. Lee (2013) reached similar preliminary findings in his study of single mothers of children aged under 13 years. Earlier studies by Doiron and Kalb (2005) and Kalb and Lee (2008) found larger elasticities for single parents than for partnered mothers.

Although it is not possible to directly compare the elasticity estimates of the different studies in table F.1, the studies can be used to derive indicative estimates (table F.2) under a set of assumptions (box F.2).

While elasticity estimates appear to be small ('inelastic'), they relate to a 1 per cent change in gross childcare prices. Larger changes in childcare prices may have a material impact on their workforce participation. However, because of the standard errors surrounding the elasticity estimates, considerable caution is required in estimating the impact on workforce participation of large changes in childcare prices.

Table F.1 **Australian estimates of maternal workforce participation elasticities**

Author	Child population (age in years)	Labour supply population (sample size)	Elasticities – impact of a one per cent increase in childcare price on maternal workforce participation		
			Gross or net price elasticity ^a	Participation (participation rate or employment rate)	Hours worked
Doiron and Kalb (2005)	0 to 12	All adults (5 305 couples, 1 116 single parents)	Net	Single ^b -0.04 ppt Partnered -0.01 ppt	Single ^b -0.02% Partnered -0.03%
			Gross	Single ^b -0.02 ppt Partnered -0.01 ppt	Single ^b -0.05% Partnered -0.02%
Rammohan and Whelan (2007)	Under 15	Partnered women (1 138 mothers)	Gross	Partnered (part-time) ^c -0.07% Partnered (full-time) ^c -0.21%	ne
Kalb and Lee (2008)	0 to 12	All adults (3 404 couples, 731 single parents)	Net	Single ^b -0.07 ppt Partnered -0.01 ppt	Single ^b -0.01% Partnered -0.03%
			Gross	Single ^b -0.09 ppt Partnered 0.00 ppt	Single ^b -0.02% Partnered 0.00%
Apps et al. (2012)	0 to 12	Partnered women (1 456 mothers)	Net	ne	Partnered -0.08%
Gong and Breunig (2012a)	0 to 5	Partnered women (1 015 mothers)	Net	Partnered -0.06%	Partnered -0.10%
			Gross	Partnered -0.09%	Partnered -0.14%
Breunig, Gong and King (2012) ^e	0 to 13	Partnered women (4 184 mothers)	Gross	Partnered -0.29%	Partnered -0.65%
Gong and Breunig (2012b)	0 to 5	Partnered women (978 mothers)	Net	Partnered -0.06%	Partnered -0.10%
			Gross	Partnered -0.07%	Partnered -0.11%
Lee (2013) ^d	0 to 12	Single parents (738 mothers)	Net	Single -0.03%	Single -0.08%
			Gross	Single -0.04%	Single -0.10%

ppt – percentage points ne – not estimated

a Gross price elasticity is the elasticity with respect to the price charged by the childcare provider. Net price elasticity is the elasticity with respect to the price charged by the childcare provider less any government assistance (or out-of-pocket costs).^b Mothers and fathers combined. ^c The authors found that the predicted cost of childcare had no statistically significant influence on maternal employment status. ^d Unpublished manuscript. ^e Breunig, Gong and King (2012, p. 52) noted that their estimate of the participation elasticity for partnered mothers of children aged under 14 years of -0.29 was near the mean of what was found in other OECD countries.

Box F.1 Net or gross price elasticities?

The gross childcare price is the price posted or set by the childcare provider. The net price is the gross price less any government subsidies or rebate – that is, the out of pocket cost that parents pay to the childcare provider.

The field of behavioural economics⁹⁰ provides helpful guidance as to which type of price elasticity might be relevant to the workforce participation decisions of mothers. It suggests, for example, that consumers generally oversimplify when making complex calculations. They have internal biases as weighting the ‘salient’ attributes of goods and services, such as quality or price, and discounting anything that may happen (such as receiving rewards) in the distant future.

Parents pay on average only 37 per cent of the full childcare cost with the remainder being met by government (appendix 9). This suggests that net price is a salient feature of ECEC services. However, what parents actually pay changes as their income changes with higher income earners bearing more of the full childcare costs. Hence, net prices might be more salient for low income earners than for high income earners.

Reforms in July 2011 to how the childcare rebate is paid have meant that there are now shorter time delays in parents accessing the childcare rebate/benefit; that is there is greater immediacy in the ‘reward’ effect of government assistance. Previously, families were restricted to receiving the childcare rebate quarterly or at the end of the financial year. Now they can receive it as a reduction in the fees (that is fortnightly) with the option of receiving it at the end of the financial year unavailable to new childcare customers.

According to administrative data from the Department of Human Services, most families receive their childcare benefit and/or rebate close to the time they pay for the service rather than as a lump sum at the end of the financial year. In 2012-13, over 90 per cent of Child Care Benefit recipients received it as a fee reduction, 49 per cent of Child Care Rebate recipients received it as a fortnightly payment and another 47 per cent of children rebate recipients received it as a quarterly payment. In 2009-10, before the reforms to the payment of the Child Care Rebate were introduced, 91 per cent of recipients of the Child Care Benefit received it as a fee reduction and 94 per cent received it as a quarterly payment.

On balance, evidence that parents on average pay 37 per cent of the full childcare costs and that most parents receive their childcare benefit and/or rebate close to the time they pay for the service suggests that net price is more relevant than gross price to workforce participation decisions.

⁹⁰ A review of behavioural economic principles is contained in Reeson and Dunstall (2009); the new economics foundation (2005); Lunn (2013).

Box F.2 Assumptions underlying the Commission's indicative elasticity estimates

1. The most recent workforce participation and hours elasticity estimates of Gong and Breunig (2012b) for partnered mothers of children aged under 5 years are used as the basis for generating estimates for other groups of mothers.
2. It is expected that workforce participation of mothers is less responsive the older is their youngest child. This is due to the higher care needs of younger children relative to older children. Because older children are in school, their mothers have fewer hours of childcare to satisfy. In June 2012, the participation rate of mother of children aged under 5 years is 0.7 that of the participation rate of mothers of children aged 5 to 14 years.⁹¹ This multiplier is applied to estimates in Gong and Breunig (2012b) to obtain indicative estimates of workforce participation and hours elasticities for partnered mothers of school aged children. In applying the multiplier in this way it is assumed that the influence of the age of the child on a mother's workforce participation is unaffected by marital status.
3. It is also to be expected that the workforce participation of partnered mothers is less responsive to childcare price changes than that of single mothers. Partnered mothers are more likely to be able to rely on the support of their partners for childcare at home than single mothers. Also the household income of single mothers is likely to be less than that of partnered mothers, and so they are likely to be more sensitive to changes in their out of pocket childcare costs. This expectation is confirmed in Kalb and Lee (2008). Based on the participation rates in June 2012 of partnered and single mothers of children aged under 15 years, single mothers' participation rates are 0.96 that of partnered mothers (ABS 2013).⁹² This multiplier is applied to Gong and Breunig (2012b) to obtain indicative workforce participation and hours elasticities for single mothers.
4. Gong and Breunig (2012b) estimated elasticities for partnered mothers of preschool children by mother's education and wage, household income and number of children. It is assumed these estimates apply to partnered mothers of school aged children. They are, however, adjusted using the multiplier derived in step 3. to obtain comparable elasticity estimates for single mothers.

⁹¹ In June 2012, the participation rate of mothers of children aged under 5 years was 54.4 per cent compared with that of mothers of children aged 5 to 14 years of 77.4 per cent (the simple average of mothers of children aged 5 to 9 years of 76 per cent and mothers of children aged 10 to 14 years of 78.9 per cent) ((ABS 2013) and figure 6.3). Dividing 54.4 by 77.4 yields 0.703.

⁹² The participation rates in June 2012 of partnered mothers is 60.796 and that for single mothers is 58.595 ((ABS 2013) and figure 6.3).

Table F.2 Indicative workforce participation elasticities^a
With respect to a 1 per cent change in the net childcare price

<i>Specific group of mothers</i>	<i>Participation^b</i>	<i>Hours worked</i>
	%	%
Partnered mothers		
By age of child:		
under 5 years	-0.06	-0.10
aged 5 to 12 years	-0.04	-0.07
By mother's education:		
with tertiary education	-0.05	-0.09
without tertiary education	-0.07	-0.11
By number of children:		
one pre-school child	-0.05	-0.08
multiple pre-school child	-0.08	-0.13
By mother's wage		
above median	-0.08	-0.05
below median	-0.11	-0.07
By household income (other than mother's earnings)		
above median	-0.08	-0.05
below median	-0.11	-0.07
Single mothers		
By age of child:		
under 5 years	-0.06	-0.09
aged 5 to 12 years	-0.04	-0.07
By mother's education:		
with tertiary education	-0.05	-0.09
without tertiary education	-0.06	-0.06
By number of children:		
one pre-school child	-0.05	-0.07
multiple pre-school child	-0.08	-0.13
By mother's wage		
above median	-0.08	-0.05
below median	-0.11	-0.07
By household income (other than mother's earnings)		
above median	-0.08	-0.05
below median	-0.11	-0.07

^a Bolded estimates are by Gong and Breunig (2012b). Unbolded estimates are those of the Commission. ^b Participation is measured by the employment rate.

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G Effective Marginal Tax Rates

A recurring concern regarding the design of any government program is the possible disincentives to work that it may create. These disincentives do not arise just because of the program being examined, but because of the interaction with all relevant tax and government transfers that are occurring.

The most common approach to determine the cumulative disincentives associated with a program is to compare effective marginal tax rates (EMTRs). At its most basic, an EMTR tells us that if a person earned an extra dollar, how much of the money they would lose and how much they would be able to keep (as discussed in box G.1, EMTRs are often referred to as a measure of ‘cents in the dollar’).

Box G.1 What does ‘cents in the dollar’ mean

People do not get to keep every cent that they earn — for every dollar that they earn, most people pay tax (for high income earners, this is as high as 45 cents). Some people lose part of their benefits paid by governments, and, of relevance to this inquiry, some people pay childcare fees. The sum of these losses can be referred to as ‘cents in the dollar’.

To illustrate, if a person earns one extra dollar, but pays 30 cents of this dollar in tax, loses 17 cents off their transfer payments (such as Family Tax Benefits) and pays 22 cents towards child care costs in order to earn that dollar, their EMTR can be considered to be ‘69 cents in the dollar’.

EMTRs of over 100 cents in the dollar imply that the person has no financial gain from working more (in fact, they would incur a financial loss). That said, some people may tolerate very high EMTRs in the short term if they think it would contribute to financial gains in the longer term (for example, through career progress) or they enjoy working.

Why are effective marginal tax rates important?

EMTRs are important because they can discourage people from working (or encourage them to work less). While some people derive satisfaction or enjoyment from their jobs, it is generally accepted that the main reason people work is to earn an income.

As an individual's EMTR increases, they get to keep less of the last dollar earned. In response, some will continue to increase their hours of work, but others will decide that the financial return from working more is insufficient to forego their additional leisure time or time spent caring for children.

As each person will have unique considerations when contemplating their work/lifestyle trade off, EMTRs are not a good tool for determining how any individual will respond to a policy or a policy change. Instead, they are best used to indicate how a group of people are likely to respond.

As such, EMTRs are a useful indicator for assessing the impact of a policy change — such as the Commission's recommendations for changing ECEC assistance on workforce participation. In order to determine the likely EMTRs for families receiving childcare assistance, it is necessary to know what taxes those families face and which transfer payments they receive.

Taxes and transfers for families receiving childcare assistance

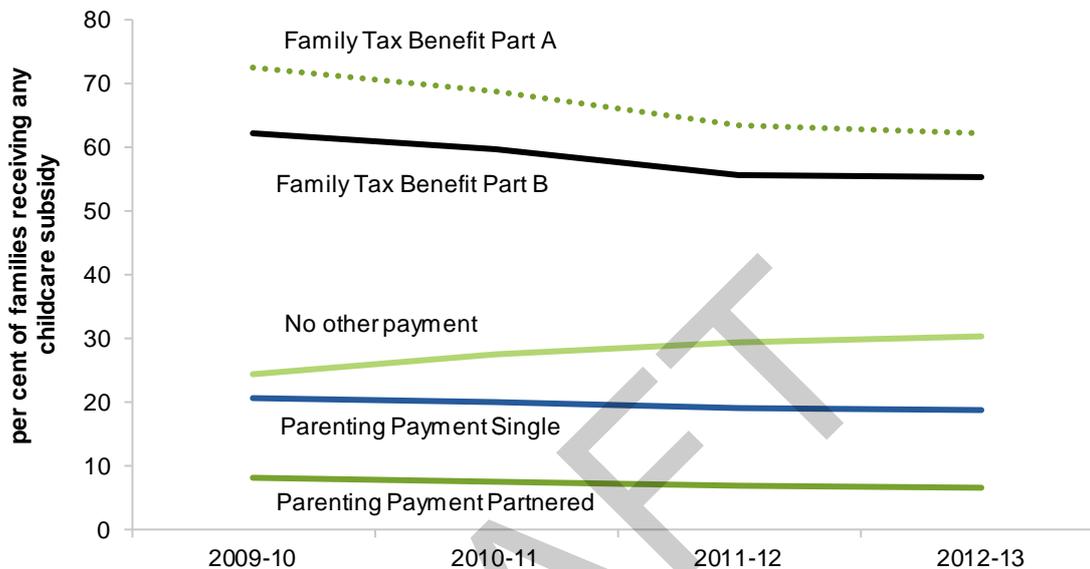
There are a range of tax and transfer policies that can interact with childcare assistance measures.

Most families will need to pay income tax and the Medicare levy. Families are also likely to pay GST and may be subject to a range of other taxes (including fringe benefits tax and capital gains tax). The only taxes included in the Commission's calculation of marginal effective tax rates are income tax rates and the Medicare levy. This decision reflects the information publicly available to the Commission in these areas. For the remaining taxes, insufficient information is available to determine what taxes might be paid. In addition, payments for most of these remaining taxes will not vary based on work participation and childcare decisions and consequently, those taxes are unlikely to influence the decision whether to work or not (or the number of hours to work).

There are a range of government transfer payments to assist families and individuals facing differing circumstances. Over 660 000 families received ECEC assistance and at least one other family transfer payment in 2012-13 (Department of Humans Services Administrative Data, 2014). The most common form of transfer payments received by families who also receive childcare assistance are Family Tax Benefits part A and B (figure G.1). There are a range of other income support payments received by families who also receive childcare assistance (including Parenting Payment, Parental Leave, Newstart, Carer Payment and the Disability Support Pension). However, the number of families who receive at least one of these other

income support payments and childcare assistance is less than families who receive childcare assistance and no other transfer payment.

Figure G.1 **Most common government transfer received by families also receiving childcare assistance**



Data source: Data supplied by the Department of Human Services.

G.1 A basic example – income tax and Medicare levy

The usual starting point for examining EMTRs is income tax. Australia has a progressive income tax system, where people are charged higher tax rates when they earn more money. For the 2013-14 financial year, the marginal tax rates for Australia are given in table G.1.

Table G.1 **Income tax rates**
2013-14

<i>Taxable income</i>	<i>Tax on this income</i>
0 – \$18,200	Nil
\$18,201 – \$37,000	19 cents for each dollar over \$18200
\$37,001 – \$80,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$80,001 – \$180,000	\$17,547 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,547 plus 45c for each \$1 over \$180,000

In addition to income tax, Australians also pay a Medicare levy. For most, the rate of the Medicare levy is 1.5 per cent of their income. For Australians who are only subject to income tax and the Medicare levy, the EMTR can be obtained by adding their marginal income tax rate with the Medicare levy rate. For a person without children (who is not eligible for ECEC assistance or most transfer payments) who earns between \$80 001 and \$180 000, their EMTR would be 38.5 cents in the dollar — indicating that they get to keep 61.5 cents of the last dollar that they earned.

Calculating EMTRs for childcare assistance

EMTR analysis is often used to examine the workforce implications of government taxes or policies that vary with income. Because of the rigidities in most typical work arrangements, EMTR comparisons are often based on predominant working arrangements — for example, a comparison between working full time and working less than 5 days a week and/or working less than a standard full time work day.

When examining EMTRs for childcare assistance, the rigidities inherent in using some forms of childcare also need to be considered. In addition, some assistance arrangements have eligibility criteria that require assumptions to be made about how parents might react. There is also scope for EMTRs for childcare to exceed 100 per cent — and, in some instances, substantially exceed that level.

Potential for an EMTR exceeding 100 per cent

An EMTR in excess of 100 per cent indicates that a person would be in a financially superior position if they did not earn their last dollar of income. There are a few rare examples of a single policy measure that can impose an EMTR that exceeds 100 per cent — Family Tax Benefit part B is one. The key feature of such measures that enables EMTRs over 100 per cent is that one of the eligibility criteria for a payment is an income threshold. More typically EMTRs in excess of 100 per cent occur when multiple government payments are being withdrawn at similar income levels (box G.2). While they may appear similar, a threshold for eligibility criteria is very different from thresholds for differing payment rates. For example, with Family Tax Benefit part B, a family with one income earner would be entitled to the maximum rate of payment so long as their income does not exceed \$150 000 a year. Once that threshold is reached, the family is ineligible for the payment and receives nothing.

Box G.2 Should the same income thresholds apply for all transfer payments?

In an editorial on 4 July, it was suggested that 'As a rule, means testing of government benefits should be uniform' (The Australian 2014). This is not the first time that it has been suggested that consistent definitions of income and thresholds for means testing arrangements be adopted. The Commission shares the desire for the system of taxes and transfers to be as simple, transparent and consistent as possible. However, simplicity and consistency can come at a cost to achieving policy objectives. Unfortunately, adopting consistency in means testing arrangements can have serious (unintended) consequences.

A key consideration for most transfer payments in Australia (including Disability Support Payments, Youth Allowance, Parenting Payments, Newstart Allowance, Family Tax Benefit, Child Care Benefit and Child Care Rebates) is that the payments should either encourage workforce participation, or at least not discourage people from working (or from working longer hours).

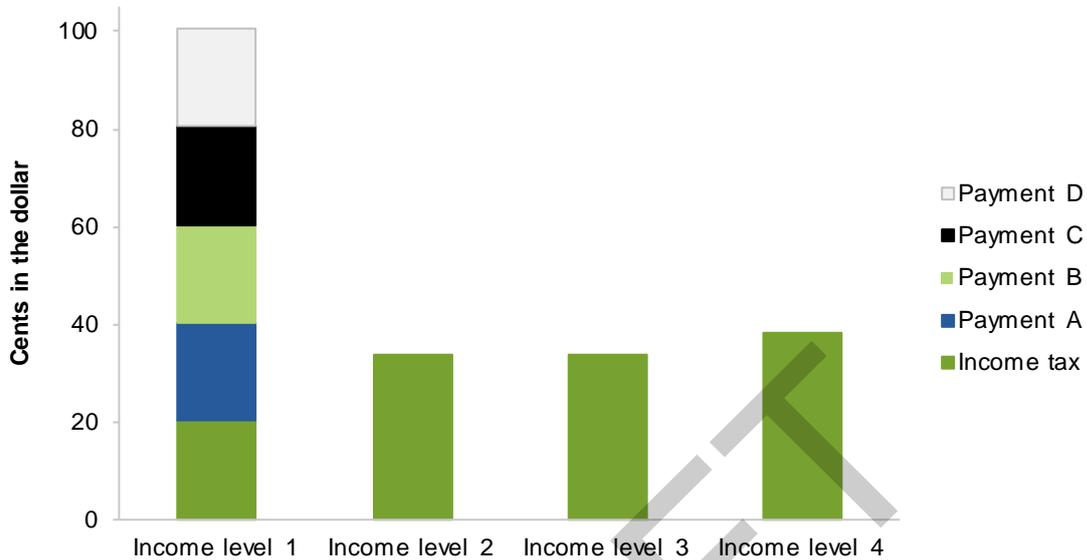
A large number of Australians are eligible for multiple government payments. In 2012-13, over 70 per cent of families who used approved ECEC services also received at least one other government payment. On average, families received more than four types of payments — including childcare subsidies (Administrative data supplied by the Department of Human Services 2014).

Aligning means tests for families receiving four or more means tested government payments results in small changes in income leading to big reductions in the transfer payments they receive. For illustrative purposes, consider a family receiving four payments (A to D). If the taper rates for each government payment were aligned at 20 cents in the dollar, then families would lose 80 cents of every additional dollar they earn just from the means tests if their income is within the taper range. Given that the lowest marginal tax rate is 19 cents in the dollar (and they would need to pay the Medicare levy), families would be worse off earning any income while subject to the combined taper (figure A). This implies that most mothers would be financially discouraged from working at least until their children start school, and potentially until their children complete school.

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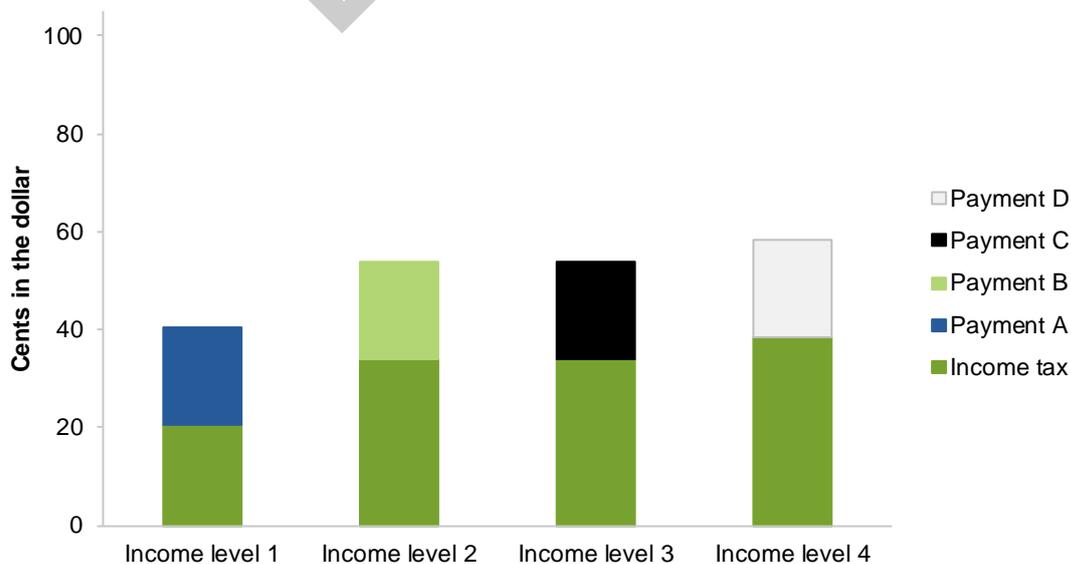
Box G.2 (continued)

A: Example EMTRs for multiple transfer payment tapers that coincide



There are a number of steps that can be taken to reduce families being affected by multiple tapers — thus reducing the disincentives to undertake paid work. One is to reduce the number of payments, as recommended by the current welfare review (RGWR 2014). The second is to stagger each means test, reducing the risk that families will face excessive EMTRs at particular income thresholds. While staggering the means test may result in the tapering of some payments coinciding with higher incomes and higher income tax rates, it would reduce the compounding effect at lower incomes and hence the disincentives to work would be lower (figure B). The second is to apply a very low taper rate.

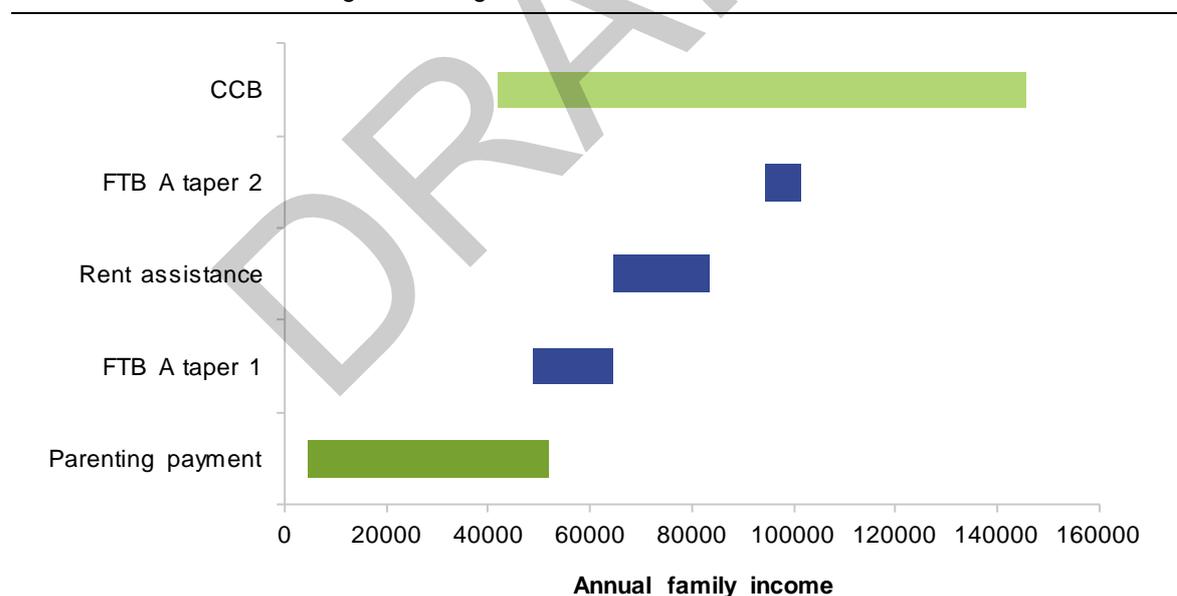
B: Example EMTRs for staggered transfer payment tapers



Such eligibility thresholds could result in a person working for a number of days or, in extreme cases, weeks, yet still being worse off financially than if their income remained below the eligibility threshold. While few households tend to have incomes close to the eligibility thresholds for such payments, those families near the threshold can have a strong incentive to work substantially fewer hours than they would if their income remained just above the threshold.

More typically, very high EMTRs result when a number of policies interact — as is the case with Family Tax Benefits (FTB), income tax rates and ECEC assistance. As discussed in box G.2, one remedy to overcome very high EMTR is to stagger the means testing of different payments. To some extent, this already occurs. For example, Parenting Payment, FTB Part A (where payments are partially tapered across two income ranges) and rent assistance (which is paid with FTB Part A) are largely staggered for a family with one child (figure G.2). The means test for FTB Part B is not based on the combined family income — and cannot be accurately represented in figure G.2.

Figure G.2 **Staggering of means tests under current arrangements**
Income ranges where government assistance is withdrawn^a



^a As at June 2014 for a lone parent family with one child. Family Tax Benefit part A is subjected to two tapers. Any rent assistance a family receiving Family Tax Benefit receives begins to be reduced after the first taper for Family Tax Benefit.

Data source: Commission calculations, Department of Human Services (2014).

Something that is apparent from figure G.2 is that the tapers for different payments cover very different ranges of incomes. Two key factors affect the range of incomes that different tapers are applied across — the maximum value of payments to which families may be entitled and the taper rate that is applied. In this regard, one of the particular challenges for ECEC subsidies is that some families can be eligible for substantial levels of assistance from a combination of payments (table G.2). As such, it will be difficult to stagger any means test for ECEC assistance between the tapers for other existing payments.

Table G.2 Maximum weekly assistance that families using ECEC may receive

For a single parent family with one child as at June 2014

<i>Transfer payment</i>	<i>maximum weekly amount</i>
Family Tax Benefit Part A	\$86.10
Family Tax Benefit Part B	\$73.22
Childcare Benefit (CCB) ^a	\$199.50
Childcare Rebate (CCR) ^a	\$87.50
Parenting Payment	\$356.60
Rent Assistance	\$73.99
Total	\$876.91

^a CCB is based on a child attending approved ECEC services for 50 hours in the week at a fee of \$7.46. CCR is calculated as half of the out of pocket costs after the maximum amount of CCB is deducted from the fees paid.

Source: Commission calculations.

In the absence of system wide reforms it would be difficult for the Commission to effectively include ECEC assistance within a wider suite of staggered means tests. As such, there are two possible approaches the Commission can use to try to reduce the extent that compounding means tests will adversely impact on incentives to work.

- One approach is to vary the means test for family circumstances in an attempt to avoid the overlap with some other specific payments
 - given that the income ranges for means tests for other payments can vary based on the number and age of children, that would require the development of a fragmented and complex means test for ECEC.
- A second approach is to have a very low taper rate — under that approach, overlaps between tapers for ECEC support and other payments will occur, however the additional disincentive to work should be minimal.
 - The current tapers applied to the Child Care Benefit (CCB) are an example of low to very low taper rates (section G.2).

Choice of work hours tends to be lumpy

EMTRs for an individual are most informative when they compare changes in work hours or annual wages that can be negotiated. For most workers, the smallest change in annual earnings that they could negotiate would be to forgo working an hour of overtime. Other ways of slightly reducing their annual income could include arranging to take a week of unpaid leave, working part time rather than full time (or reducing their hours per week or days per week worked if they are already part time). Because of these rigidities, working hours are often referred to as being ‘lumpy’ or ‘sticky’.

Lumpiness in consumption of ECEC services

When examining the EMTRs that factor in ECEC payments, we not only need to consider the lumpiness of working hours, but also the lumpiness of care provision. For example, the most common type of ECEC — long day care (LDC) — is typically purchased by day of the week. If a family agrees to pay for Mondays, they will pay for every Monday in the year (including public holidays and other days they do not attend). That payment entitles their child to attend from the time the centre opens until it closes. Families are typically required to pay for a full day of care even if their child is in care for part of the day.

The session lengths for other services vary. For services such as family day care, occasional care or nannies, it is more likely that families will be able to vary their hours of ECEC use as well as the days and time of care.

When calculating EMTRs for childcare, estimates will be more policy relevant if they account for both the lumpiness of working hour options as well as the rigidities inherent in different types of ECEC arrangements.

Lumpiness of work hours and ECEC arrangements will affect some families more

Families that receive ECEC assistance are likely to respond to the lumpiness of work hours and ECEC services in different ways. For example:

- some families may have ready access to informal care arrangements (such as family and friends) which allow them to either reduce their ECEC needs or to overcome mismatches in work or care hours
- couple families may be able to stagger working hours, allowing one parent to drop off children and the other to pick them up from ECEC services

-
- some parents have more flexible work arrangements (including part time work, varying days worked each week or hours per day and working from home) which can overcome mismatches in work and ECEC hours or reduce or negate the need for ECEC services
 - some parents have standard work hours that are consistent with the hours of operation of ECEC services
 - some parents' work options are limited by the operational hours of ECEC services.

Any such response is also based on the premise that ECEC services are readily available to families — which is not always the case (chapters 3 and 8).

In order to calculate EMTRs for parents using ECEC services, it is necessary to make assumptions about the relationship between work hours and use of ECEC services.

Out-of-pocket childcare costs

EMTR calculations typically only cover government taxes, benefits and transfer payments. However, some studies extend the coverage to include items that can be considered private consumption — such as rent or mortgage costs or transport costs. The advantage of including private consumption items is that it provides a better indication of the impact of work on net household income. Difficulties arise however because such consumption decisions will themselves depend upon the level of income earned.

While out-of-pocket childcare costs (fees paid by families less government subsidies) can be considered private consumption, the overwhelming majority of parents predominantly use ECEC services for work purposes (chapter 3). This work link is enhanced because the hours of care used is typically strongly related to working hours of mothers. As such, previous researchers have included the hourly out-of-pocket childcare costs as a component of their EMTR analysis (Daley 2012; Gong and Breunig 2012). The Commission will also follow this approach.

G.2 The operation of payments related to childcare assistance

This section examines the taper rates for the three most common ECEC subsidies and the two most common transfer payments in more detail. Those payments are Family Tax Benefits (part A and B), the CCR, CCB and the Jobs, Education and Training Childcare Financial Assistance (JETCCFA) payments.

Family Tax Benefit (part A)

Family Tax Benefits (both part A and B) are social welfare transfers to families that are subject to eligibility criteria and a family income based means test.

As described in appendix C, there are actually two income tests that are applied. The first test applies a taper of 20 cents in the dollar and the second test applies a taper of 30 cents in the dollar.

Family Tax Benefit Part A can provide families with substantial financial assistance. The maximum rate that a family can receive if they have a child aged under 13 is \$172.20 a fortnight (as of June 2014). The gradual withdrawal of this payment may also have a substantial impact on family's finances.

As the income tests are based on combined family incomes, there are numerous combinations of partner incomes, wage rates for secondary earners and hours of work that result in families being subjected to FTB A tapers. For example, a single parent earning \$25 an hour would be subject to the 20 cents in the dollar taper if they worked full time (figure G.3). Such a person would also face a marginal income tax rate of 32.5 cents in the dollar and would also have to pay the Medicare Levy (at a marginal rate of 10 cent in the dollar as they are subject to the low income family reduction for Medicare). For families with two income earners, the first taper can be reached with combinations of low partner income and low hours of work and wage rates for the other parent.

Families can reach the second income test if they have a parent with below average incomes and a second earner with a wage rate of \$30 an hour who works three days a week (figure G.4). Families continue to have payments withdrawn for incomes over \$100 000 for a single child (table G.3). This threshold increases with the number of children in a family — for example, if a family had one child aged 13 and two children aged 12 or under, they would still be subjected to the second income test until their family income exceeds \$136 839. A significant number of couple families using approved ECEC services are likely to be subjected to the second income test for FTB A.

Figure G.3 Hourly income required to reach FTB A first taper

By partner's income levels

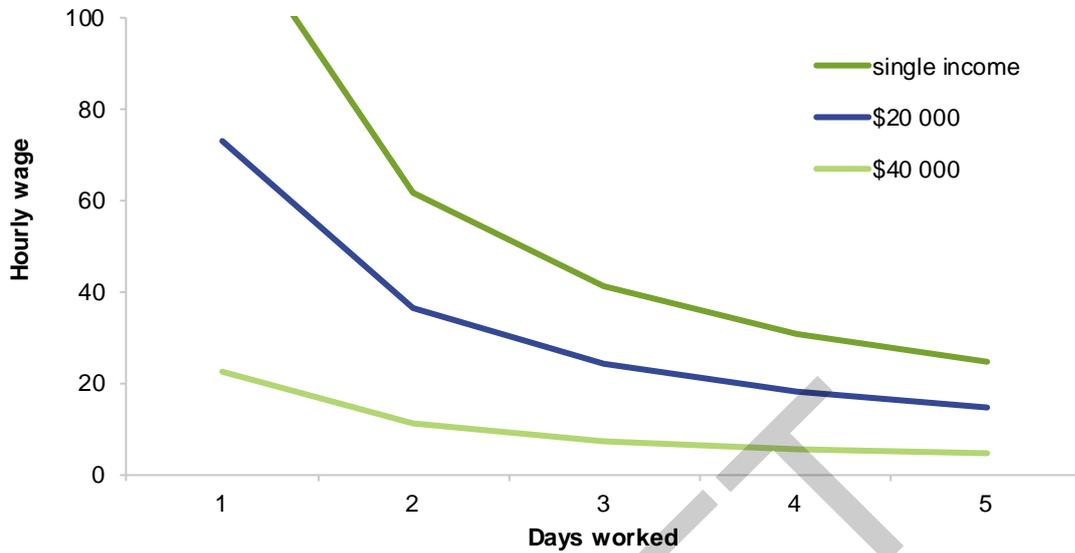


Figure G.4 Hourly income required to reach FTB A second taper

By partner's income levels

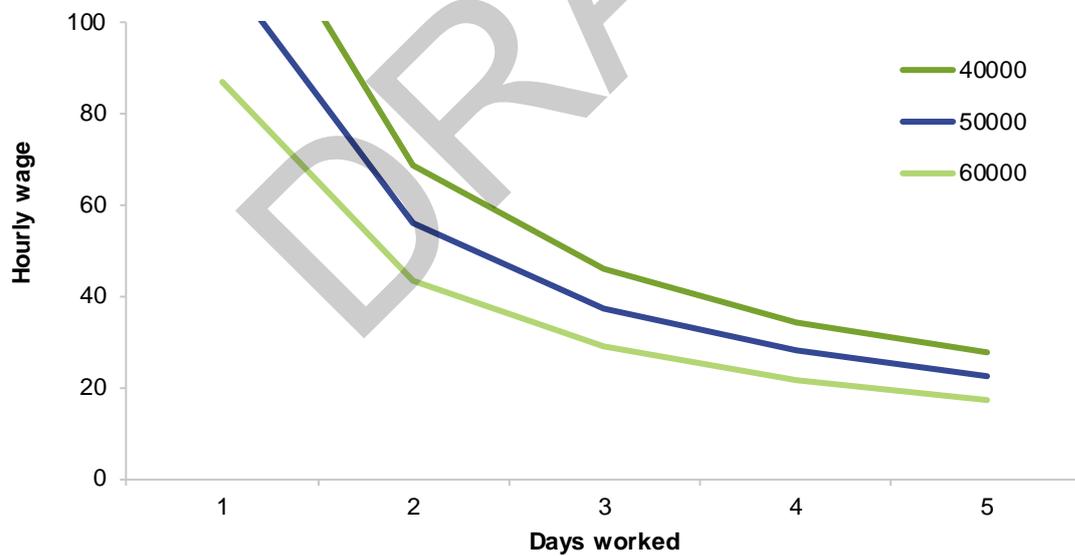


Table G.3 Income at which Family Tax Benefit (part A) is not paid

		<i>Number of children 13–15 years or secondary students 16–19 years</i>			
		Nil	One	Two	Three
Number of children aged 0–12 years	Nil		\$101 653	\$115 632	\$150 599
	One	\$101 653	\$112 785	\$143 719	\$178 686
	Two	\$112 785	\$136 839	\$171 806	\$206 773
	Three	\$129 959	\$164 926	\$199 893	\$234 860

Source: Department of Human Services *Guide to Australian Government Payments*, 20 September to 31 December 2013.

Family Tax Benefit part B

FTB B is paid to families with at least one eligible child. The payment rates depend on the age of the youngest eligible child and two income tests. Payments are not higher for multiple children.

Payment is subject to separate income tests for the higher and lower earning parents.

To be eligible for FTB B, the higher income earner needs to earn less than \$150 000. If there is only one parent, they are eligible for the maximum FTB B so long as their income is below \$150 000.

A family is entitled to the maximum amount of FTB part B so long as the lower income earner earns no more than \$5183. The payment then reduces by 20 cents in the dollar for each dollar of income the lower earns over this amount.

The maximum amount of FTB B depends on the age of the youngest eligible child (table G.4).

Table G.4 Maximum rate of Family Tax Benefit part B

<i>Age of youngest child</i>	<i>per fortnight</i>	<i>per year</i>
Under 5	\$146.44	\$4171.95
5–15 years ^a	\$102.20	\$3018.55

^a Or until the end of the calendar year that the child turns 18 years if they are a full time secondary student.

Source: Department of Human Services *Guide to Australian Government Payments*, 20 September to 31 December 2013.

Child Care Rebate

Those families which are eligible to receive the Child Care Rebate (CCR) — see appendix C for eligibility criteria — are entitled to a subsidy equal to half of their out of pocket childcare fees, up to a maximum cap of \$7500 per year for each child in care. As the CCR is not means tested, there is no explicit link between income and the level of subsidy. However, two indirect links occur.

1. The hours of work (and hence the income) of the primary care giver of a family is strongly linked to the hours of approved care used.
2. As out-of-pocket costs are defined as the approved ECEC fees less any other subsidy received, and the main other subsidy (the Child Care Benefit — CCB) is means tested, CCR will increase as some family incomes rise. This will be explored in the section on CCB.

Typically, the impact of net childcare costs after CCB on EMTRs will be higher for low income families than high income families. This can be demonstrated using a simple example. If we assume that hours of work of the primary care giver is the same as the hours of care and the out-of-pocket childcare costs are \$10 an hour, then the family will lose \$5 an hour because of net childcare costs. If a primary care giver earns \$25 an hour before tax, this would add 20 percentage points onto the EMTR. If however, the primary care givers pre-tax wage rate was \$50 an hour, the EMTR would only increase by 10 percentage points because of net childcare costs.

If a child reaches the CCR cap, they are no longer eligible for the CCR. In that case, the full out of pocket cost will be added to the EMTR for the remainder of the year. Using the two example families from the previous paragraph, EMTRs would be 40 percentage points higher for the primary carer earning \$25 an hour before tax and 20 percentage points higher for the primary carer with a \$50 pre-tax wage rate.

Child Care Benefit

Access to the Child Care Benefit (CCB) is subject to a means test based on family income. For those families who are eligible to receive CCB, the amount of subsidy they receive can be explained in four steps⁹³.

1. a maximum hourly subsidy rate is determined for each type of care used

⁹³ This description is a simplification of process used to determine a family's CCB. It also reorders the steps to allow a consistent comparison to be made with EMTRs for other payments — but the re-ordering of steps does not alter the outcome.

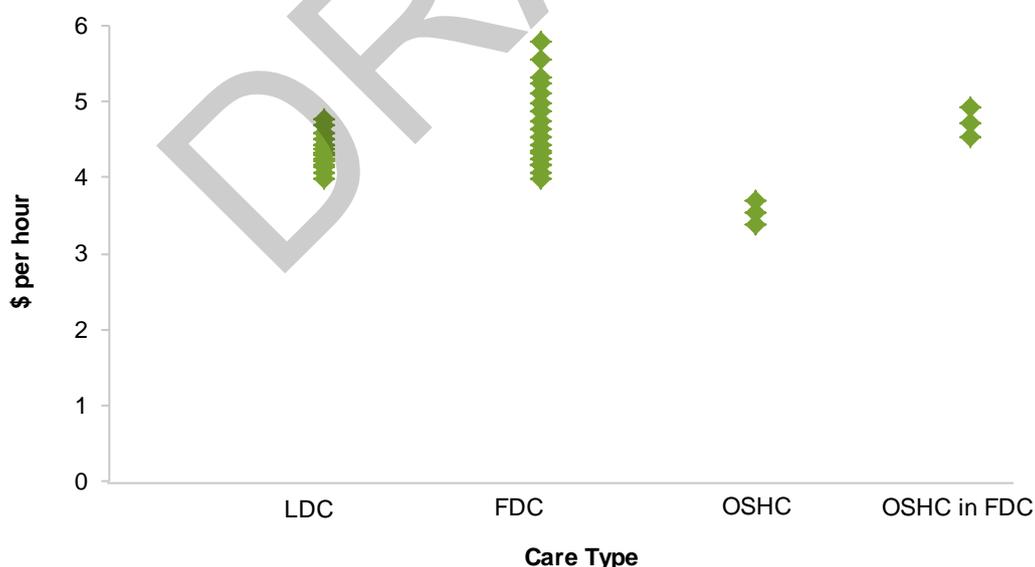
2. the maximum hourly rate is multiplied by the hours of care used by the family for the week for each care type, to give a weekly maximum subsidy by care type
3. the weekly maximum subsidy for each care type is added together to give a weekly maximum amount of CCB
4. this weekly maximum amount is subjected to an income test to determine the family's weekly CCB amount.

Maximum hourly rate of CCB

As outlined in appendix C, the 'maximum' rate for CCB for approved care in 2013-14 is \$3.99 per hour. However, the actual maximum hourly subsidy rate will change depending upon the type of care used, the number of children a family has in care and the length of time in care. In practice, the maximum CCB rate varies from \$3.39 an hour if a family has one child in Outside School Hours Care (OSHC) to \$5.78 an hour if a family has three or more children in Family Day Care (FDC) and each child is in care for less than 37.5 hours per week. Each possible maximum CCB payment rate is illustrated in figure G.5.

Figure G.5 Range of maximum hourly subsidy rates for CCB

Payment rates as of 2013-14



Data source: Commission calculations.

There are complex formulas involved in determining the maximum amount of CCB to which families are entitled; these calculations involve four stated adjustments and two adjustments incorporated into the calculation methodology. The two

methodological adjustments interact with the stated adjustments. The stated adjustments are that:

- the standard hourly rate of CCB is reduced by 15 per cent for OSHC
- the hourly rate of CCB is increased by 13.3 per cent for OSHC in FDC
- the hourly rate for FDC is increased by 33.3 per cent if a child is in care for less than 37.5 hours per week with this loading then reducing to zero if 50 hours of care is used
- the hourly rate of LDC is increased if a child is in care for less than 38 hours per week
 - the hourly rate is increased by 2 per cent if children attend between 37 and 38 hours a week, with the hourly rate increasing by 2 per cent more for each hour of attendance below 37 hours – up to a maximum of a 10 per cent increase for care below 34 hours a week.

The methodological adjustments relate to the number of children from the same family who use care in a given week:

- if two children from the same family use the same kind of care in a week, the hourly CCB rate is increased by 4.5 per cent
- if three or more children from the same family use care in a week, the hourly CCB rate is increased by 8.7 per cent.

The hours of care and calculating maximum weekly amount of CCB

Before the means test for CCB can be applied, it is necessary to know which maximum weekly CCB subsidy amount would apply for each family. The maximum weekly subsidy for each care type can be calculated by:

- taking the maximum hourly CCB subsidy that relates to the hours of care used for each care type
- multiplying that rate by the weekly hours of that care type used.

The maximum weekly CCB subsidy amount is obtained by adding the subsidy amount for each type of care for each child.

Applying the CCB means test

For approved forms of child care, the amount of CCB a family can receive is subject to a means test. The means test for CCB payments reduces the weekly subsidy amount that families are entitled to if their combined family income exceeds a threshold level. For 2013-14, this threshold was \$41 902.

The reduction in CCB is determined by applying taper rates. These taper rates reduce the weekly amount of CCB a family is entitled to for every dollar that the families income exceeds the income tapers. The taper that applies for each family varies depending upon the number of children in care (table G.5).

Table G.5 Taper rates for CCB for approved childcare
For 2013-14

	<i>Number of children in care from the same family</i>	<i>Stated taper rate (cents in the \$)</i>	<i>Annual family income threshold that taper applies above</i>
1 st taper	1	10c	\$41 902
	2 or more	15c	\$41 902
2 nd taper ^a	2	25c	\$97 632
	3 or more	35c	\$97 632

^a If a family only has one child in care, only the first taper is applied.

Given the methodology for determining CCB payments, most families receiving CCB will not face the full effect of the stated taper. This is because the stated taper is only applied in full if a child is in care on a full-time basis (typically 50 hours per week for a child younger than school age). Otherwise, the taper that is applied is a fraction of the stated taper.

For the purposes of calculating CCB, the hours a child is in care are the hours of care that are charged for. For example, if an LDC services operates for 10 hours a day and children are allocated a place on a daily basis, then families are charged based on the full 10 hours per day even if they do not use care for the full 10 hours. The subsidies parents receive would also be based on the 10 hours of care that parents are charged for.

How the taper rates vary based on hours of care per week

In order to demonstrate how the taper that is applied to a family's weekly CCB subsidy varies, a family with one child in long day care will be used as an example. To demonstrate how the applied tapers differ from the stated tapers, all these examples examine the impact of a family's weekly income rising by a single dollar.

In practice, the effects of income changes this small on childcare subsidies would be subjected to rounding adjustments. Because the examples are intended to demonstrate how the tapers work across a wide range of incomes, the rounding rules that would apply in these examples have been ignored.

If a family has the child enrolled in LDC for 50 hours a week and they have a combined annual family income of \$41 902, in 2013-14 they would be entitled to a CCB subsidy of \$199.50 per week. If their income increased by \$1 a week (or \$52 a year), the CCB they receive each week would fall by 10 cents — and if they are eligible for CCR, they would also receive 5 cents more a week in CCR. After combining the effects of changes in CCB and CCR, the family would lose 5 cents in childcare subsidies per week for each additional dollar of income they earned.

If the same family (with annual income of \$41 902 in 2013-14) used LDC for their child for 40 hours a week, they would be entitled to a CCB subsidy of \$159.60 per week — which is four fifths of the CCB they would be entitled to if the child attended LDC for 50 hours a week. If their income increased by \$1 a week (or \$52 a year), the CCB they receive each week would fall by 8 cents — and the CCR they obtain would increase by 4 cents a week. The family would lose 4 cents in childcare subsidies per week for each additional dollar of income they earned. The relationship between hours of care and CCB taper rates is illustrated in table G.6 and figure G.6.

Table G.6 Change in CCB and CCR due to additional earnings
For a family initially earning \$41 902 per year which increases by \$1 a week^a

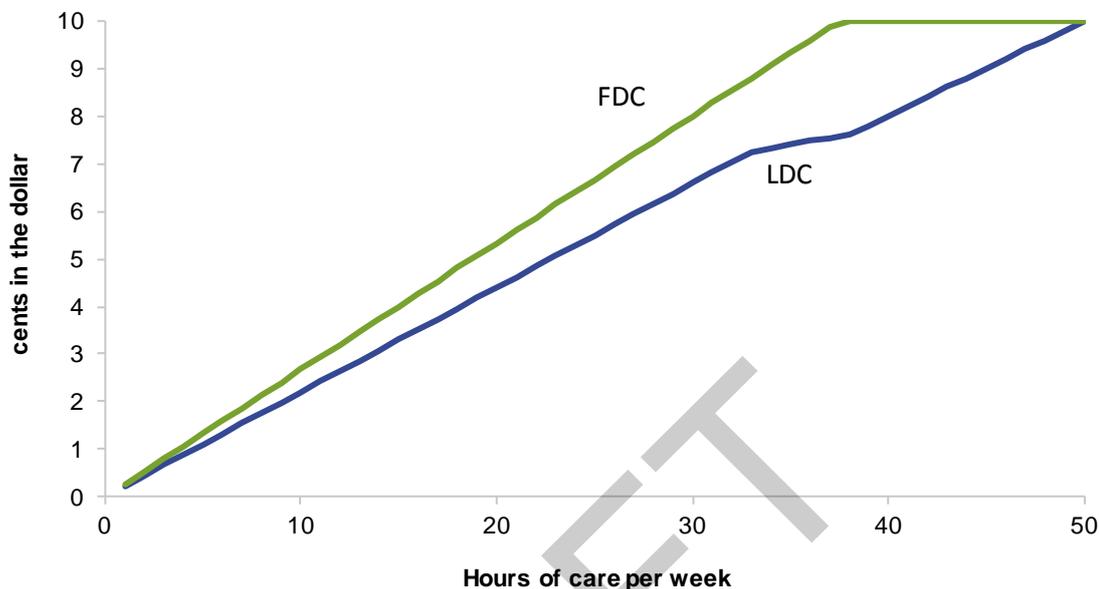
		<i>Hours of LDC use per week</i>		
		<i>25 hours (part-time loading applies)</i>	<i>40 hours</i>	<i>50 hours</i>
	<i>units</i>			
Max CCB subsidy	\$ per week	109.73	159.60	199.50
Withdrawal of CCB due to \$1 increase of weekly income	cents per week	5.5	8	10
Associated increase in CCR	cents per week	2.25	4	5
Overall decrease in ECEC subsidies	cents per week	2.25	4	5

^a For a family with one child in ECEC.

Source: Commission calculations.

Figure G.6 How applied CCB taper rates change based on weekly hours of care

For long day care and family day care for a family with 1 child in care



Data source: Commission calculations.

The final variant for a one child family is the impact of receiving a part-time loading, which is available when children attend either an LDC or FDC service below a threshold number of hours (although the threshold hours and operation of the part time taper between the care types). If a family has the child enrolled in LDC for 25 hours a week and they have a combined annual family income of \$41 902, in 2013-14 they would be entitled to a CCB subsidy of \$109.73 per week — 55 per cent of what they would be entitled to if the child was in care for 50 hours per week. This is more than half the subsidy for 50 hours of care because a 10 per cent loading is applied for LDC hours that are less than 34 hours per week. If the family were to earn \$1 a week more, the weekly CCB would be reduced by 5.5 cents — and the CCR would increase by 2.25 cents. The family would lose 2.25 cents of childcare benefit for each additional dollar of weekly income they earn.

The stated taper rates for CCB are the maximum that families will face. They only apply if children in the family are using ECEC services on a full-time basis. If they are using less care, then the taper that will apply will be lower than the stated taper. The reduced rate will be proportional to the ratio of the maximum rate of CCB, given the hours of ECEC used to determine the maximum CCB rate that would apply if ECEC was used on a full-time basis. For those families who are also eligible for CCR assistance — and who have not reached the CCR threshold — the

effective loss of childcare subsidies would only be half of the applied CCB taper rate due to the subsequent increase in CCR received.

How the taper rates vary by number of children in care and family income

Under the CCB arrangements, the stated taper differs based on the number of children. The taper rates for multiple children are higher than for families who only have one child in care.

The taper rate also varies by family income. Regardless of the number of children in care, assistance doesn't begin to reduce until annual family income reaches \$41 902 in 2013-14. For incomes above that level, assistance tapers at a constant rate of 10 cents in the dollar for families who have one child, and the family is entitled to no CCB once income exceeds \$145 642.

For families with more than one child, a two part taper is used. For families with two children, the first taper of 15 cents in the dollar for the family (or 7.5 cents in the dollar per child) applies to income ranges between \$41 902 and \$97 632, with a higher taper — 25 cents in the dollar per family or 12.5 cents in the dollar per child — applying between \$97 632 and when assistance cuts out at \$151 747 (table G.7).

Table G.7 Per child CCB taper rates — cents in the dollar

All children using either FDC or LDC on a full time basis in 2013-14

<i>Stated taper</i>		<i>maximum taper —</i>	<i>maximum taper —</i>	<i>maximum taper —</i>
		<i>1 child in care</i>	<i>2 children in care</i>	<i>3 children in care</i>
Taper 1	Stated taper	10	15	15
	Per child taper	10	7.5	5.0
Taper 2	Stated taper	na	25	35
	Per child taper	na	12.5	11.7

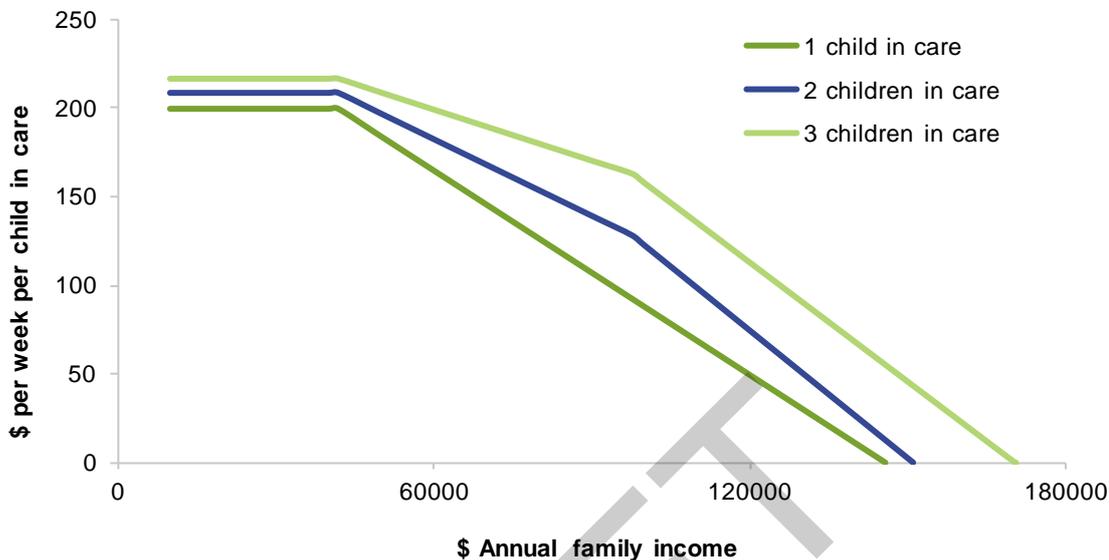
Source: Commission calculations.

Families with three children in care are still entitled to receive some CCB assistance for family incomes up to \$170 000 (figure G.7). For those families, the per child taper is 5.0 cents in the dollar for family incomes between \$41 902 and \$97 632 and 11.7 cents in the dollar for incomes over that amount.

Despite having higher tapers, the subsidies that families with multiple children in care are entitled to are always higher than for a family with one child in care which has the same family income (figure G.7).

Figure G.7 **Per child weekly CCB amounts**

All children using either FDC or LDC on a full time basis in 2013-14



Data source: Commission calculations.

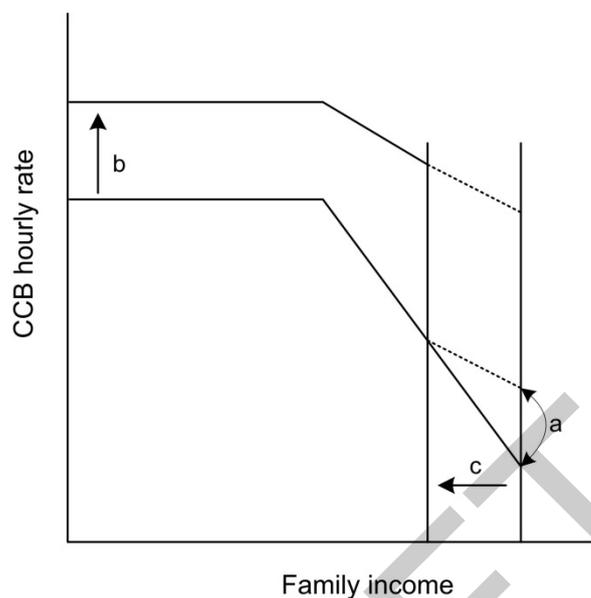
Interactions of CCB and other transfer payments that encourage part-time use of ECEC

Most families use ECEC services so they can work. Accordingly, the choice of parents' work hours and use of ECEC are typically linked. If parents increase their work hours, it is increasingly likely that they will use ECEC services. In addition, the more hours that parents work, the hours of ECEC that they use is likely to be higher.

As illustrated in figure G.8, when families make the linked decision to use ECEC on a part-time basis and have one or more parents working part-time:

- they will be subjected to a lower taper rate for any CCB assistance they receive (effect 'a' from figure G.8)
- they may be entitled to a higher hourly rate of CCB (effect 'b')
- if they are entitled to CCB, they will lose less of the CCB (effect 'c').

Figure G.8 The three ways CCB can encourage families to use less hours of ECEC a week



These in-built incentives in the CCB arrangements that encourage part-time use of ECEC are complimented and strengthened by elements of the CCR and transfer arrangements. The annual per child CCR cap of \$7500 provides an incentive for families currently using higher priced ECEC services to limit their use of ECEC so as not to exhaust their CCR subsidies (the Anneke cameo – no. 3). In addition, the partial overlap in the ranges of incomes in which CCB, FTB A and Parenting Payment are reduced actively discourages many secondary income earning parents from working on a full-time basis.

These interactions are often complex and are difficult for families to unravel. It is likely that many families will struggle to identify what work and care arrangements are the best for them financially. However, if families are in a situation where they are facing a very high EMTR (especially if it exceeds 100 per cent), most will be able to tell that they are working for very little (or no) additional money. The most likely response for such families would either be for the secondary income earner to work less, or to stop work altogether.

Jobs, education and training childcare funding assistance

As outlined in appendix C, families eligible for the Jobs, Education and Training Childcare Funding Assistance (JETCCFA) can receive some ECEC services at an out-of-pocket cost of 50 cents an hour.

To be eligible for JETCCFA, a parent needs to be studying or training. As such, parents receiving JETCCFA will typically not be earning income while their children attend ECEC services. As EMTRs measure how much of a person's additional income they get to keep after taxes and loss of transfer payments, it is not possible to calculate EMTRs for JETCCFA recipients.

Generally, the Commission's draft recommendations are likely to reduce the hourly ECEC subsidies that current JETCCFA recipients receive — but such families are likely to receive the highest subsidy levels under the proposed arrangements.

G.3 Specific examples of effective marginal tax rates

When calculating the EMTRs of families using ECEC services, it is necessary to analyse an array of tax and transfer arrangements. Many of the transfer payments are complex in their own right (with eligibility and payment rates varying based on family characteristics, the type of ECEC services used, the pattern of ECEC usage and income thresholds — with the thresholds also varying based on family characteristics).

The presence of systemic problems arising from the interactions of an array of taxes and transfer payments can be identified by examining EMTRs for some family circumstances (called cameos). The current or future prevalence of those circumstances can then be determined by examining the impacts of policies and policy changes on a representative sample of family circumstances. The following sections use selected cameos to highlight key strengths and weakness of the current ECEC funding arrangements. This approach also underlies the distributional analysis of the proposed reforms as outlined in chapters 12 and 13. Table G.8 outlines eight cameos that the Commission has undertaken to assist with an examination of EMTRs:

Table G.8 Commission cameos

	<i>Family structure</i>	<i>Number of children (ages)</i>	<i>Type of ECEC used</i>	<i>ECEC fees</i>	<i>Wage rate of mother</i>	<i>Partner's income (per annum)</i>	<i>Other factors</i>
				\$ per hour per child	\$ per hour	\$	
Cameo 1	Single	2 (2 and 3)	LDC	\$8	\$31.54	na	none
Cameo 2	Couple	3 (1, 3 and 6)	LDC for younger children, OSHC for oldest child	\$10 for LDC, \$6 for OSHC	\$85	\$110 000	none
Cameo 3	Couple	2 (3 and 6)	LDC for younger child, OSHC for older child	\$7.46 for LDC, \$5 for OSHC	\$21	\$78 000	none
Cameo 4	Couple	2 (3 and 6)	LDC for younger child, OSHC for older child	\$7.46 for LDC, \$5 for OSHC	\$50	\$130 000	none
Cameo 5	Single	2 (2 and 4)	LDC	\$7.46	\$23	na	none
Cameo 6	Couple	1 (3)	LDC	\$7.46	\$42	\$70 000	Mother has a HELP debt
Cameo 7	Couple	2 (6 and 8)	OSHC	\$5	\$21	\$70 000	none
Cameo 8	Couple	2 (2 and 4)	Friends (2 days), remainder LDC	\$7.46 for LDC	\$26	\$60 000	Using some informal care

na. Not applicable.

Apart from cameo 8, these cameos assume that families do not have access to informal care. As such, increasing the hours of work of the mother requires an increase in the amount of ECEC used. Chapter 3 notes that many families use at least some informal care arrangements. As informal care is typically cheaper than formal ECEC (or even free), families are financially better off using such arrangements where they are available and are considered suitable.

The effect of childcare costs on EMTRs depends on a number of factors. As well as care patterns of the family — such as how many children are in care, how many weeks the care is for and the hourly cost of that care — the rate of withdrawal of childcare assistance also affects EMTRs.

The Commission has modelled four scenarios varying the income thresholds and subsidy percentages of ECEC assistance. These scenarios are outlined in table G.9.

Table G.9 Overview of scenarios

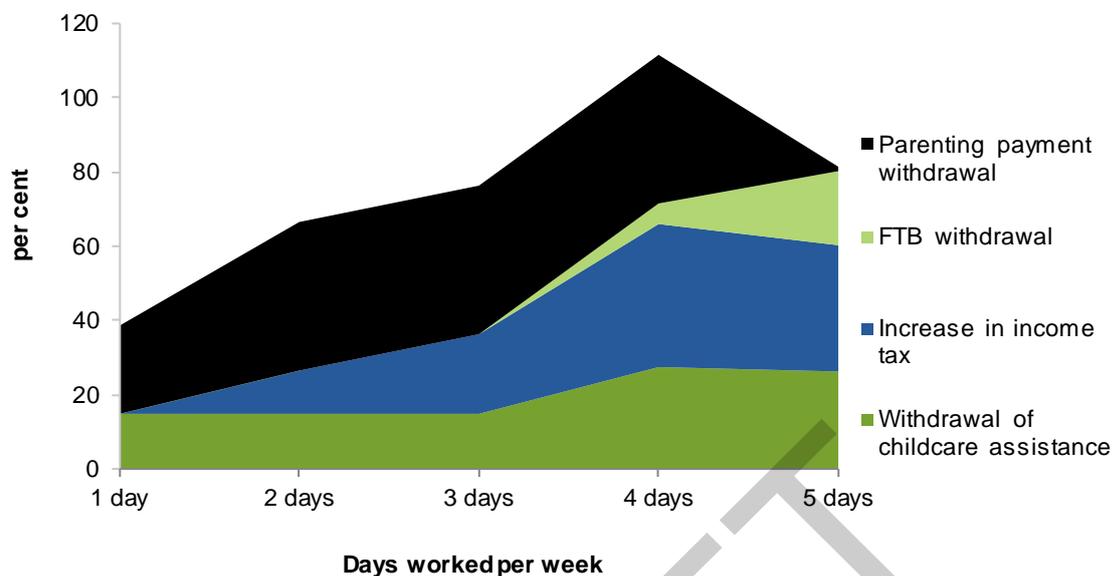
	<i>Starting subsidy percentage</i>	<i>Mid subsidy percentage</i>	<i>Minimum subsidy percentage</i>	<i>First income threshold</i>	<i>Second income threshold</i>	<i>Third income threshold</i>
Scenario 1	90	na	30	\$60 000	\$300 000	na
Scenario 2	90	50	30	\$60 000	\$130 000	\$300 000
Scenario 3	90	na	0	\$60 000	\$300 000	na
Scenario 4	90	50	0	\$60 000	\$130 000	\$300 000

It is important to note that scenarios only influence ECEC costs. Taper rates and income thresholds for other transfers — the Parenting Payment, and Family Tax Benefit assistance — and taxation rates reflect current policies and do not vary across scenarios. In a number of cameos, it is these payments that have the dominant effect on EMTRs and as such, EMTRs may remain very high in these cameos despite the EMTRs for childcare costs becoming more favourable.

Cameo 1

<i>Family structure</i>	<i>Number of children (ages)</i>	<i>Type of ECEC used</i>	<i>ECEC fees \$/hour/child</i>	<i>Wage rate of mother \$/hour</i>	<i>Partner's income (per annum) \$</i>	<i>Other factors</i>
Single	2 (2 and 3)	LDC	\$8	\$31.54	na	none

Cameo 1 replicates the circumstances of Nicola, who is used as a cameo family in box 4 of the overview. Nicola is entitled to the Parenting Payment, and it is the withdrawal of this benefit that has the biggest single impact on her EMTRs. From working two days to working three days, Nicola loses \$101 per week in her Parenting Payment, and this is the largest contributor to her EMTR being over 100 cents in the dollar for working on day 4 (figure G.9). This means that there is little immediate financial incentive for her to work beyond three days a week.

Figure G.9 **Cameo 1 — Nicola's current EMTR**

Data source: Commission estimates.

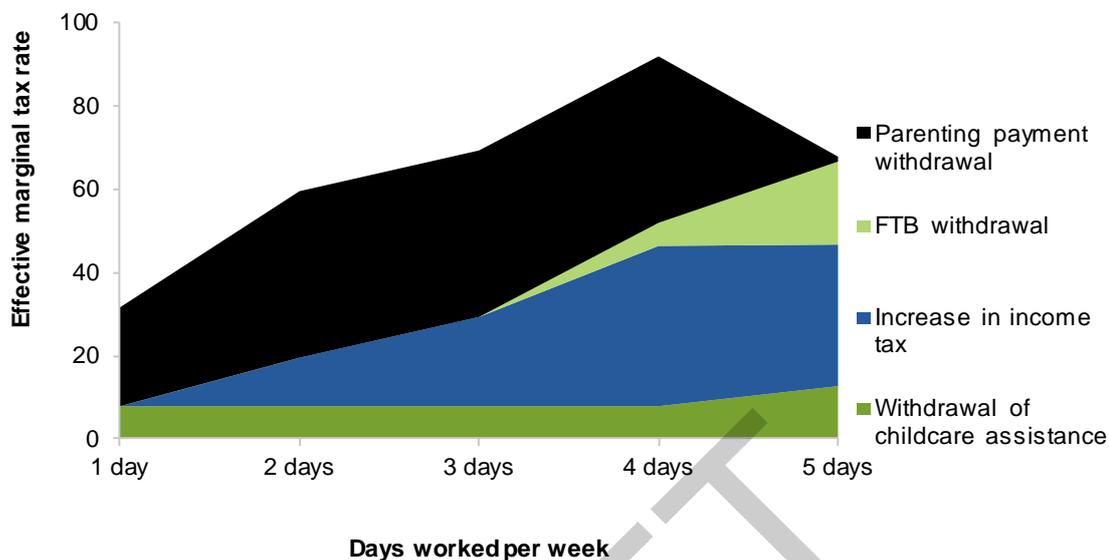
Under the Commission's proposals, Nicola would still face high EMTRs, but they no longer exceed 100 cents in the dollar for her fourth day at work because the effect of the withdrawal of childcare assistance on her EMTR is lessened. Her childcare assistance gets taken away more slowly — and consequently, her overall EMTRs are lower. Her EMTRs under the four scenarios are contained in table G.10, and a graphical representation of scenario one is provided in figure G.10 (because her EMTRs change very little across the different scenarios, the graphical profile of scenario one is very similar to the other scenarios).

Table G.10 **Nicola's EMTRs across scenarios**

	1 day	2 days	3 days	4 days	5 days
Current	38.6	66.5	76.3	111.5	81.4
Scenario 1	34.4	62.3	72.1	94.7	70.4
Scenario 2	34.4	62.3	72.1	94.7	76.3
Scenario 3	34.4	62.3	72.1	94.7	72.7
Scenario 4	34.4	62.3	72.1	94.7	76.3

Source: Commission estimates.

Figure G.10 **Cameo 1 — Nicola’s EMTR under scenario 1**



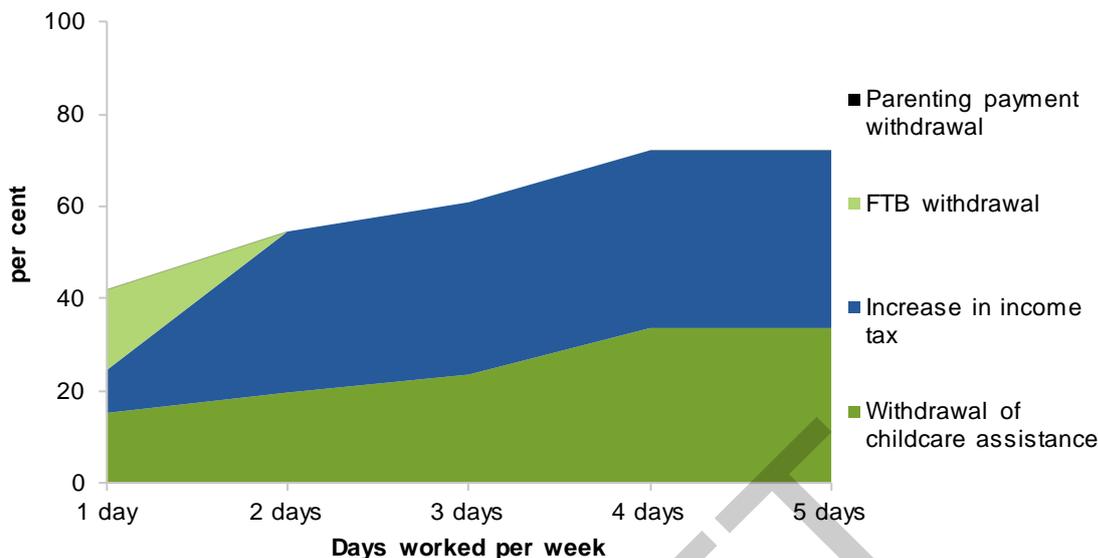
Data source: Commission estimates.

Cameo 2

Family structure	Number of children (ages)	Type of ECEC used	ECEC fees \$/hour/child	Wage rate of mother \$/hour	Partner's income (per annum) \$	Other factors
Couple	3 (1, 3 and 6)	LDC for younger children, OSHC for oldest child	\$10 for LDC, \$6 for OSHC	\$85	\$110 000	none

Cameo 2 replicates the circumstances of Melissa and Rick, who are used as a cameo family in box 4 of the overview. Under current policies, for this family, EMTRs remain below 100 cents in the dollar regardless of the number of days worked (figure G.11). That said, there is an increase in Melissa’s EMTRs on her fourth day of work, largely attributable to the family reaching the CCR cap for the children in LDC.

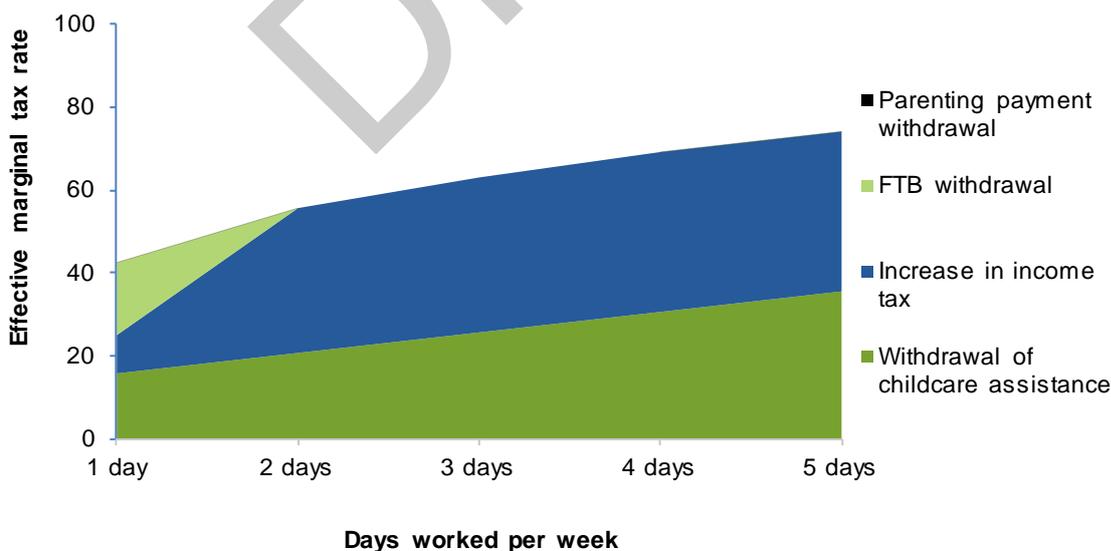
Figure G.11 **Cameo 2 — Melissa’s current EMTR**



Data source: Commission estimates.

Across all four scenarios, the parameters ‘smooth out’ Melissa’s childcare assistance, and as a result, this bump in EMTRs as she moves from three days of work to four days of work is removed. The EMTR profile Melissa faces under scenario 1 is shown in figure G.12.

Figure G.12 **Cameo 2 — Melissa’s EMTR under scenario 1**



Data source: Commission estimates.

Cameo 3

Family structure	Number of children (ages)	Type of ECEC used	ECEC fees	Wage rate of mother	Partner's income (per annum)	Other factors
			\$ per hour per child	\$ per hour	\$	
Couple	2 (3 and 6)	LDC for younger child, OSHC for older child	\$7.46 for LDC, \$5 for OSHC	\$21	\$78 000	none

Cameo 3 replicates the circumstances of Andy and Anneke, who are used as a cameo family in box 4 of the overview. Under current tax and transfer arrangements, Anneke faces EMTRs that peak on her third day of work (figure G.13). The peak at three days is the combination of a high rate of withdrawal of family tax benefits at the same time as she exceeds the tax free threshold. By increasing her hours of work from two to three days a week, Anneke continues to lose Family Tax Benefit part B, almost entirely loses Family Tax Benefit Part A and begins to pay income tax and the Medicare levy. The interaction of these measures dramatically reduces the financial incentives for Anneke to work three days a week.

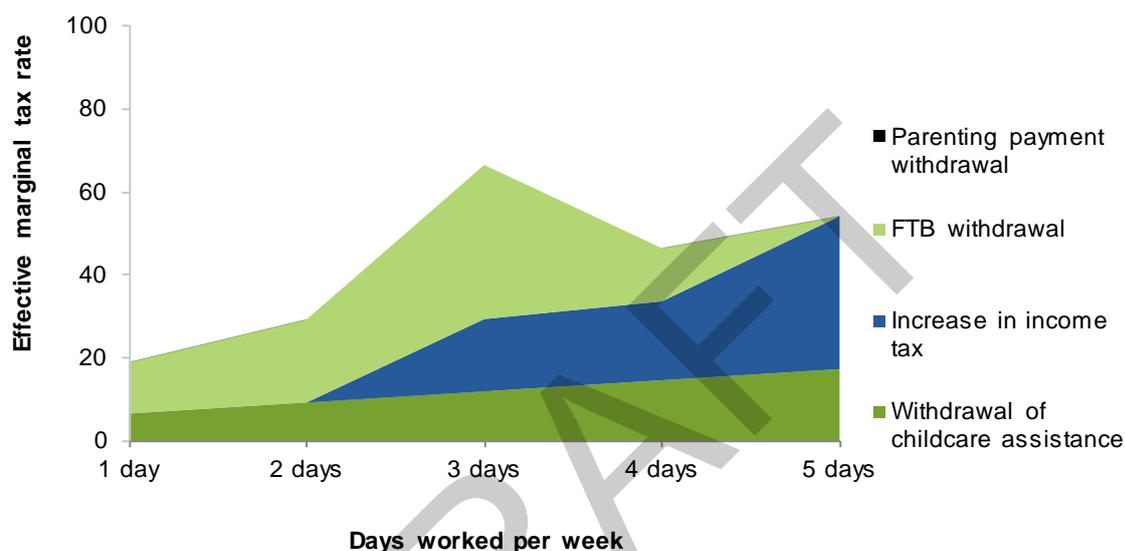
Figure G.13 Cameo 3 — Anneke's current EMTR



Data source: Commission estimates.

When examined across all four scenarios, the Commission’s proposals marginally lower the EMTRs of Anneke as she works more days. This is because under the Commission’s scenarios, childcare assistance paid to this family is tapered off more slowly, resulting in lower EMTRs. As can be seen in the graphical representation of scenario 1 (figure G.14), the incentives are still dominated by the withdrawal of Family Tax Benefit and when Anneke begins to pay income tax.

Figure G.14 **Cameo 3 — Anneke’s EMTR under scenario 1**



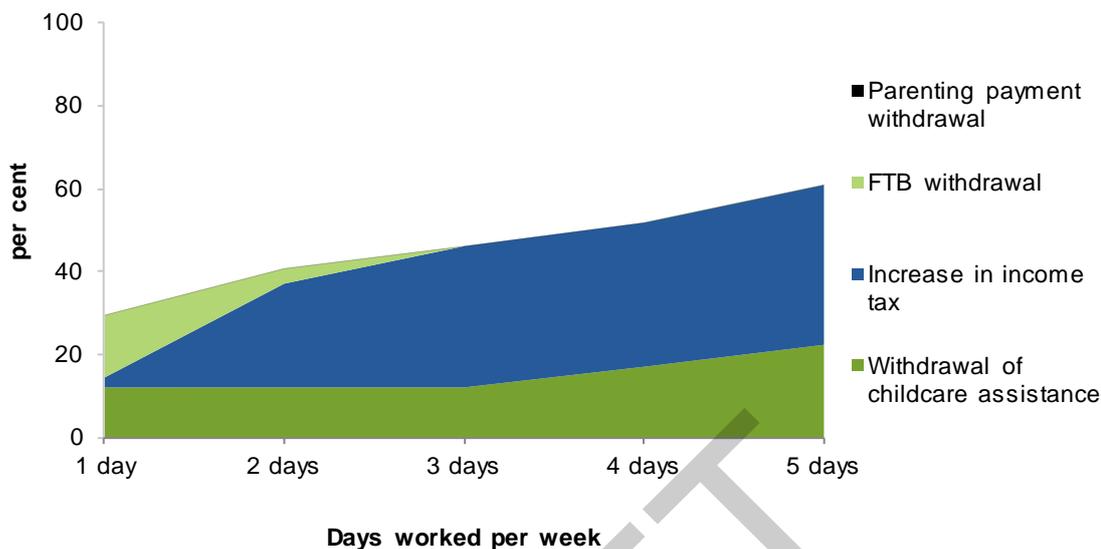
Data source: Commission estimates.

Cameo 4

Family structure	Number of children (ages)	Type of ECEC used	ECEC fees	Wage rate of mother	Partner's income (per annum)	Other factors
			\$ per hour per child	\$ per hour	\$	
Couple	2 (3 and 6)	LDC for younger child, OSHC for older child	\$7.46 for LDC, \$5 for OSHC	\$50	\$130 000	none

Cameo 4 represents a couple family with two children, one who uses LDC and the other who uses OSHC. The wage rate of the mother is assumed to be \$21 per hour. Under current policy settings, the mother in this family faces EMTRs that gradually increase the more days a week she works (figure G.15). EMTRs consistently remain well below 100 cents in the dollar.

Figure G.15 Cameo 4 — current EMTR of mother



Data source: Commission estimates.

The proposed reforms would tend to lower the out-of-pocket costs for childcare for this family if the second income earner works anything other than three days a week — with out-of-pocket child care costs being marginally higher for the third day (figure G.16).

Figure G.16 Cameo 4 — EMTR of mother under scenario 1



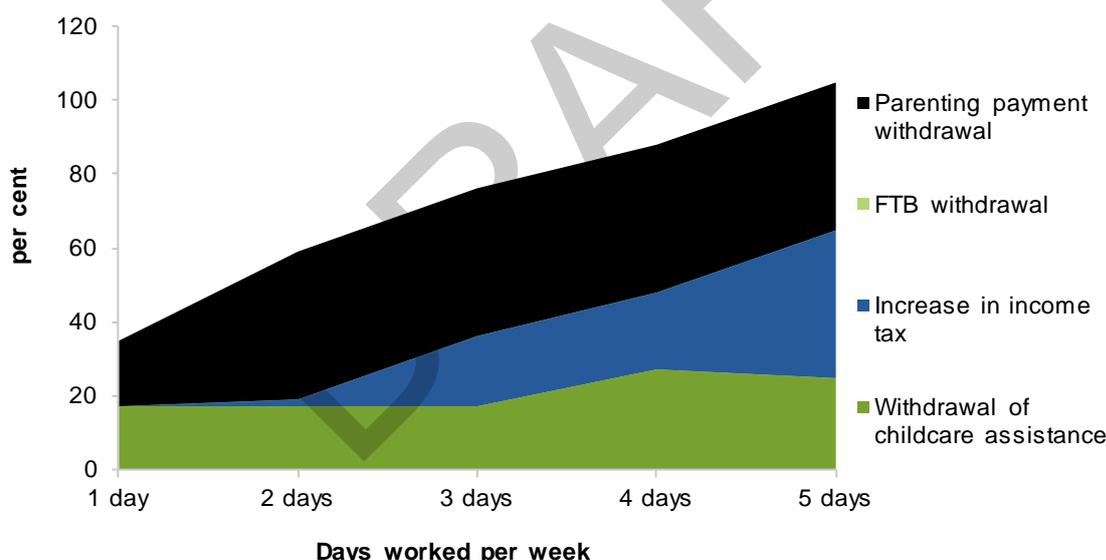
Data source: Commission estimates.

Cameo 5

Family structure	Number of children (ages)	Type of ECEC used	ECEC fees	Wage rate of mother	Partner's income (per annum)	Other factors
Single	2 (2 and 4)	LDC	\$ per hour per child \$7.46	\$ per hour \$23	\$ na	none

Cameo 5 represents a lone parent family with two children, both of which use LDC services. The assumed wage of the mother is \$23 per hour. Under current arrangements, this mother is eligible for the Parenting Payment, and this dominates her EMTR (figure G.17). The withdrawal of the Parenting Payment means that there is very little financial incentive for the mother to work beyond three days a week, because her EMTRs are very high.

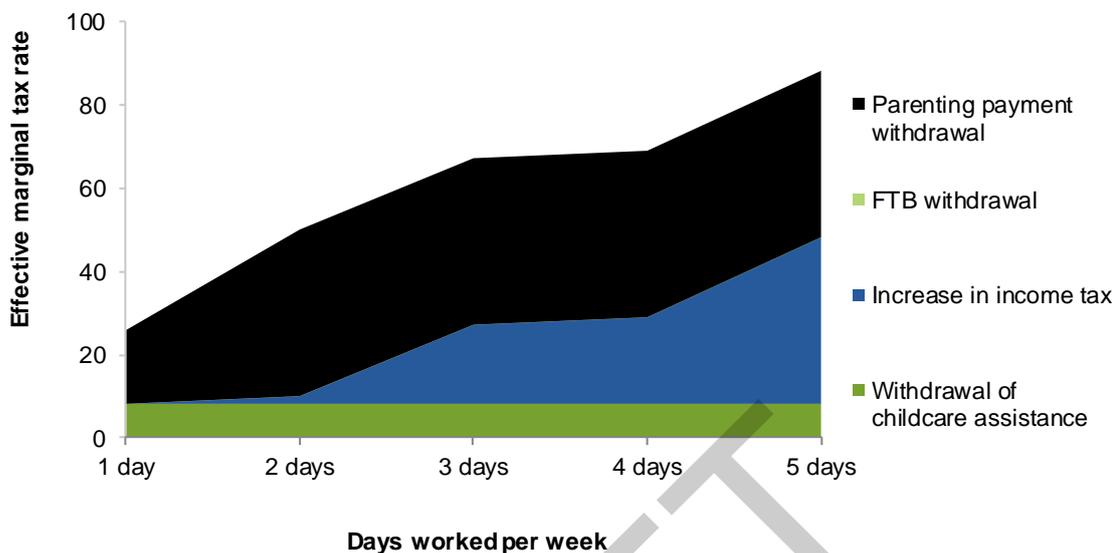
Figure G.17 Cameo 5 — current EMTR of mother



Data source: Commission estimates.

Under the Commission's scenarios, this family would be entitled to the maximum subsidy rate for ECEC assistance, no matter how many days the mother worked at her wage rate. This reduces the EMTR faced by this mother, however, the biggest influence on the mother's EMTR remains the Parenting Payment (figure G.18).

Figure G.18 **Cameo 5 — EMTR of mother under all four scenarios**



Data source: Commission estimates.

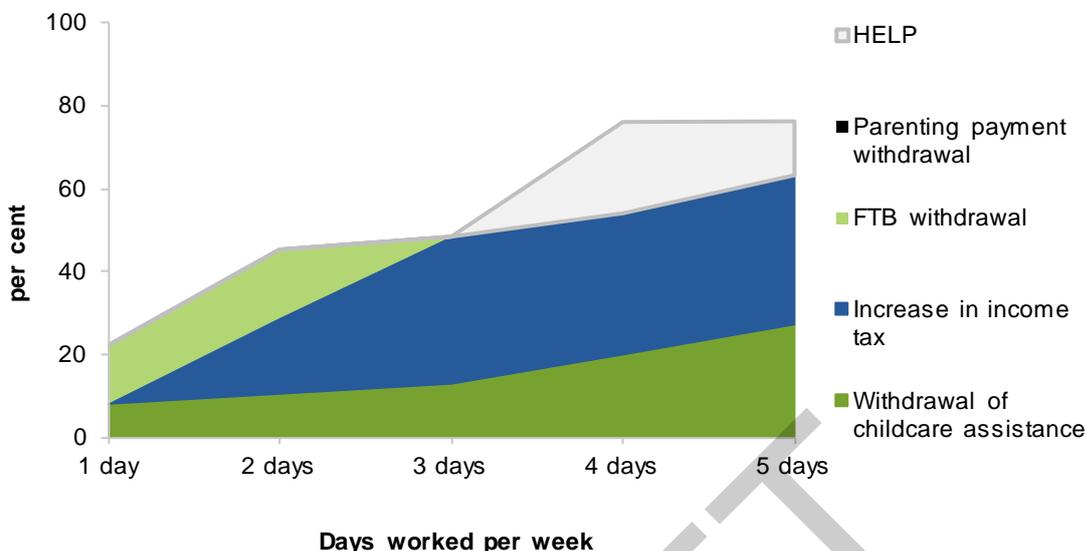
Cameo 6

Family structure	Number of children (ages)	Type of ECEC used	ECEC fees \$ per hour per child	Wage rate of mother \$ per hour	Partner's income (per annum) \$	Other factors
Couple	1 (3)	LDC	\$7.46	\$42	\$70 000	Mother has a HELP debt

Cameo 6 represents a couple family with one child who uses LDC. The assumed wage of the mother is \$42 per hour while her partner is assumed to earn \$70 000 per annum. In this scenario, the mother has a HELP debt.

Given the mother's assumed wage rate, she does not earn enough to start making (mandated) contributions to her HELP debt until she works four days a week. In response, this mother faces a steep rise in her EMTRs as she moves from three days of work to four days of work, although her EMTRs consistently remain below 100 cents in the dollar (figure G.19). Once this mother works more than three days a week, the CCR cap for her child in care is also reached (hence the increase in out-of-pocket ECEC costs on the fourth and fifth day of work).

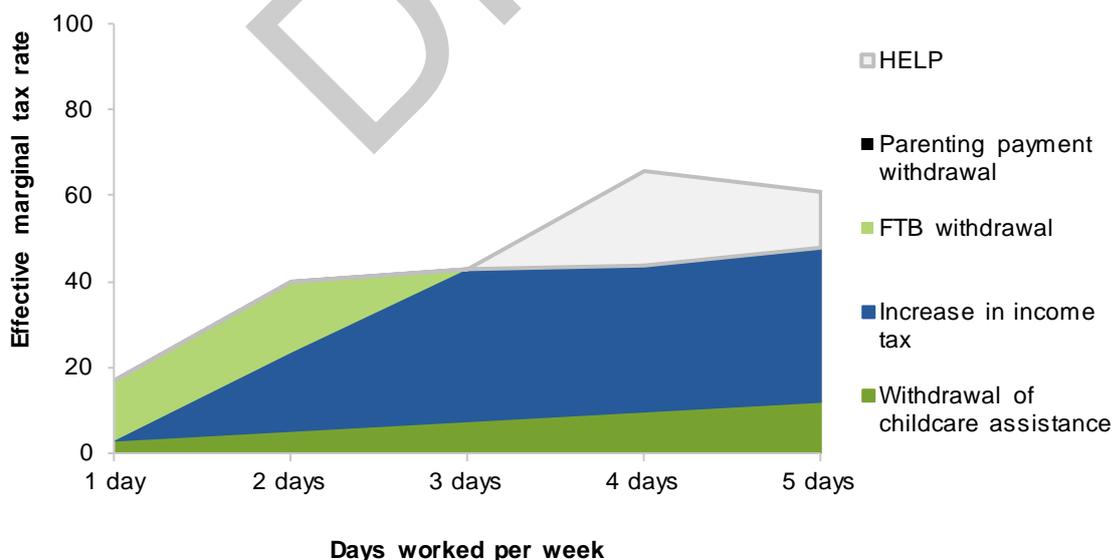
Figure G.19 Cameo 6 — Current EMTR of mother



Data source: Commission estimates.

As with previous cameos, the proposed changes to ECEC subsidies — predominantly the removal of caps on those subsidies — results in lower EMTRs for this mother (figure G.20). Overall, this family would pay lower out-of-pocket ECEC costs under the Commission’s proposals.

Figure G.20 Cameo 6 — EMTR of mother under scenario 1



Data source: Commission estimates.

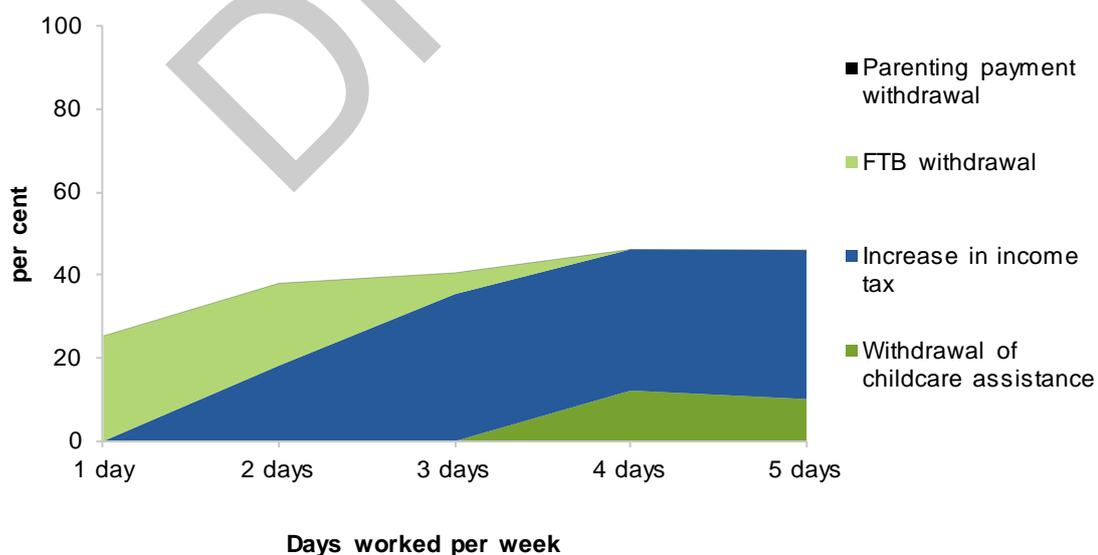
Cameo 7

Family structure	Number of children (ages)	Type of ECEC used	ECEC fees \$ per hour per child	Wage rate of mother \$ per hour	Partner's income (per annum) \$	Other factors
Couple	2 (6 and 8)	OSHC	\$5	\$21	\$70 000	none

Cameo 7 consists of a couple family with two school age children, both of who attend outside school hours care. For the purposes of the cameo, we have assumed that this family does not need to use OSHC services until the mother works more than 30 hours per week. This is because, for families which only have school age children, we assume that the mother has sufficient flexibility in her working arrangements to work during school hours — so long as the mother works less than 30 hours a week.

For consistency with other cameos, this pattern of work hours — of working up to 6 hours a day spread throughout the week — has been represented as an equivalent number of ‘standard work days’ (based on a full time work week of 38 hours assumed for other cameos). The profile of this mother’s EMTRs under current policy settings (assuming a wage rate of \$21 per hour) is shown in figure G.21.

Figure G.21 **Cameo 7 — Current EMTR of mother**



Data source: Commission estimates.

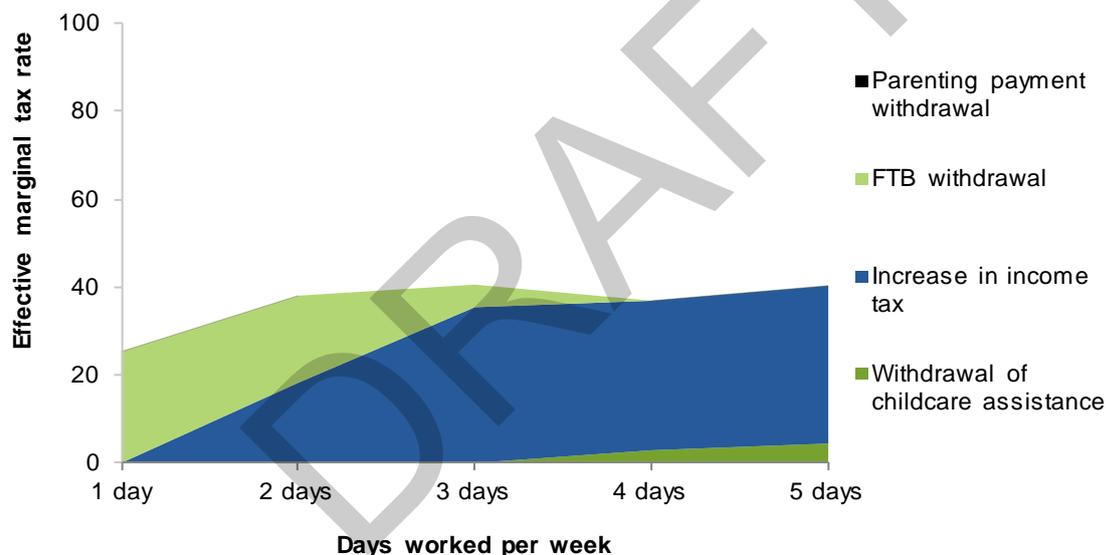
If this mother is working 30 hours per week, we assume that she works five days a week for six hours a day, avoiding the need for outside school hours care. For the purpose of comparing with other cameos, we have represented this as 3

Childcare only has a small influence on the EMTR's of this mother, owing to:

- childcare only being required after three days of work
- this family only requiring a very low amount of childcare a week
- the hourly cost of childcare for this family is low compared to other cameos.

As a result, under each of the four scenarios, the EMTR of the mother is slightly lower than under current policies. The EMTR for this mother under scenario 1 is outlined in figure G.22.

Figure G.22 **Cameo 7 — EMTR of mother under scenario 1**



Data source: Commission estimates.

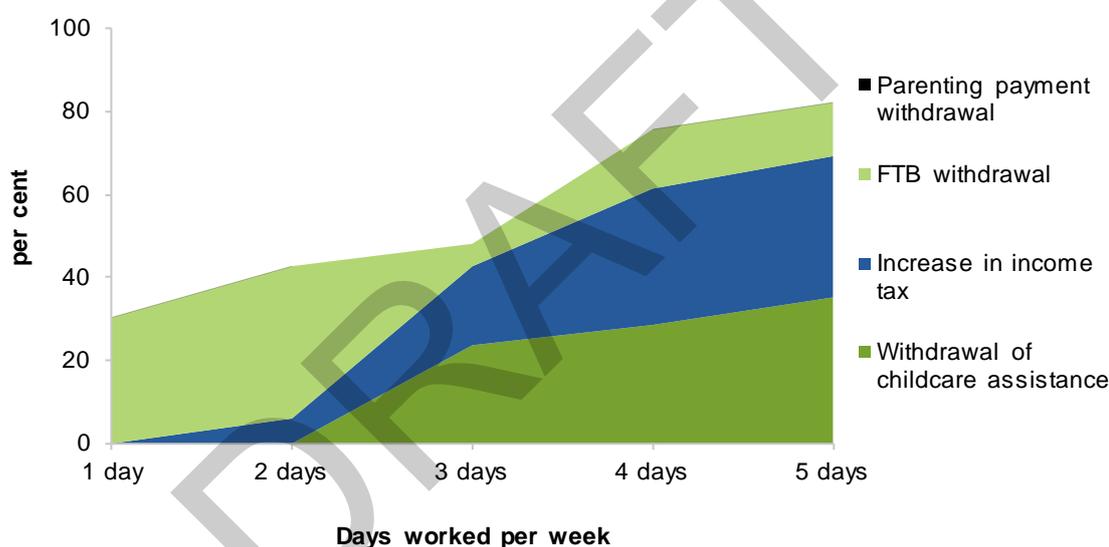
Cameo 8 represents a couple family with two children. This family has access to two days of informal care a week (through friends), with any more than two days of care provided by a LDC. The mother's wage is assumed to be \$26 per hour.

Cameo 8

Family structure	Number of children (ages)	Type of ECEC used	ECEC fees	Wage rate of mother	Partner's income (per annum)	Other factors
			\$ per hour per child	\$ per hour	\$	
Couple	2 (2 and 4)	Friends (2 days), remainder LDC	\$7.46 for LDC	\$26	\$60 000	Using some informal care

The profile of this mother's EMTRs can be seen in figure G.23.

Figure G.23 Cameo 8 — Current EMTR of mother



Data source: Commission estimates.

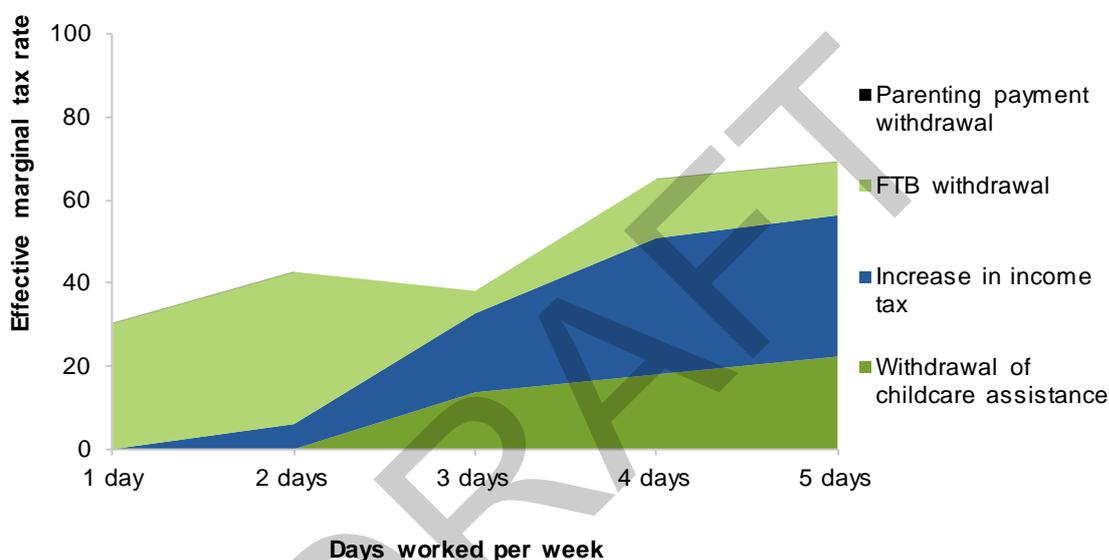
As this family has access to informal childcare for two days a week, the family is largely able to avoid the compounding effect of high withdrawal rates of Family Tax Benefit coinciding with out-of-pocket ECEC fees. By the time the second income earner works three days a week, the annual family income would exceed \$90 000. This is an income level when access to CCB is small. In addition, this is an income range around which the subsidies differ between the Commission's four scenarios. Under scenario 1 (figure G.24) and scenario 3, the family has lower out-of-pocket ECEC costs than under current arrangements, but this family would face substantially higher EMTRs if subjected to either of the multi-step tapers (table G.11).

Table G.11 Cameo 8 — Mother’s EMTR under each scenario

	1 day	2 days	3 days	4 days	5 days
Current	30.4	42.7	48.1	75.6	82.1
Scenario 1	30.4	42.7	38.1	65.1	69.2
Scenario 2	30.4	42.7	46.4	78.9	88.6
Scenario 3	30.4	42.7	41.3	70.4	76.8
Scenario 4	30.4	42.7	46.4	78.9	88.6

Source: Commission estimates.

Figure G.24 Cameo 8 — EMTR of mother under scenario 1



Data source: Commission estimates.

H The National Quality Framework

H.1 Introduction

Since 1 January 2012, most long day care, preschool, family day care and outside hours school care services fall within the scope of the COAG endorsed National Quality Framework for Early Childhood Education and Care (NQF).

Some service types are excluded from the scope of the NQF by the National Regulations (box H.1) and the National Law. In addition, both Tasmania and Western Australia have chosen to continue regulating kindergartens (preschools) in those states under relevant state education legislation. However, both states have committed to ensuring that state based requirements for these services (including up to year 2 in Western Australian primary schools) correspond with those of the NQF (Department of Premier and Cabinet – Tasmania, sub. 390; Western Australian Government, sub. 416). Key requirements of the NQF (section H.3) are being progressively implemented over the period to 2020 (all jurisdictions have varying ‘transitional provisions’ and are implementing some requirements within different timeframes). This appendix summarises the key requirements of the NQF, while its effects and potential reform options are discussed in chapter 7.

The NQF aims to create a uniform national approach to the regulation and quality assessment of early education and care (ECEC) services and replaces separate licensing and quality assurance processes in each jurisdiction. It was established in response to concerns about inconsistent quality standards across jurisdictions and overlap between Australian Government and state and territory government regulatory arrangements.

The NQF contains four key components:

- a national legislative framework (the National Law and National Regulations)
- a new national body, the Australian Children’s Education and Care Quality Authority (ACECQA), responsible for establishing consistent and efficient procedures for the operation of the NQF.
- a National Quality Standard (NQS) with seven assessable quality areas
- a national quality rating and assessment process to complement the NQS.

Box H.1 **Service types excluded by the National Regulations**

The scope of the National Quality Framework covers all early childhood education and care services excluding those listed as 'out of scope' by the National Regulations (below) and National Law.

Out of scope

- Disability services defined under state or territory law and early childhood intervention services for children with additional needs.
- Education and care in a child's home (excluding Western Australia).
- Education and care in a residence, other than as part of a family day care service.
- Occasional care services (for example, care offered ad hoc or on a casual basis).
- Education and care provided by a hotel or resort to children of short-term guests at the hotel or resort.
- Education and care that is provided to the children of a guest, visitor or patron where the person who is responsible for the child is readily available at all times.
- Education and care where it is primarily provided or shared by parents or family members
- Education and care provided at a high school to children of students attending the school
- Mobile services
- Services that provide education and care for no more than four weeks per calendar year during school holidays
- Transition to school programs provided by a school to orient children to that school
- Budget-based funded services, other than where the service also receives Child Care Benefit.
- Playschools licensed in the Australian Capital Territory
- Stand-alone services in Queensland (care provided in a home, or another place such as a hall or church — these are regulated by the State)
- Playcentres in South Australia
- Services licensed as centre-based class 4 or 5 services under the Child Care Act 2001 in Tasmania.
- Licensed limited hours or short-term services in Queensland or Victoria
- Government-funded services under the Western Australian *Children and Community Services Act 2004*.

Source: Education and Care Services National Regulations 2011.

Separate state and territory 'regulatory authorities' are responsible for administering most aspects of the regulation of ECEC services, including the approval (now nationally recognised) of providers and services and conducting quality assessments. The system of administering the NQF has been designed with the

objective of ensuring that ‘99 per cent of all service interactions’ (with either regulatory authorities or ACECQA) are with their jurisdiction based Regulatory Authority (ACECQA 2013d).

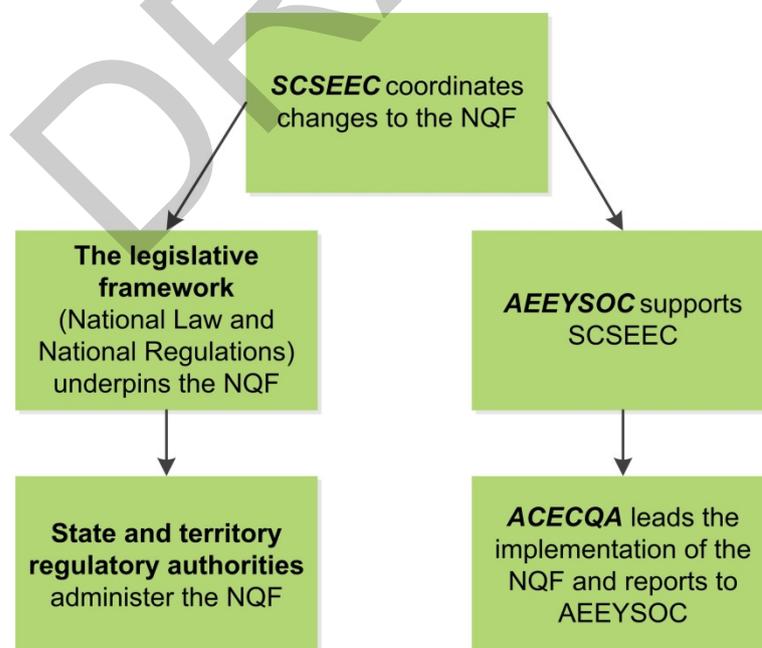
H.2 Governance

The governance of the NQF (figure H.1) involves three national bodies and eight jurisdictional regulatory authorities. ACECQA, which is responsible for leading the implementation of the NQF and ensuring national consistency, reports to two related COAG bodies:

- SCSEEC: The Standing Council on School Education and Early Childhood.
- AEEYSOC: The Australian Education, Early Childhood Development and Youth Affairs Senior Officials Committee.

These three bodies have responsibilities for administering, monitoring, enforcing and reforming the National Law and National Regulations at the national level. State and territory regulatory authorities administer the NQF on the ground in each jurisdiction.

Figure H.1 **Governance of the NQF**



A national legislative framework

The national legislative framework underpinning the NQF consists of:

- the *Education and Care Services National Law* (the National Law)
- the Education and Care Services National Regulations 2011 (National Regulations)

The framework was established through an applied laws system. Under this system, a host jurisdiction (Victoria) first passed the *Education and Care Services National Law Act 2010* (Vic). This legislation was then adopted by all other states and territories with the exception of Western Australia, which passed its own corresponding legislation with some minor variations.

This framework replaced separate licensing and quality assurance processes and created a jointly governed, uniform national approach to the regulation and quality assessment of ECEC services. A key aim of this approach is to reduce red tape, which was particularly complex for providers operating across multiple jurisdictions.

The National Law and National Regulations set out:

- approval processes for the operation of education and care services
- the assessment and rating system
- key operational requirements
- compliance, monitoring and enforcement powers
- the functions and powers of SCSEEC, ACECQA and the regulatory authorities in each jurisdiction
- key transitional arrangements.

The NQF covers most long day care, family day care, preschools (or kindergartens) and outside school hours care services in Australia. In Western Australia, it also extends to home-based care⁹⁴. All other forms of care, including mobile, occasional care and most Budget Based Funded⁹⁵ services are excluded from the NQF (box H.1).

⁹⁴ Home-based care is where a child is cared for in their own home.

⁹⁵ The Budget Based Funded Programme provides a contribution to the operational costs of some services, predominantly located in rural, remote and Indigenous communities.

SCSEEC and AEEYSOC

SCSEEC and AEEYSOC are COAG bodies that work together to guide strategic policy on ECEC at a national level.

SCSEEC, launched on 18 January 2012, is one of 13 Standing Councils established under current COAG arrangements; replacing the Ministerial Council for Education, Early Childhood Development and Youth Affairs. Its membership includes state, territory, Australian Government and New Zealand Ministers with responsibilities for either school education, early childhood development, and/or youth affairs. SCSEEC provides a forum through which national policy on ECEC (as well as school education and other youth policy) can be coordinated. Its responsibilities include endorsing and coordinating changes to the NQF.

SCSEEC is supported by AEEYSOC, a group of senior state, territory and Commonwealth officials with responsibility for school education, ECEC and youth affairs. Its roles include:

- providing policy advice to SCSEEC
- supervising and coordinating SCSEEC's work across its advisory bodies and working groups
- resolving operational and policy issues before progressing matters raised by ministerial authorities and companies to SCSEEC
- managing and coordinating jurisdictions' funding contributions for national agreed projects and initiatives, through the SCSEEC Secretariat.

AEEYSOC's membership comprises the head of the relevant department from each state and territory government, the Australian Government and the New Zealand Government. It also includes a representative from the SCSEEC Youth Working Group, the Community and Disability Services Ministers' Advisory Council and the Australian Health Ministers' Advisory Council. AEEYSOC is directly responsible to SCSEEC.

ACECQA

ACECQA is a national statutory authority established under the National Law to lead the implementation of the NQF. The Authority has a 13 member board — eight nominated by the states and territories and four by the Australian Government, plus a Chair appointed independently by SCSEEC. The ACECQA Board is appointed by, and accountable to, SCSEEC. The Board reports to SCSEEC through

AEEYSOC. ACECQA's CEO is responsible for the day-to-day management of the authority.

In addition to advising SCSEEC, ACECQA has a number of other roles (box H.2) relating to ensuring consistency across all states and territories and undertaking national administrative functions. It does not directly regulate ECEC services.

Box H.2 Responsibilities of ACECQA

- Monitor the consistency of, and assist in, assessments and ratings, including:
 - establishing consistent procedures for the operation of the NQF
 - conducting national consistency audits
 - assessing which services receive the 'Excellent' rating
 - conducting 'second tier' reviews.
- Conduct research on ways to reduce regulatory burden in the sector
- Determine qualification requirements for authorised officers and deliver support and training for staff of regulatory authorities
- Determine approved qualifications for educators, including assessment of equivalent qualifications
- Undertake national administrative functions, including:
 - maintaining and publishing the national registers of approved providers and services and certified supervisors
 - collecting and publishing national data on the assessment, rating and regulation of ECEC services and the implementation of the NQF
 - maintaining the National IT System for the NQF and facilitating IT training for jurisdictions.
- Publish guides, practice notes and resources to assist parents and the sector in understanding the NQF and the National Law.

Source: ACECQA (2013a).

State and territory regulatory authorities

State and territory regulatory authorities (box H.3) administer the NQF in each jurisdiction. Almost all service interactions — including approvals, assessments, queries and complaints — should be with their jurisdiction-based Regulatory Authority. Regulatory authorities are responsible for:

- granting all approvals, including for providers, services and certified supervisors
- assessing and rating services
- monitoring and enforcing compliance

-
- granting waivers
 - conducting ‘first tier’ reviews.

Box H.3 Regulatory authorities in each jurisdiction

- **Australian Capital Territory:** Children’s Policy and Regulation Unit; Education and Training Directorate
- **New South Wales:** Early Childhood Education and Care Directorate; Department of Education and Communities
- **Northern Territory:** Quality Education and Care NT; Department of Education
- **Queensland:** Office for Early Childhood Education and Care; Department of Education, Training and Employment
- **South Australia:** Education and Early Childhood Services Registration and Standards Board of South Australia
- **Tasmania:** Education and Care Unit; Department of Education
- **Victoria:** Department of Education and Early Childhood Development
- **Western Australia:** Education and Care Regulatory Unit; Department of Local Government and Communities

H.3 Licensing, the NQS and assessments

The NQF created a national system of licensing and assessments to replace previously independent systems in each jurisdiction. This new system means providers and staff should have the same experiences in each jurisdiction and services should undergo an identical assessment process.

Licensing

The NQF includes three interrelated types of (nationally recognised and ongoing) approvals for providers, services and their staff:

- Provider approval: enables providers to apply for one or more service approvals
- Service approval: authorises an Approved Provider to operate an Approved Service, each of which must have a Nominated Supervisor
 - There are two types of service approvals: one for centre-based services (long day care, preschool/kindergarten and outside of school hours care) and one for family day care services

-
- Supervisor approval: allows a person to be appointed as the Nominated Supervisor for an Approved Service, or to be temporarily placed in charge of an Approved Service when the usual Nominated Supervisor is absent.

State and territory regulatory authorities are responsible for granting all three types of approvals. Providers and services with existing approvals before the implementation of the NQF were transitioned to the new approvals system by their Regulatory Authority without reapplication.

The National Quality Standard

The NQS creates a uniform approach to assessment and ratings for ECEC services and rates services across seven 'quality areas' (box H.4). These quality areas are divided into 18 'standards' containing '58 elements', for example:

- Standard 2.2 — Healthy eating and physical activity are embedded in the program for children — is one of three standards in quality area 2 and contains two elements:
 - Element 2.2.1 — Healthy eating is promoted and food and drinks provided by the service are nutritious and appropriate for each child.
 - Element 2.2.2 — Physical activity is promoted through planned and spontaneous experiences and is appropriate for each child.

Each quality area contains two or three standards and each standard is made up of between one and six elements.

Several key aspects of the NQS — Quality Improvement Plans, educator-to-child ratios and staff qualification requirements — are discussed in further detail below.

Box H.4 The seven quality areas of the NQS**Quality Area 1: Educational program and practice**

- Comprises two standards and nine elements.
- Requires the service to use and document an approved learning framework and develop an educational program.

Quality Area 2: Children's health and safety

- Comprises three standards and ten elements.
- Relates to policies and procedures regarding hygiene practices, healthy eating, physical activity, preventing harm to children and dealing with injury or illness.

Quality Area 3: Physical environment

- Comprises three standards and seven elements.
- Requires the design of indoor and outdoor areas to be safe, suitable and provide a diverse range of experiences, and for the service to use sustainable practices.

Quality Area 4: Staffing arrangements

- Comprises two standards and four elements.
- Relates to educator-to-child ratios, staff qualification requirements and professional staff interactions.
- Requirements vary substantially between centre-based and family day care services.

Quality Area 5: Relationships with children

- Comprises two standards and six elements.
- Relates to interactions with and support for children.

Quality Area 6: Collaborative partnerships with families and communities

- Comprises three standards and nine elements.
- Includes relationships with and information provided to families, engagement with the local community and facilitation of access to support assistance.

Quality Area 7: Leadership and service management

- Comprises three standards and thirteen elements.
- Includes governance arrangements and the development of key documentation, records and administrative systems.

Quality Improvement Plans

The National Regulations require every approved service to develop a Quality Improvement Plan (QIP). Developing a QIP is a core requirement of the NQF that requires each service to evaluate their current practices and conduct a

self-assessment against the NQS, but is not a specific element within the NQS. A QIP must:

- assess current practices against the National Regulations and the NQS
- identify areas for improvement
- formulate strategies to address areas identified as needing improvement
- contain a statement about the philosophy of the service.

Services must submit a QIP to their Regulatory Authority each time they are assessed. The QIP must be revised at least annually and be available to families and the Regulatory Authority at all times.

Educator-to-child ratios

The NQF established national educator-to-child ratios ('staff ratios') for both centre-based and family day care services. Although the NQF applies to children of school age, it does not include a national staff ratio for these children— individual jurisdictions have their own arrangements for this age group (chapter 7).

Staff ratios for centre-based services (excluding teachers) are being phased in by 2016 (table H.1). Some jurisdictions already met the new ratios before their introduction or are adopting them earlier than others, while some have retained higher standards that override the national ratios.

The National Regulations require these ratios to be maintained at all times, excluding an allowance for each educator to take up to 30 minutes off the floor per day. This means services must have sufficient staff available (whether full-time, part-time or casual) to fill planned or unplanned staff absences outside of this 30 minute period.

This system of staff ratios also allows for children in older age groups to be 'mixed' into the ratio allocation for younger age groups, in cases where an educator has excess capacity. For example, if a service has one educator caring for three children aged 0 to 24 months, then that educator has the capacity to care for one additional child in an older age group (thereby reaching the maximum 1:4 ratio allowed for the 0 to 24 month age group).

Table H.1 **Staff ratios for centre-based services**

National timeframes in bold

Age	Ratio	Timeframe	Until implementing NQF
Birth to 24 months	1:4	1 January 2012	1:4 in Qld ^a , Vic
		1 August 2012 in WA	1:5 in all other states
		1 January 2018 for some Qld services ^a	
25 to 35 months	1:5	1 January 2012 in ACT, NT, Tas	1:4 in Vic
		1 August 2012 in WA	1:5 in ACT, NT, Tas, WA
		1 January 2016 in NSW, Qld, SA	1:6 in Qld
		- Remains 1:4 in Vic	1:8 in NSW 1:10 in SA
36 months up to and including preschool age	1:11	1 January 2012 in NT	1:10 in NSW, SA, Tas ^d , WA
		1 January 2016 in ACT, Qld, Vic	1:11 in ACT ^e , NT
		- Remains 1:10 in NSW, Tas ^b , WA	1:12 in Qld
		- Remains 1:10 for some services in SA ^c	1:15 in Vic

^a Queensland: Pre-NQF, services could choose from multiple ratios, including 1:4 for children aged 0-2 years and 1:5 for 15 months to 3 years. Services which were licensed on 1 January 2011 may continue to operate under these ratios until 1 January 2018. ^b Tas: 2:25 for children attending a preschool program. ^c SA: 1:10 for 'disadvantaged preschools' and preschool-aged children at an ECEC service other than a dedicated preschool. ^d Tas: 1:12 for preschool age children in a centre-based preschool. ^e ACT: 2:25 for preschool age children in a centre-based preschool

Note: in Qld, a range of seven mixed aged groups were previously available to provide flexibility to providers.

Source: Education and Care Services National Regulations 2011.

A family day care educator may not care for more than seven children at any one time, of which a maximum of four may be under school age (table H.2). This ratio now applies across all states and territories, but was adopted at different times:

- 1 January 2012 in ACT, Qld, SA, Vic
- 1 January 2014 in NSW, NT, Tas, WA.

Table H.2 **Staff ratios for family day care services**

Age	Ratio	Until implementing NQF
All children	1:7	1:7 in all jurisdictions
Children under school age	At most 4	A maximum of 4 children under school age in ACT, Qld, SA, Vic
		A maximum of 4 children under 5 years of age in Tas
		A maximum of 5 children under 6 years of age in NSW
		A maximum of 5 children below school age, with at least 1 to be a kindergarten child, in WA
		A maximum of 2 children under 3 years of age in NT

Source: Education and Care Services National Regulations 2011.

A family day care service may care for more than seven children, or more than four children who are preschool age or under, in exceptional circumstances. These include when:

- all the children are siblings
- a child is in need of protection under child protection law
- the residence is in a rural or remote location and no alternative care is available.

If the educator's own children or any other children are at the service while it is operating and are under 13 years of age, they must be included in the total number of children. The regulations for family day care also specify that a maximum of seven children can be educated at each family day care residence at any one time, which means a service cannot increase the number of educators at a residence in order to increase the number of available places.

The National Regulations do not prescribe how many coordinators are required in a family day care service. Providers are expected to determine how many coordinators are required to adequately monitor and support their educators.

Qualification requirements

The NQF established new minimum qualification requirements for both centre-based and family day care services. These requirements are prescribed only for educators working with children who are under school age, so they are not applicable to outside of school hours care services. However, as is the case with staff ratios, some states and territories have qualification requirements relating to the care of children above preschool age (chapter 7).

ACECQA maintains and publishes a list of nationally approved qualifications for centre-based and family day care services. It also maintains a separate list of approved qualifications for school age children (where qualifications are approved separately for each jurisdiction).

There are two sets of qualification requirements for centre-based services (box H.5):

- the hiring of up to two full-time equivalent early childhood teachers, dependant on how many children are cared for on a given day
- minimum qualifications for other educators at the service.

Several jurisdictions maintain different requirements relating to the hiring of early childhood teachers (chapter 7).

Box H.5 Qualification requirements for centre-based services

Early childhood teachers

From 1 January 2014

Services providing care to less than 25 children must ensure an early childhood teacher is in attendance at least 20 per cent of operating hours.

Services providing care to 25 or more children on any given day must ensure an early childhood teacher is in attendance for at least:

- six hours on that day (for a service that operates for 50 or more hours per week)
- 60 per cent of operating hours (for a service that operates for less than 50 hours)
 - A service may comply with these requirements by engaging a full-time equivalent early childhood teacher.

By 1 January 2020

Services providing care to between 60 and 80 children on any given day must ensure a **second** early childhood teacher is in attendance for at least:

- three hours on that day (for a service that operates for 50 or more hours per week)
- 30 per cent of operating hours (for a service that operates for less than 50 hours)
 - A service may comply with these requirements by engaging a second early childhood teacher for half of full-time equivalent hours.

Services providing care to more than 80 children on any given day must ensure a **second** early childhood teacher is in attendance for at least:

- six hours on that day (for a service that operates for 50 or more hours per week)
- 60 per cent of operating hours (for a service that operates for less than 50 hours)
 - A service may comply with these requirements by engaging a second full-time equivalent early childhood teacher.

Other educators

From 1 January 2014, minimum qualification requirements apply to all educators necessary to meet the minimum staff ratios for a service (i.e. educators that are excess to minimum staff ratio requirements do not require qualifications):

- at least 50 per cent must have (or be actively working towards) at least an approved diploma level education and care qualification
- the remaining educators necessary to meet the minimum staff ratios must have (or be actively working towards) at least an approved Certificate III level education and care qualification.

Source: ACECQA (2013c).

New qualification requirements for family day care services began on 1 January 2014. There are two sets of requirements, one each for family day care educators and coordinators:

- family day care educators must have (or be actively working towards) at least an approved certificate III level education and care qualification
- family day care coordinators must have at least an approved diploma level education and care qualification.

In addition to the qualification requirements above, both centre-based and family day care services must meet first aid qualification requirements:

- a centre-based service must have, in attendance and immediately available in case of an emergency, at least one educator who holds a current approved first aid qualification, one educator who has undertaken anaphylaxis management training and one educator who has undertaken emergency asthma management training
 - the same educator may hold more than one of these qualifications
 - if the service is provided by a school on a school site, the person holding these qualifications may be on the wider school site (that is, not at the ECEC service itself) as long as they are available in an emergency (for example, a school nurse)
- each family day care educator must hold a current approved first aid qualification, have undertaken anaphylaxis management training and emergency asthma management training.

The assessment and ratings process

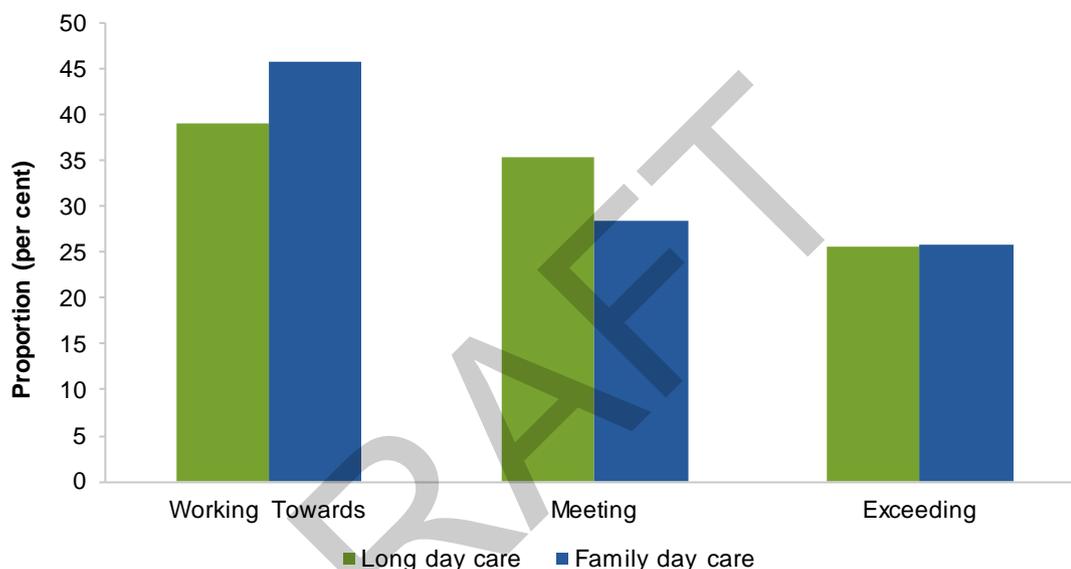
Approved services are assessed by their jurisdiction-based Regulatory Authority and receive a rating for each of the seven NQS quality areas and an overall rating. There are five rating levels that a service may receive as a result of the assessment process:

- Excellent (overall rating only) – awarded by ACECQA on application
- Exceeding NQS
- Meeting NQS
- Working Towards NQS
- Significant Improvement Required.

These ratings must be displayed by the service and are published on the ACECQA and MyChild websites. As at 31 March 2014, approximately 60 per cent of the long day care and over half of the family day care services which had been assessed had received either a Meeting or Exceeding rating (figure H.2). Family day care services were slightly more likely to be rated as Working Towards NQS, but equally likely to be rated as Exceeding.

Figure H.2 **Distribution of ratings across all service types**

n = 5066.^a



^a Excluding 8 Significant Improvement Required and 11 Excellent ratings.

Data source: ACECQA (2014b, p. 16).

The assessment process is designed to last up to 16 weeks (figure H.3). Before changes to the assessment timeframe in April 2014, this process lasted up to 20 weeks. This lengthier timeframe was mostly due to a longer lead in time before the service had to submit its QIP (now reduced from 6 weeks to 3 weeks) and a longer gap between when the service submits its QIP and when the assessment visit occurs (reduced from 6 weeks to 2-5 weeks). Many services are not assessed within the timelines prescribed under the National Law (chapter 7).

Figure H.3 The assessment and rating process



Source: Adapted from ACECQA (2014a).

As part of the ratings process, services must submit their QIP to the Regulatory Authority and undergo an assessment conducted by an ‘authorised officer’ of the Regulatory Authority. ACECQA provides guidance to regulatory authorities on the manner of assessments, which vary between service types (box H.6)

Box H.6 The recommended assessment process varies by service type

Long day care and preschool

- Minimum six hour visit (or two sessions for preschool).
- Two day or three session visit triggered when the service has four rooms or more.

Outside of school hours care

If the service provides both before and/or after school care and vacation care, it is likely scheduling will not allow both service types to be visited in the assessment process. Regulatory authorities may consider supplementing this process with a spot check at a later date.

Before and/or after school care

- Two sessions in total.

Vacation Care

- One day or 7.5 hours, whichever is less.
- If the service has multiple sites, the assessor only has to visit one site.

Family day care

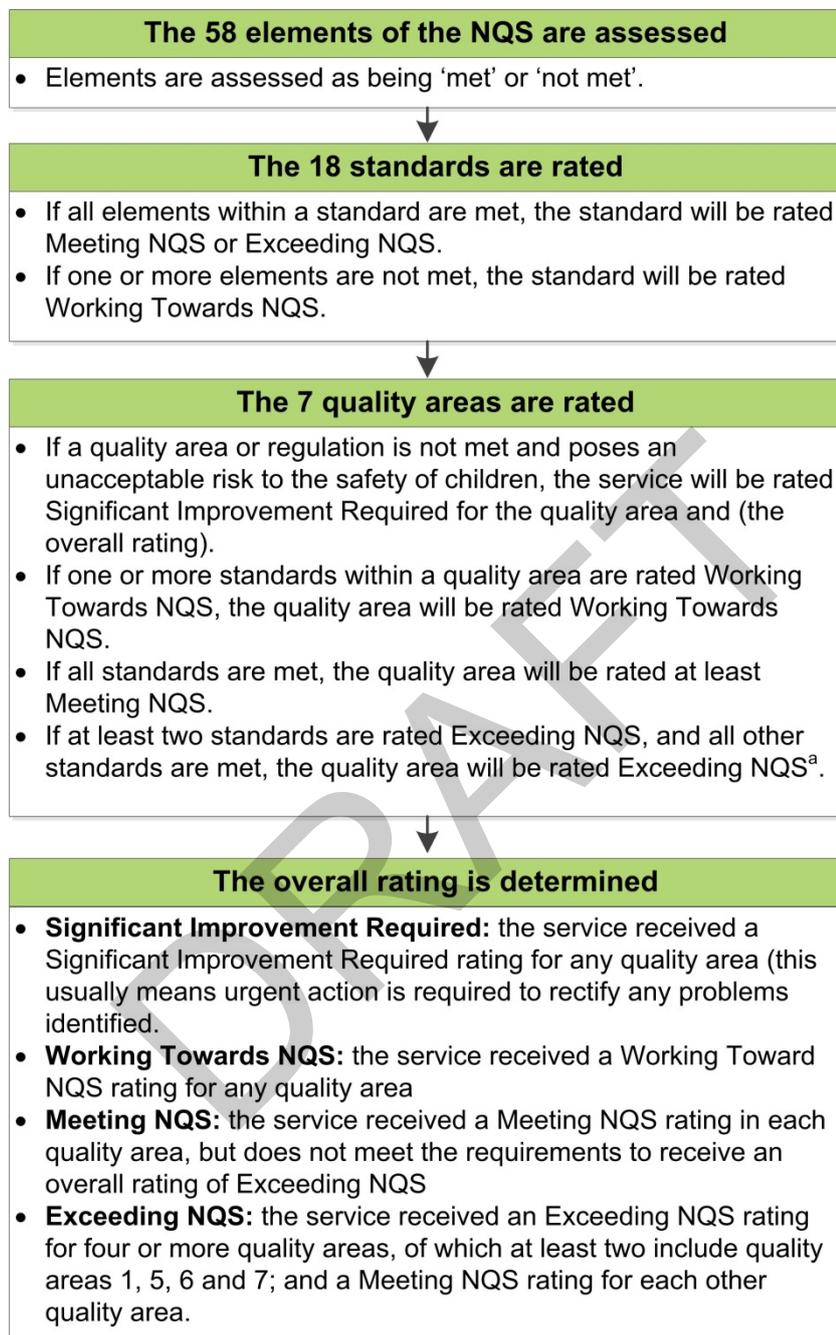
The assessment process entails an initial visit to the coordination unit, an assessment of a sample of family day care educators (in their residence) and a final visit to the coordination unit.

- The initial visit may take up to three hours.
- Individual educator visits should take between two and three hours.
- The final visit may take up to three hours.

Source: ACECQA (2014a, pp. 16–17).

Following an assessment, services will receive one of four ratings for each quality area and the overall rating (Significant Improvement Required, Working Towards NQS, Meeting NQS or Exceeding NQS) (figure H.4). An important feature of this ratings system is the weight given to unmet elements. The tiered design of the system means that a service must meet all 58 elements in order to receive an overall rating of at least Meeting NQS. A single unmet element means the standard containing that element cannot receive a rating higher than Working Towards NQS, which means the highest overall rating a service can receive is Working Towards NQS.

Figure H.4 How a service's rating is determined



^a If a service cares for children who are in the year that is two years before grade 1 of school, they may only be awarded Exceeding NQS for quality area 1 if the service provides a preschool program (or provides arrangements for access to one through another ECEC service).

Source: Adapted from ACECQA (2014a).

In addition to the four core ratings, services that receive a rating of Exceeding NQF may apply to ACECQA to be considered for an Excellent rating, which is the highest rating a service can achieve. Services must pay a fee of between \$200 and

\$600 to be considered for this rating, depending on the type of service and its size. ACECQA (2013e) assesses applications according to three criteria:

- the service exemplifies and promotes exceptional education and care that improves outcomes for children and families, across at least three of six quality ‘themes’
- the service demonstrates leadership that contributes to the development of a community, a local area, or the wider education and care sector
- the service demonstrates commitment to sustained excellent practice through continuous improvement and comprehensive forward planning.

Once a service has been rated, the frequency of their future assessments should reflect the rating received — that is, the higher the rating, the longer the timeframe between assessments. Guidance from ACECQA (2013b), based on the National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care (COAG 2009), suggests that services should generally be assessed:

- every three years, if rated Excellent or Exceeding NQS
- every two years, if rated Meeting NQS
- every year, if rated Working Towards NQS.

Regulatory authorities are expected to take immediate compliance action and work with services rated as Significant Improvement Required. The above timeframes are meant as a guide only, and appear unlikely to be met in any jurisdiction given the current pace of assessment by regulatory authorities.

Waivers

The assessment and ratings process includes provisions that allow a service to receive a waiver exempting it from some elements of the NQS. The National Law provides for two types of waivers:

- service waivers – provided on an ongoing basis
- temporary waivers – for up to 12 months.

A service may apply for waivers in order to be exempted from the standards and elements of Quality Areas 3 (Physical Environment) and 4 (Staffing Arrangements) of the NQS, and many of their associated regulations. As at 31 March 2014, 70 per cent of waivers were temporary and 30 per cent were service waivers; 96 per cent of temporary waivers were for staffing requirements and 82 per cent of service waivers were for physical environment requirements (ACECQA 2014b, p. 26). A total of

883 services had active waivers as at 31 March 2014, accounting for around 6 per cent of approved services (table H.3).

Table H.3 Waivers granted by type and jurisdiction

<i>Jurisdiction</i>	<i>Physical</i>	<i>Staff</i>	<i>Both</i>	<i>Total</i>	<i>Proportion of services with a waiver</i>
					%
ACT	3	26	0	29	9.1
NSW	125	164	1	290	6.0
NT	0	19	0	19	8.8
Qld	70	104	4	178	6.6
SA	3	62	0	65	5.7
Tas	8	16	0	24	10.7
Vic	21	88	0	109	2.8
WA	7	162	0	169	16.6
Total	237	641	5	883	6.1

Source: ACECQA (2014c, p. 27).

A waiver is approved when the provider can demonstrate:

- genuine difficulty in meeting the requirements of the NQF
- children's safety, health and wellbeing is not compromised or at risk
- a plan is in place for the service to meet the requirements by the time the waiver is due to expire (if temporary).

Since the introduction of the NQF, just over a quarter of waiver applications have been rejected (Commission calculations based on ACECQA administrative data, 20 January 2014). There is an application fee for waiver applications and waivers may be revoked by the Regulatory Authority at any time.

Reviews and reassessments

If an approved provider disagrees with the rating a service receives, they may apply to the Regulatory Authority for a review of ratings within 14 days of receiving the final assessment and rating report. This is referred to as a first tier review. There is no application fee for a first tier review.

If a first tier review does not resolve the concerns of the approved provider, they may apply on limited grounds to ACECQA for a further review by a Ratings Review Panel. This is referred to as a second tier review. Applications for a second tier review must be made within 14 days of receiving the decision of the Regulatory Authority on a first tier review and require an application fee of between \$400 and

\$800. Such applications may only be made on the grounds that the Regulatory Authority:

- did not appropriately apply the prescribed processes for determining a rating level
- failed to take into account or give sufficient weight to special circumstances or facts existing at the time of the original rating assessment.

If the application for a second tier review is successful, ACECQA will convene a three member panel, comprising at least one ECEC expert and one ACECQA staff member. These members must have expertise in at least one of the following areas:

- early learning and development research or practice
- law
- the assessment of quality in ECEC services or other relevant services
- best practice regulation.

The rating determined by the panel will be the final rating for the service. The National Law does not provide the right of appeal against the decision of the panel.

An approved provider may also apply to the Regulatory Authority for a reassessment and re-rating, as an alternative to the review process. Unlike a review, a reassessment can take account of changes made to a service's operations since its most recent assessment. A fee applies for reassessment and an application can only be made once every two years.

DRAFT

I International approaches to ECEC

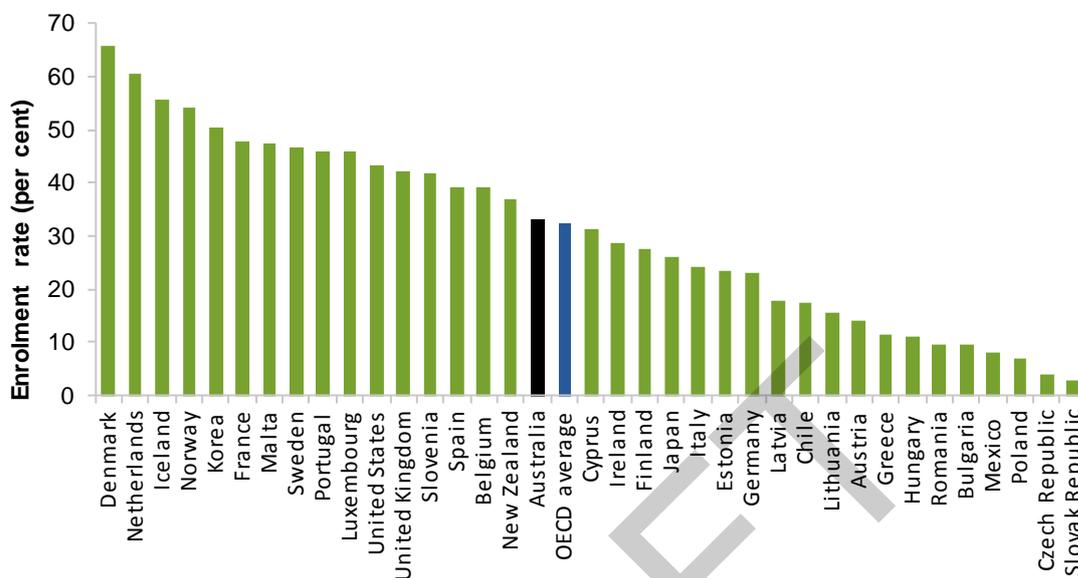
The way ECEC is provided varies markedly from country to country. Countries differ, for example, in how care is delivered, how it is funded, what is taught and who provides care. This appendix explores this diversity in ECEC systems, with a focus on the member countries of the Organisation of Economic Co-operation and Development (OECD). Rather than provide an in-depth analysis of each country's ECEC systems, the purpose of this appendix is to describe some key aspects or approaches of other systems that may provide useful insights or contrasts for policymakers in Australia.

Differences between countries in the use of formal ECEC represent, in part, different cultural values around who should care for children and where this care should be provided. However, they also result from different government objectives, levels of public funding, and models and policies of ECEC delivery.

I.1 Overview of international childcare use and delivery

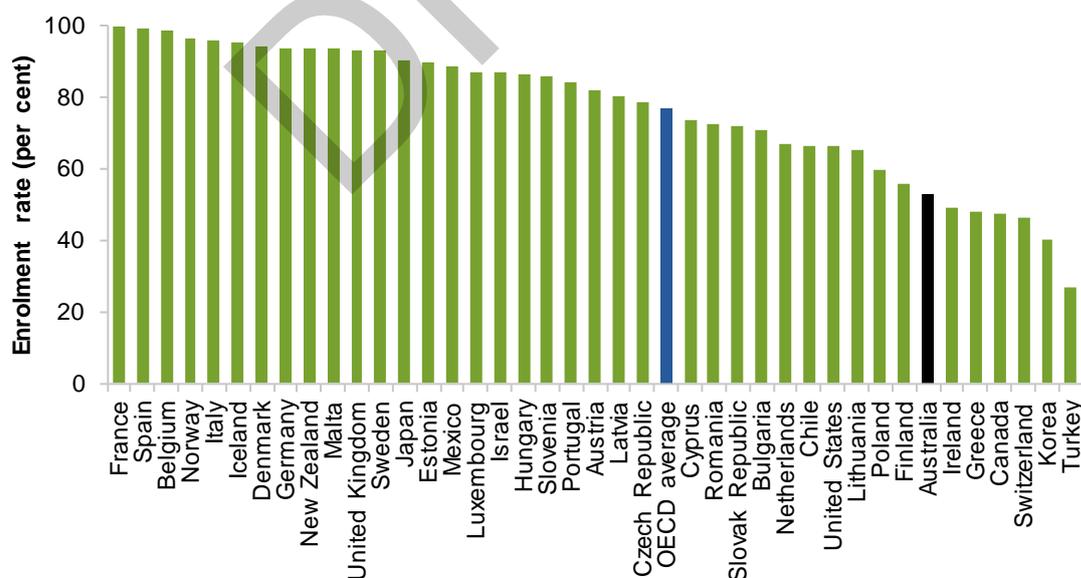
The utilisation of formal ECEC in other countries varies considerably. For children under three, enrolment rates in formal care exceed 65 per cent in Denmark, but are less than five per cent in the Czech Republic and the Slovak Republic (figure I.1). The intensity of this care also varies markedly — for example, in the United Kingdom and the Czech Republic, children aged zero to two spend an average of 16 hours in formal care a week, while in Israel, average weekly time in care exceeds 50 hours (OECD 2012a). For children of preschool age (those aged three to five), enrolment rates in care tend to be higher (figure I.2), exceeding 90 per cent in many countries.

Figure I.1 Average enrolment rate of children under three years of age in formal childcare 2010



Data source: OECD (2012a).

Figure I.2 Average enrolment rate of children aged three to five years in preschool^a 2010



^a The inclusion of three year olds in the figure likely brings down Australia's enrolment rate. Australia's enrolment rate for 4-5 year old children is higher than depicted.

Data source: OECD (2012a).

Models of ECEC delivery in different countries can be viewed across a number of dimensions. These include the extent to which:

- emphasis is placed on parental and informal care as opposed to care in formal settings
- provision and funding of formal ECEC services is undertaken by the government compared to private enterprises
- formal care is provided in home-based rather than centre-based settings.

Support for parental and informal childcare

Parental care refers to care provided to children by their parents. Informal care, on the other hand, is care arranged by parents, but not undertaken by parents themselves. The main sources of informal care are relatives, friends, neighbours, babysitters and nannies.

Countries with lower use of formal ECEC services (those at the lower end in figures I.1 and I.2) have a greater reliance on parental and informal care. While parental and informal care is generally unregulated, governments may provide incentives and support for families that use these types of care in lieu of formal childcare. One such supporting policy is parental leave which gives parents the option to take time off from paid employment to care for newborn children, typically with payment from employers, social or health insurance or from the government. Parental leave may operate in conjunction with specific maternity and paternity leave, which may give parents additional paid leave entitlements.

A summary of the parental leave systems of selected OECD member countries is outlined in table I.1. Several countries, including Finland, France and the Netherlands also give parents the right to request part-time work from their employer to care for children.

As well as legislating (and in many countries, funding) parental leave, governments may incentivise parental childcare through their tax and transfer systems. For example, as well as offering up to three years parental leave (with a childcare allowance irrespective of whether this leave is taken), the Government of **France** pays families with at least three children an additional allowance of EUR 801.39 per month for one year provided that one parent ceases to work (*Complément optionnel de libre choix d'activité*) (Fagnani, Boyer and Thévenon 2013).

Table I.1 Parental leave schemes of selected OECD countries

<i>Country</i>	<i>Maximum amount of time mothers are entitled to unpaid leave</i>	<i>Maximum amount of time mothers are entitled to paid leave</i>	<i>Payment rate</i>	<i>Approximately maximum weekly amount mothers receive</i>	<i>Who pays for leave</i>	<i>Does the employer make the payment</i>	<i>Can some leave be transferred to partners</i>	<i>Are partners entitled to post birth leave</i>
Australia	52 weeks with an additional 52 weeks if employer agrees	18 weeks	National Weekly Minimum Wage	\$AUD 606	Government	Yes	Yes	2 weeks
United States	12 weeks	No legislated entitlement						No
United Kingdom	52 weeks	39 weeks	90 per cent of mother's average weekly earnings for at least 6 weeks	Not capped for 6 weeks. Remainder capped at £137 (\$AUD 211)	Government	Yes	Yes	2 weeks
Canada	52 weeks	50 weeks	55% of average insured earnings	\$CAD 501 (\$AUD 497)	Employee and employer contributions; shortfalls covered by Government	No	Yes	No
New Zealand	52 weeks	14 weeks	100 per cent of ordinary weekly pay or average weekly earnings	\$NZD 475 (\$AUD 394)	Government	No	Yes	No
Sweden	Around 77 weeks	Around 60 weeks	80 per cent of earnings for 47 weeks	SEK 6 545 during first 47 weeks (\$AUD 991)	Employer contribution; shortfalls covered by Government	No	Yes	10 days

Source: FAHCSIA (2013).

Another government policy that encourages non-formal childcare is the ‘Cash for Care’ systems operating in the Nordic countries.⁹⁶ Under these schemes, parents receive a cash benefit if they elect not to use government subsidised childcare services. The primary rationale for Cash for Care is that it assists parents to provide care at home, should that be their choice.

A summary of the different Nordic Cash for Care systems is contained in table I.2. A particular feature of the Norwegian, Finnish, Swedish and Icelandic systems is that benefits are paid regardless of who cares for the child, meaning that parents receive the benefits even if they do not provide the care (Eydal and Rostgaard 2011).

Table I.2 **Features of cash for care systems**
2009

	<i>Norway</i>	<i>Finland</i>	<i>Sweden</i>	<i>Denmark</i>	<i>Iceland</i>
Year of introduction	1998	1985	2008	2002	2005
Embedded in national legislation	Yes	Yes	Yes	Yes	No
Funded by	State	State and local municipalities	Local municipalities	Local municipalities	Local municipalities
Child's age for eligibility ^a	1-3 years	1-3 years	250 days – 3 years	6 months – 3 years	6/9 months – 2 years
Able to be used to pay others ^a	Yes	Yes	Yes	No	Yes
Universal for all parents ^a	Yes	Yes	No	No	Yes
Benefit as a per cent of average weekly earnings ^a (2007)	9.4	10.8	10.7	24.8	12.0

^a Because systems vary between municipalities in Denmark and Iceland, the information in this table for these features relate to Copenhagen (for Denmark) and Reykjavik (for Iceland).

Source: Eydal and Rostgaard (2011).

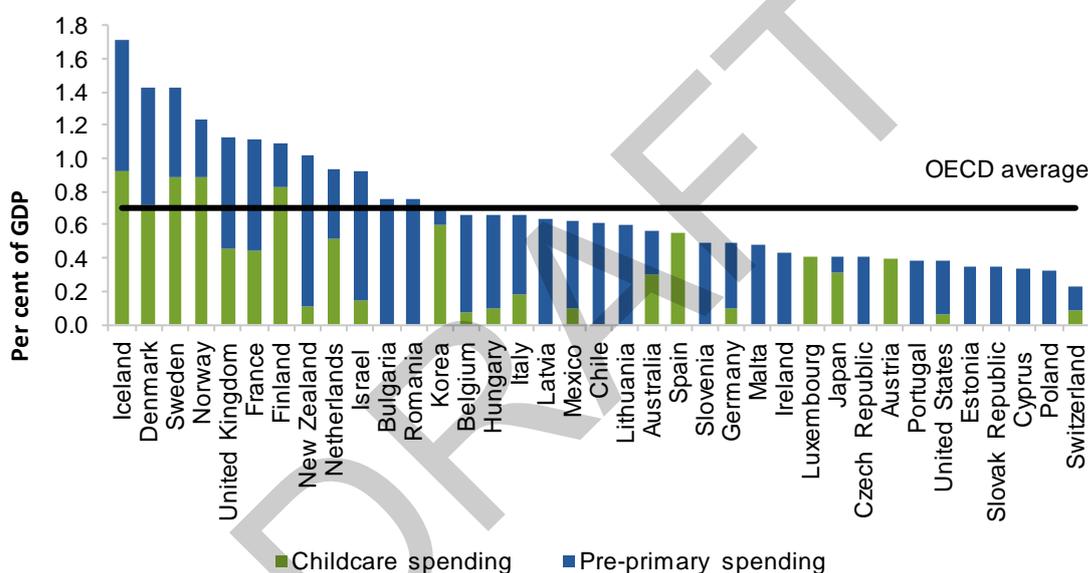
The utilisation rates of these Cash for Care systems vary between countries. In 2008, just under 57 per cent of children under the age of three in Finland were cared for under this program. In Norway, this percentage was as high as 74 per cent in 1999, but has since fallen back to about 35 per cent in 2008. In Sweden, in the local municipalities with Cash for Care in place, the take up rate in 2011 was under five per cent (Ellingsæter 2012; Eydal and Rostgaard 2011).

⁹⁶ In keeping with international conventions, ‘Nordic countries’ refers to Norway, Sweden, Finland, Denmark and Iceland.

Degree of government involvement in formal ECEC provision

The extent to which governments financially support their childcare and pre-primary early education systems varies across OECD member states. In 2009, public spending on childcare and pre-primary care exceeded one per cent of GDP in the Nordic economies, the United Kingdom, France and New Zealand. In contrast, several countries, including the United States, Japan, Ireland, Austria and Switzerland had public expenditures of less than half of a per cent of GDP (figure I.3).

Figure I.3 **Public spending on childcare and early education services**
2009 ^a ^b



^a 'Childcare spending' refers to spending for children aged under three. 'Pre-primary spending' refers to spending on preschool institutions (typically for children aged 3-5) ^b For Spain, only aggregate spending data is presented

Data source: OECD (2012a).

Countries place different emphases on the role of markets in the provision of formal childcare, and subsequently, the degree to which governments should be directly involved in its provision. Drawing on evidence from various studies Lloyd (2012) notes:

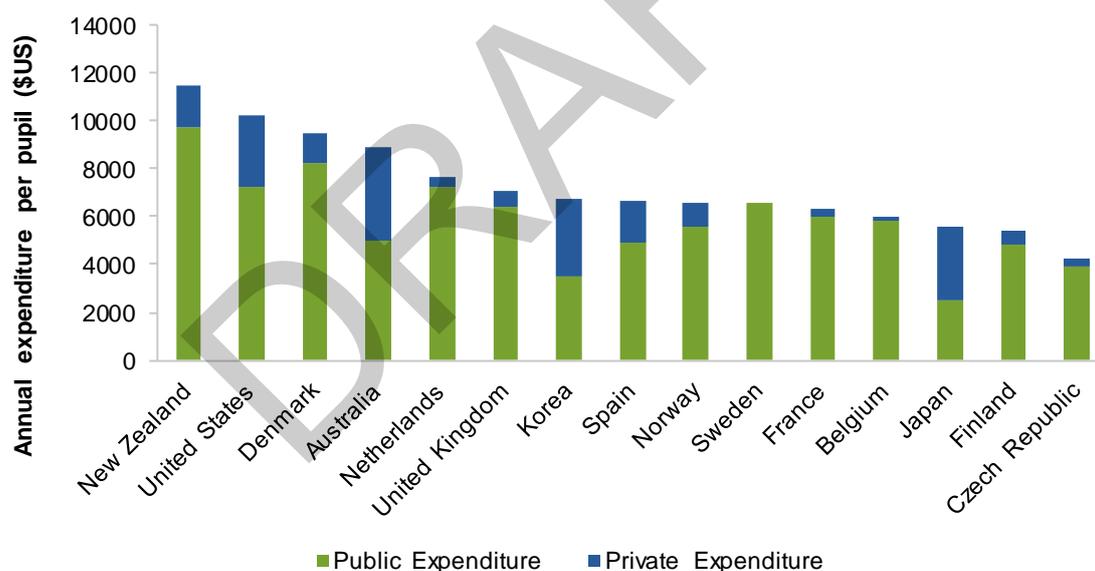
Childcare markets predominate in English speaking nations, including the US, Canada and Australia, as well as on the African continent and the Asia Pacific region.

The alternative position is reflected in the policy rationale employed by a European country such as France, where a state-funded and state-provided ECEC system has existed for some sixty years. In such cases the government considers that there are strong economic grounds for treating ECEC services as a 'public good', which justifies

substantial public investment in the services themselves and their infrastructure. (pp. 4–5, references to individual studies removed.)

Broadly speaking, market driven systems (including in the *United States, Canada, the Netherlands, Australia* and *New Zealand*) are typified by more private provision and user pays charging, whereas less market driven systems (including in *France, Sweden* and *Norway*) are typified by more public provision and taxpayer funding, especially for childcare services. That said, even in countries where markets are prominent, the provision of preschool is generally shouldered more by the public sector. As figure I.4 shows, with the exception of Japan, public expenditure per pupil outstrips private expenditure in preschools in OECD economies, although Australia, Korea, the United States and Spain still had private funding contribute over one-quarter of their total expenditure.

Figure I.4 **Expenditure on early childhood education programs (preschool)** ^{a,b}
Per pupil, 2010–2011



^a As preschool starts in different ages in different countries, and this deducts from the comparability of the data ^b Expenditure of Denmark, New Zealand and the United States includes some childcare.

Data source: OECD (2013).

France's universal preschool system is often quoted as an example of substantial government involvement in ECEC provision. It is underpinned by a legal entitlement of all children to attend pre-school and is characterised by universal access, public organisation and free of charge schooling (Dumas and Lefranc 2010; PC 2011). As a consequence, almost every French child aged three to five attends a preschool service. Preschool premises are owned and managed by French

municipalities with staff hired and paid through the Ministry of Education of the French central Government (Grun 2008). The use of formal childcare services for children under preschool age in France has grown markedly in recent years — in 2003, less than 30 per cent of children aged under three were enrolled in formal care services, but by 2010, this had increased to about 50 per cent of children (OECD 2012a). Households are able to claim a tax credit of up to 50 per cent of childcare expenses paid (Givord and Marbot 2013).

Like France, formal preschool in *Sweden* is almost entirely provided by government — around 96 per cent of preschools are owned and managed by the Swedish municipalities.⁹⁷ All children aged four and five have a right to free pre-schooling and, as a result, attendance in this age group is very high (with an enrolment rate of around 97 per cent). The system is funded through central government grants, municipal tax revenues and parental fees for children not entitled to free care. These parental fees are means-tested and capped (Grun 2008).

Children in *Norway* also have a right to childcare and preschool (collectively termed ‘kindergarten’) that applies to children from around the age of one. Consequently, the municipalities of Norway have an obligation to ensure that there are sufficient kindergarten places to meet demand. However, unlike in France and Sweden, in Norway, a substantial proportion of ECEC services are privately owned — 54 per cent in 2008 — with most of these private owners being individuals (34 per cent of privately owned care services), parents (22 per cent) and enterprises (15 per cent). Another difference is that in Norway, care is not free, although the system remains heavily subsidised and there is a regulated price ceiling for out of pocket fees (Jacobsen and Vollset 2012).

ECEC systems of ‘Anglo-Saxon’ origin, including the United States, Canada, the United Kingdom, Australia and New Zealand generally feature more limited direct government involvement in childcare provision, but rather provide demand side tax credits or subsidies as a means of supporting the ECEC system. In the *United States*, 71 per cent of childcare centres are run for profit, with the remaining 29 per cent run by not-for-profit providers, some of which are funded by governments. Direct subsidies and government provided places are targeted at lower-income families. Parents who pay tax may qualify for a tax credit (the Child and Dependent Care Tax Credit) of up to USD \$3000 per annum for one child and USD \$6000 per annum for two or more children, although this is well below average annual cost of full-time centre care (PC 2011; Sosinsky 2012).

⁹⁷ The term ‘Preschool’ in Sweden encompasses care services for children aged one to five.

Similarly, direct government provision of childcare in the *United Kingdom* is low, and heavily targeted towards services for the disadvantaged (mainly on Sure Start centres discussed in section I.4). As such, private provision of formal services is common — in 2011, 61 per cent of full day care providers were privately owned, of which 31 per cent were run on a voluntary basis. Various government demand side subsidies contribute to the funding of the childcare in the United Kingdom. The most widely available of these is fifteen hours of free care per week (for 38 weeks a year) for children aged three to four, with this extended to two year olds from disadvantaged households (Government of the United Kingdom 2013a). Additionally, under the ‘Universal Credit’, single parents who work 16 or more hours per week, and couples who both work 16 or more hours a week are able to claim back up to 70 per cent of their childcare costs up to capped limits (Government of the United Kingdom 2013b). A third, recently announced instrument — known as ‘Tax Free Childcare’ — allows households with all working parents to set up online childcare voucher accounts which the Government ‘tops up’ by 20% up to a limit of GBP 1200 a year (HM Treasury 2013). This may be salary sacrificed although it cannot be claimed in conjunction with the Universal Credit.

Childcare in *Canada* is primarily the responsibility of the provinces and territories with minimal central government oversight. As a result there are differences in how ECEC is provided between provinces. Quebec’s system is markedly different from other Canadian provinces — childcare is universal and heavily subsidised, with out of pockets capped at CAD \$7 per day (Fortin, Godbout and St-Cerny 2011). Care is provided by a mix of not-for-profit, family based and for profit providers that receive subsidies from the provincial government per child per day (with the subsidy amount dependant on the care setting and the age of children in care). Other provinces are generally characterised by less government involvement with subsidies targeted to low income and single parents, although all provinces offer free and publically provided kindergarten for five year olds (Lefebvre, Merrigan and Roy-Desrosiers 2011). The central government’s primary contribution to childcare financing is a tax deduction for certain employment related childcare up to CAD \$7000 (Baker 2011).

New Zealand’s childcare model is characterised by almost exclusively private provision substantially funded with government subsidies. The provision of care is split between for profit (51 per cent) and not for profit (43 per cent) operators with the residual (4 per cent) owned by public bodies. Public funding for ECEC services is through two main instruments:

- *The ECE Funding Subsidy* — under this subsidy, the New Zealand Government pays service providers for part of each hour a child spends in care, up to six

hours per child place per day and up to thirty hours per child place per week. A feature of the ECE Funding Subsidy is that the actual rate paid to providers varies markedly based on the proportion of carers who are registered teachers. For children aged under two in teacher led, centre based services, this rate is NZ \$7.50 per hour for services with 0-24 per cent registered teachers, than increases incrementally up to NZ \$12.01 per hour for services with 80+ per cent registered teachers. A lower rate is paid for children over two.

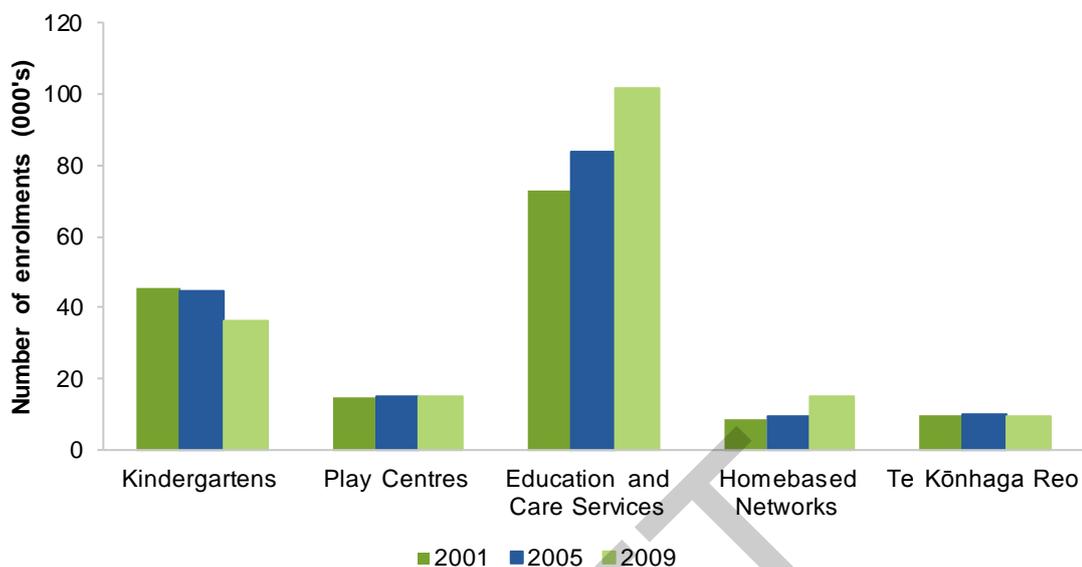
- *20 Hours Early Childhood Education ('20 Hours ECE')* — this is a higher subsidy that is paid to ECE providers for children in their care aged three to five. The subsidy allows children of these ages free care for up to six hours a day and up to twenty hours a week. There is no means testing on the subsidy. (Ministry of Education - NZ 2013b)

In contrast to the childcare systems of most other economies, parent led formal ECEC remains a particular feature of the childcare system of New Zealand. Parent led care is provided in two main forms:

- *Language nests (or Te Kōhanga Reo)* are Māori immersion program where only Māori is spoken, and the operation and supervision of each program is the responsibility of the whānau (family). About 20 per cent of Māori children who use formal care attend a *Kōhanga Reo* service (PC 2011).
- *Playcentres* are ECE organisations that are collectively led, supervised and managed by parents. In contrast to 'playgroups' in Australia, Playcentres receive funding from the government and teach to New Zealand's wider Te Whāriki curriculum. Playcentres generally offer half day sessions for children of mixed ages (thereby allowing siblings to attend together). An important aspect of Playcentres is continued adult education and every Playcentre adult is offered free education to assist them to provide quality care to children (New Zealand Playcentre Federation 2013).

In 2009, these forms of parent led care constituted 14 per cent of formal care services in New Zealand. Centre-based, LDC-style care (termed Education and Care Services) remains the dominant care setting in New Zealand, comprising 57 per cent of enrolments (figure I.5). Kindergartens — which, like Australia preschools, provide care predominately to three to five year olds — account for 20 per cent of enrolments.

Figure I.5 Enrolments in licensed ECE services in New Zealand



Data source: ECE Taskforce Secretariat (2010).

Support for care in a home setting

Care provided in a home is often espoused as being more flexible than care provided in centres. Home care comes in two main forms: care provided in the home of a qualified educator or minder (similar to family day care in Australia), and care provided in a child's home by a nanny. An example of the former is home based care in *New Zealand* (box I.1).

In 2011, the New Zealand Early Childhood Education and Care Taskforce — which was commissioned by the New Zealand Government to 'review the effectiveness of ECE spending [and] propose innovative ideas about learning' (Tolley 2010) — presented two key concerns about the quality of home based services.

One of these concerns centred on compliance in about one third of home based services, which the review found 'deeply troubling'. The Review was also uncomfortable with the definition — and subsequent funding implications — of home based ECE being 'teacher led':

... structurally, children in home-based services enjoy some of the best regulated adult:child ratios in early childhood education, that is, 1:4. But they have much more limited access to adults with higher-level early childhood education teaching qualifications. In general home based services are structured so that a qualified educator supervises a number of unqualified educators, who in turn directly engage with children in their care. One teacher can be responsible for educators in charge of 80 children in total. Despite this, home-based services are funded as teacher led services in the funding system. This is unacceptable. (ECE Taskforce Secretariat 2010, p. 57)

Box I.1 Home based care in New Zealand

Under home based care, education and care services are provided by educators in private homes. These educators are required to belong to a formal home based network and are supported by a coordinator who is a registered and qualified ECE teacher. The number of children enrolled in home based care grew by over 60 per cent between 2001 and 2009, albeit from a low base.

Services qualify for the 20 hours ECE Subsidy for children aged three to five. For additional hours outside this subsidy, and for services provided to children under three, a two-tier subsidy instrument is used:

- A *standard rate* which is payable to home based services that meet the minimum requirements for licensing. As of 1 July 2013, this rate is \$NZ7.24 per hour for children under two and \$NZ3.92 per hour for children two and over.
- A higher *quality rate* which is payable to services that meet additional requirements. These requirements include coordinators being locally based, coordinators being available during care times and educators meeting certain qualification levels. As of 1 July 2013, this rate is \$NZ8.76 per hour for children under two and \$NZ4.40 per hour for children two and over. Services that meet the requirements for the quality rate subsidy also receive a higher 20 hours ECE subsidy.

Subsidies are paid to the coordinator, who then passes some or all of the subsidy to the educator. Nannies supported by a coordinator are also eligible for subsidisation.

Source: ECE Taskforce Secretariat (2010); Ministry of Education – NZ (2013b).

In September 2012, in part in response to the concerns of the taskforce, the New Zealand Government announced a review ‘to ensure that home-based early childhood education (ECE) aligns with the Government’s broader goals and priorities for ECE’ (Parata 2012). However, in July 2013, it was announced that this review was no longer going ahead. Instead, the need for such a review would be reconsidered after 2015 (Ministry of Education - NZ 2013c) ⁹⁸.

France also has a significant home based care sector. In home ECEC operates across two main forms. *Assistantes maternelles* services involve trained and registered ‘childminders’ providing care services in their private home for up to four children. Childminders may belong to formal networks, directed by educators (*relais assistances maternelles*) which provide opportunities for socialisation between groups (Rayna 2010). Around one quarter of children below the age of three were cared for by a registered childminder in 2007 (Fagnini 2012). Private

⁹⁸ By 2015, two additional reviews are expected to be completed into ECE in New Zealand. One of these centres on the Early Learning Information System and the other on the ECE funding system.

nannies (often called *nourrice*) are also popular in France, and are eligible for public subsidies.

I.2 ECEC curricula

Almost every country in the OECD has a curriculum in place for children from the age of three until they enter primary schooling (OECD 2012c). However, there are considerable differences in the objectives, structure and composition of curricula across different countries.

Approaches to ECEC curricula differ to the extent that they are outcomes based or input based. Outcome-based models, which are typical in ‘Anglo Saxon’ economies, tend to centre on preparing children for formal schooling. In contrast, input-based curricula, common in the Nordic countries focus on what is expected from staff and the experiences they provide to children in their care (OECD 2010, 2012c). According to the OECD:

... the Nordic approach favours frameworks that set out broad orientations for input rather than prescribed outcomes; goals are to be aimed at, rather than achieved; formal assessment for input is not required but multiple assessment procedures are favoured; and quality control of input is more participatory, focusing on staff pedagogical approaches — not child progress. (OECD 2010, p. 10)

Content of curricula also vary — most OECD countries place emphasis on literacy, numeracy, physical education, science and art in their ECEC curricula. The incorporation of more emerging areas of learning in curriculums is more varied. Some countries have curriculum content related to religion (for example, Italy and Finland), citizenship (Norway and Sweden), information and communication technologies (Spain) and foreign languages (Slovak Republic) however, this is not widespread across OECD economies (OECD 2010, 2011).

One ECEC curriculum that has received general praise within the existing literature is *New Zealand’s Te Whāriki* (the Mat). In a review of New Zealand’s ECEC system the OECD found that *Te Whāriki*:

... is a progressive and cogent document regarding the orientation and aims of ECE. The document clearly lays out what is expected from staff and child development with useful examples. The curriculum provides continuous child development through the use of one national framework for ECE; putting the community at the centre of the curriculum; strongly focusing on well-being and learning; ensuring age-appropriate content; emphasising the importance of tolerance and respect for cultural values and diversity; and aligning the ECE curriculum with primary schooling. (OECD 2012b, p. 7)

The Economist Intelligence Unit also commented on the ‘pioneering’ nature of *Te Whāriki*:

Numerous experts cite [*Te Whāriki*] as an exemplar of an inclusive curriculum that honours the unique cultures of its indigenous people as well as the many migrant settlers who now live in New Zealand (Economist Intelligence Unit 2012, p. 28).

Within New Zealand, *Te Whāriki* was also viewed positively by the ECE Taskforce who described the curriculum as successful, unifying the sector and embracing diversity (ECE Taskforce Secretariat 2010).

A key feature of *Te Whāriki* is its non-prescriptive nature. It does not generally mandate methods or outcomes. Instead, it focusses more on experiences. As such, it relies on ‘teacher reflexivity’ to ‘weave curriculum patterns’ that reflect the community and culture of the service and the children who use its care (Ritchie and Buzzelli 2012).

Te Whāriki operates from birth until a child enters school, with overlapping age categorisations.⁹⁹ The curriculum identifies that the learning needs of children evolve as they age. Questions for reflections that centre on each of the strands are embedded throughout the *Te Whāriki* to encourage adults to debate how the curriculum should be applied in their ECE services.

I.3 ECEC Workforce

With respect to the ECEC workforce, governments have two basic policy levers: minimum staff-to-child ratios and minimum qualification requirements.

Ratios

Many countries in the OECD have regulated staff to child ratios. A subset of these ratios is outlined in table I.3.

⁹⁹ These age categorisations are infants (from birth to 18 months), toddlers (from one year to three years) and young children (from two and a half years to school entry).

Table I.3 National mandatory minimum staff:child ratios

Provider Type	Centres/Nurseries				Childminders/Family Day Care	
	Age	Under 1	1	2	3+	Under 5
Australia ^a		1:4	1:4	1:5	1:11	1:4
New Zealand		1:5	1:5	1:10	1:10	1:4
England		1:3	1:3	1:4	1:8 or 1:13	1:3
Netherlands		1:4	1:5	1:6	1:8	1:5
Ontario (Canada) ^b		3:10	3:10	1:5	1:8	n.a

^a Family Day Care educators are permitted under the NQF to have up to 7 children in total but a maximum of 4 children under school age. ^b Ratio is 3:10 until 18 months and is 1:5 until 30 months

Sources: Department of Education – UK (2013b); Government of New Zealand (2008); Ministry of Education – Ontario (2013).

In January 2013, the *United Kingdom* Department of Education announced plans to move to higher ratios in England that allowed services to care for more children per carer. These higher ratios were only to be made available for centres with staff qualifications that were deemed to be of ‘high quality’, although what this constitutes is still undetermined. Rationales put forward in favour of changing ratios included that the existing ratios in England were already lower than many other countries in Europe, and that low ratios were resulting in higher costs for parents and lower pay for staff (Department for Education - UK 2013b). However, widespread criticism from stakeholders meant that these proposed changes were not progressed (Harrison 2013; Jozwiak 2013).

The use of statutory ratios as a means of promoting quality is not universal. Some European countries — including Denmark, Germany and Sweden — do not have mandated minimum ratios for centre based care. Quality is maintained through other mechanisms, such as qualification requirements.

Qualifications and roles

ECEC workers in most OECD countries are required to obtain minimum qualifications. Inter-country comparisons of qualification requirements are difficult because of each country’s specific ECEC and education systems. Nevertheless, through member surveys, the OECD was able to draw some broad conclusions about qualification requirements across different member countries. Some of the OECD’s findings are contained in box I.2.

A feature of many European countries — including Denmark, Austria, Finland, Germany and Norway — is that pedagogues, rather than traditional teachers, are the

dominant profession in ECE settings. Pedagogues adopt a holistic view to childcare development:

Originating in the 19th century Germany, Sozialpädagogik (social pedagogy) is a theory, practice and profession for working with children (but also young people and adults) ... The social approach is inherently holistic. The pedagogue sets out to address the whole child, the child with body, mind, emotions, creativity, history and social identity. This is not the child only of emotions — the psycho-therapeutical approach; nor only of the body – the medical or health approach; nor only of the mind – the traditional teaching approach. For the pedagogue, working with the whole child, learning, care and, more generally, upbringing ... are closely related – indeed inseparable activities at the level of daily work. These are not separate fields needing to be joined up, but inter-connected parts of the child’s life. (OECD 2004, p. 19)

In Denmark, Finland, Hungary and Sweden, pedagogues complete a university degree of at least three years (OECD 2006). Often these degrees have a wider ambit than just early education — other areas of study can include psychology, philosophy, health studies and music (Matheson and Evans 2012).

Box I.2 **OECD findings on ECEC qualifications**

On childcare workers:

The qualifications of child care workers differ greatly from country to country and from service to service. In most countries, child care workers have a vocational-level diploma, generally at a children’s nurse level (upper secondary, vocational level) although many countries will also have specialist staff trained to secondary-level graduation, plus a one-to-two year tertiary-level vocational diploma.

On pre-primary teachers:

Pre-primary teachers are generally trained at the same level and in the same training institutions as primary school teachers. This profile is found in Australia, Canada, France, Ireland, the Netherlands, the United Kingdom and the United States. In some countries, e.g the Netherlands, the pre-primary teacher is trained both for the preschool and primary sectors.

On pedagogues:

In Nordic and central European countries, many pedagogues have been trained (upper-secondary or tertiary education) with a focus on early childhood services rather than primary teaching. Pedagogues may also have received training in other settings, youth work or elderly care. In some countries, pedagogues are the main staff members responsible for the care and education of children.

On auxiliary staff:

There are many types of auxiliary staff working in centres that have been trained at different levels. On one end of the scale is auxiliary staff who do not need a formal qualification in the area, while auxiliaries in the preschool sector in Nordic countries have often gone through a couple of years of upper secondary vocational training.

Source: OECD (2012c, p. 165).

In *New Zealand*, a minimum of 50 per cent of staff working in centre based, teacher led services are required to hold a relevant degree or diploma (Ministry of Education - NZ 2010). In 2002, the New Zealand Government adopted the goal that by 2012, all staff working in teacher led ECE services would be registered teachers, however, indefinitely deferred this target in late 2009 when it became apparent that meeting this goal would be difficult (PC 2011). Nevertheless, qualifications are encouraged in the New Zealand system through funding incentives. Kindergarten teachers in New Zealand have pay parity with primary school teachers.

In contrast to most other countries, much of the *United States* does not have mandatory qualification requirements for ECEC staff. In thirty one states, a high school diploma or less is sufficient to be a child care centre lead teacher, and in forty one states, a high school diploma is sufficient for family day care providers (NACCRA 2013).

I.4 Addressing disadvantage and meeting additional needs

Systems vary greatly in how they address disadvantage and meet additional needs. Some countries — namely those of Continental Europe — predominately rely on universal access to childcare and/or pre-school as a means of addressing disadvantage. Other countries provide more targeted support to disadvantaged children and families.

In the *United Kingdom*, Sure Start Children's Centres are government funded centres that adopt a holistic and integrated approach to child welfare. They are targeted to disadvantaged postcodes, and in most cases, are managed by a local authority.¹⁰⁰ In July 2012, there were 3350 Sure Start Children's Centres operating — about 40 per cent of centres offer childcare services, while those who do not generally provide advice about childcare options in the area (4Children 2012; PC 2011). However, the remit of Children's Centres is much wider than providing childcare services and advice — other services that may be provided include ante and post natal support and advice, parenting courses, employment training for parents, immunisations and health screenings. Furthermore, two year olds from disadvantaged backgrounds in the England qualify for 15 hours of free care for 38 weeks of the year, allowing disadvantaged children one additional year of ECEC on top of the universal entitlement for three and four year olds (Government of the United Kingdom 2013a). Eligibility depends on one parent receiving a specified pension or form of income support from the government.

¹⁰⁰ Local authorities in England are broadly similar to local governments in Australia.

Universal access to preschool through ‘20 Hours’ ECE represents an important pillar of *New Zealand’s* approach to addressing disadvantage. Further, it is underpinned by ‘social obligations’ on parents if they are receiving welfare payments from the government (box I.3). A second pillar to address disadvantage and meet additional needs in New Zealand is through ‘equity funding’. Equity funding is an additional supply side subsidy on top of other subsidies paid to licenced ECE providers. Equity funding has four strands:

- Low socio-economic communities (Component A)
- Special needs and non-English speaking backgrounds (Component B)
- Language and culture other than English (Component C)
- Isolation (Component D).

Subsidies associated with Components A and B are not allocated on a per child basis, but rather, eligibility is based on the addresses of children a centre has enrolled. A service is eligible for Component C if more than half of their formal education and care program is taught in a language and culture other than English. Eligibility for Component D is determined the distance of the service from major population centres. Additional support for children with high to moderate special needs — which might include specialist teaching support — is also available (Ministry of Education - NZ 2013b).

Box I.3 **Early Childhood Education (ECE) social obligations**

In July 2013, four obligations were placed on welfare beneficiaries in New Zealand. One of these obligations centred on the utilisation of ECE services.

The obligation is that:

People on benefit with dependent children must take all reasonable steps to have their child enrolled and in attending ECE, or another approved parenting and early childhood home education programme, from the age of three until they start school.

The rationale behind the policy notes that participation in ECE delivers heightened benefits for children with disadvantaged backgrounds around social skills and school readiness.

Parents who do not meet their obligation are given support and encouragement to meet it. However, continued failure to meet the obligations results in a reduction in benefits of up to half until the obligation is met.

Source: Ministry of Education – NZ (2013a).

While the administration and funding of ECEC in *Canada* is undertaken on a provincial level, there are some similarities between provinces. All provinces

directly subsidise providers who provide services to children with disabilities. Funding may be used to hire additional staff, upskilling existing staff with specialised training to meet additional needs, or for buying necessary equipment and materials. Depending on the province, funding may either be fixed, or varied in accordance with the level of specialised need identified. Whether or not the quantum of funding made available to centres by provincial governments is adequate to meet policy goals remains a matter of debate (Halfon and Friendly 2013). In addition to supplier subsidies, some provinces specify places must be set aside for children with special needs (Friendly et al. 2013). Disadvantage is addressed by a universal legal (or de facto legal) entitlement to half day kindergarten for five year olds in most Canadian school districts, generally with high take-up rates (80-100 per cent) (OECD 2006).

1.5 Employer sponsored care

In some countries, employer contributions towards the provision or funding of childcare are relatively uncommon. For example, in Germany and New Zealand, incentives for firms to offer employer sponsored ECEC are minimal, and consequently, the prevalence of employer provided care is low (Department for Education - UK 2013a).

In contrast, the existing literature often points to the ECEC system of *the Netherlands* as an example where there is substantial employer involvement in the funding of childcare. In 2004, over two thirds of childcare places in the Netherlands were bought by firms for use by their employees (Warner and Raymond 2011). Changes to government policy in 2005 requested that Dutch employers contribute one-third of the childcare fees of their employees. Initially this requirement was not legally binding, however, in January 2007, legislation was introduced to make employer contributions mandatory through a supplementary tax (Hein and Cassirer 2010). Consequently, while the proportion of childcare places that are purchased by Dutch firms has fallen sharply, employers still fund a substantial proportion of the ECE system in the Netherlands (estimated at around 21 per cent of total childcare costs) (Department for Education - UK 2013a).

Other OECD countries use concessional tax treatment to encourage employer sponsored childcare. In the *United Kingdom*, childcare fully provided by an employer is exempt from tax and (capped) taxation exemptions exist for firms that offer childcare vouchers to their employees, or make direct payments to childcare providers on behalf of their employees. Estimates in 2004 suggested that around 7 per cent of UK firms provided workplace care and about 8 per cent provided

financial assistance to parents to source care, however, in light of recent policy changes, this number has likely increased (Hein 2010).

In the *United States*, employers are eligible for a tax credit of up to 25 per cent of their capital and operating costs of either providing onsite childcare facilities or for purchasing childcare services for their employees up to a maximum credit of \$US150 000. Some states offer additional offsets against state taxation liabilities (Land-Kazlauskas 2010). Likewise, *France* offers employers a tax credit of 50 per cent if they operate a company crèche (Department for Education - UK 2013a).

I.6 Outside school hours care

The prevalence of outside school hours care varies between OECD countries. In some countries outside school hours care represents the norm — in Denmark for example, 88 per cent of children aged 6 – 8, and 54 per cent of children aged 9 – 11 participate in outside school hours care. In other countries, including Australia, Germany, Spain and Canada, enrolment rates in OSHC is below 20 per cent (table I.4).

Table I.4 **Outside school hours care use in selected OECD countries**
Various years between 2006 and 2009

<i>Country</i>	<i>Age Group</i>	<i>Enrolment rate (%)</i>
Australia	5-8 years	16
	9-12 years	19
Canada	6-7 years	19
	8-9 years	15
Denmark	6-8 years	88
	9-11 years	55
Finland	7-9 years	26
Germany	9-11 years	5
Greece	6-11 years	23
Japan	6-11 years	11
Netherlands	4-12 years	44
Spain	6-11 years	4
Sweden	6-8 years	84
	9-11 years	35
UK (England)	0-14 years	22

Source: OECD (2012a).

In *the Netherlands*, schools have a statutory duty for the provision of outside school hours care. In *Sweden*, responsibility for OSHC falls to the municipalities, who offer out of school centres — if independent schools elect not to provide an OSHC, the municipality must offer a place in one of their services. *Denmark* and *Norway* also have requirements on municipal councils to offer OSHC places for parents who demand the service (Department for Education - UK 2013a).

The focus of OSHC varies. Some countries — such as *Norway* and *Finland* — view OSHC as part of an educational program, and focus on activities such as homework help. Other countries — including *Australia, Germany and New Zealand*, emphasise OSHC as a recreation opportunity, and consequently activities are geared towards supervised play or extracurricular interests (Department for Education - UK 2013a).

Funding arrangements for OSHC are also diverse. As with childcare, OSHC is split between systems that deliver assistance directly to providers and systems that deliver payment to families to meet ECEC fees. The former is common in continental Europe, while the latter is a feature of OSHC system in *Australia, New Zealand, the Netherlands* and *Belgium*, amongst others. Some countries — including *Finland* and *Denmark* — cap the out of pocket costs families may face for accessing OSHC services (Department for Education - UK 2013a).

DRAFT

J The costs and viability of childcare operations

The viability and cost structure of childcare operations is relevant to the design and targeting of government subsidies. Accordingly, this appendix helps to inform the:

- extent of any geographic differences in the cost of delivering services
- impact of child age on the costs and viability of services
- impact of a range of other, often interrelated, factors on the cost and viability of services (box J.1).

The appendix also helps to inform a range of considerations relevant to estimating a reasonable ‘deemed cost’ of childcare services, as the building blocks upon which a means-tested early learning subsidy could be based (chapter 12). The development of an appropriate methodology, however, requires further analysis and consultation with childcare providers.

The Commission has attempted to identify the influence of a range of factors in assessing the financial performance of childcare providers. However, any results and conclusions should be interpreted with a high degree of caution, because:

- when assessing the influence of any single factor, it has not been possible to control for the impact of a large range of other factors that also determine profitability
- they relate to ‘average effects’, which masks significant diversity across individual childcare operations. In particular, within any average estimates there is a high degree of variability across individual markets and providers, which could influence the appropriate design of, and outcomes from, any future payment system.

Based on the evidence available, the Commission:

- did not uncover any conclusive or system-wide evidence that:
 - geographic factors or remoteness significantly affect the cost of providing childcare on a per child basis
 - different forms of care result in significantly different costs per child.

- found that the cost of providing long day care varied significantly depending on the age of the child, with 0 to 2 year olds, on average, more than twice as expensive as children aged 3 to 5 years.

Box J.1 Key determinants of the cost and viability of childcare services

The financial viability of childcare services depends on a wide range of factors, including:

- centre management and operational decisions, such as providers operating non-profitable services for the benefit of local communities or for particular groups
- pricing strategies for children under 2-years-old, who are more expensive to care for, and the age-mix of the children in a centre
- wage costs, access to suitably trained staff, reliance on relief staff and annual rates of staff turnover
- building related expenses and 'lumpy' expenditures for one-off repairs, maintenance and capital upgrades
- the impact of competition within a local area
- demographic shifts within a local area and the subsequent impact on the demand for childcare services and occupancy rates
- government policies that affect costs and demand.

J.1 Profitability depends on a range of factors and is highly variable

The profitability of the childcare sector is variable, across both providers and from year-to-year. However, it is mostly a low margin activity with relatively stable long-term returns, underpinned by substantial government subsidisation of user fees.

In recent years, the overall profitability¹⁰¹ of the childcare services industry has been between 2 and 3 per cent (IBISWorld 2013). Over the coming 4 to 5 years, industry profit is expected to remain below 5 per cent overall (IBISWorld 2013). That said:

¹⁰¹ Measured as revenue less expenses, excluding interest and tax. While for-profit businesses are unrestricted in how they distribute profits, the profits or retained surpluses of not-for-profit organisations cannot be handed to members or individuals. Rather, not-for-profit organisations accumulate reserves, such as to cover contingencies and support their sustainability during lossmaking periods, or re-invest surplus earnings into the organisation, such as to provide more services to the community or to improve the quality of the care and facilities they offer.

- many not-for-profit providers operate with very little profit margin after their usual expenses and interest on loans have been paid, either for a single centre or averaged across a network of services. For example, Goodstart is the largest provider in the industry and earned a net-surplus of only 1 per cent of total revenue across its network of not-for-profit centres in 2012 and 0.5 per cent in 2013 (Goodstart Early Learning 2013, p. 25)
- some for-profit providers demonstrate that higher profitability is possible, achieving profits closer to 15 per cent of earnings in some years (IBISWorld 2013, p. 7), including G8 Education who reported a gross margin on its earnings before interest and tax of 17.9 per cent in 2013 and 16.3 per cent in 2012 (G8 Education Ltd 2013)¹⁰²
- many private single centre owner-operators may be profit motivated, but mainly seek a return on their own labour and a normal return on any capital they have invested. Such providers may perform tasks that a community or large corporate centre would normally pay staff to do (IBISWorld 2014).

The Commission found that compared with lossmaking centres, profitable centres typically had around 10 per cent lower costs per place, and around 10 per cent higher revenues per place. This suggests that profitability relies on both cost minimisation and pricing strategies. Underneath any such average findings, however, is significant variability in profitability across centres. For example, a survey by the Fair Work Commission¹⁰³ found that approximately two-thirds of preschool and long day care organisations made a profit in 2013 and one-third made a loss (Fair Work Commission 2014).

Net-profit ratios¹⁰⁴ reported by the ATO highlight variability in the industry's performance, with an operator's legal structure being a large factor (figure J.1). Entities that are 'individuals' for tax purposes typically lodge financial information indicative of higher net-profits, while 'companies' report lower net-profits. However, such distinctions may not be indicative of innate profitability, since 'individuals' must generate a sufficient surplus or net-profit to cover a return on their own labour, which for other entities would be included as an expense.

¹⁰² Given the higher gearing ratio than other players in the industry, the requirement for higher profits in some years is necessary in order for such businesses to cover the increased vulnerability to downturns in the demand for their services. However, G8 Education's gearing ratio of 24 per cent is still low compared with what is typical for many well-established businesses in other industries who rely on debt to finance activities.

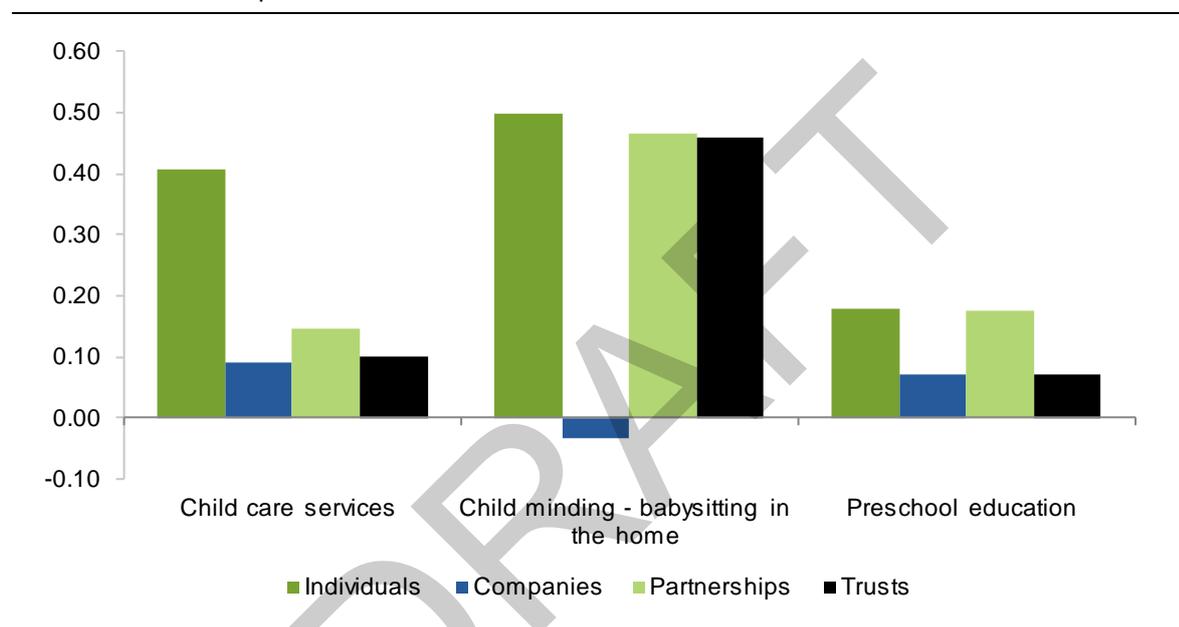
¹⁰³ The survey included non-government organisations who had at least one employee remunerated under the Children's Services Award 2010.

¹⁰⁴ Total business income, less total expenses, as a proportion of total business income.

Likewise, child minding, or in-home babysitting, services appear most profitable (figure J.1), which is likely to reflect:

- that a large share of such providers are ‘individuals’ and who must generate income as a return on their own labour and any capital invested
- the much smaller impact of regulatory requirements
- lower facility costs for in-home care models.

Figure J.1 **Some key industry benchmarks, 2010-11**
Net-profit ratio



^a net profit ratio = (total business income less total expenses) / total business income; wages to turnover ratio = salary and wages paid/ total business income. ^b Child care services (ANZSIC 87100); Child minding or babysitting in the home (ANZSIC 95393); Preschool education (ANZSIC 80100).

Data source: ATO (2013).

Have regulatory changes affected profitability?

There is some speculation that profit margins may shrink in the childcare sector as regulatory standards increase (IBISWorld 2013). If profit margins are eroded, the sector could attract less private capital, the relative presence of not-for-profit providers may increase and growth in supply could slow.

Analysis underpinning the implementation of the National Quality Standards indicated that over the ten years to 2019, the average daily cost per child for long day care was expected to increase by \$8.57 in real terms. Over half of this cost was expected to be induced by the new quality requirements (COAG 2009, p. 42). Wage costs are the most sensitive to regulatory changes, and some have speculated that

annually such costs could rise by 5.5 per cent in the years to 2018-19, reflecting both increased skills and higher employment numbers in the industry (IBISWorld 2013).

Fundamentally, any tightening of profit margins and associated impacts on growth in the supply of services depends on the ability of providers to pass on any regulatory induced cost increases. This is likely to vary across local markets, however, an analysis for the COAG decision regulatory impact statement concluded that:

... services' ability to pass on increased costs without a significant impact on demand is high. ... While at the service level, changes to staff-to-child ratios will see some reconfiguration of places offered, in aggregate, it is not anticipated that supply will be impacted. (2009, p. 40)

In part, this assessment was based on the mitigating effect of government subsidies in the sector, which partially offset fee increases.

Some providers indicated to the Commission that the impact of regulatory changes has been minimal. These are mainly not-for-profit providers, who may be less affected because they already operated in a way that was approaching or was broadly compatible with the new minimum requirements, or because concessions (in the form of special tax treatment and access to non-commercial rent or other in-kind benefits) have cushioned any cost pressures.

It is likely that experiences differ, however, with some providers reporting difficulties attracting suitably qualified staff (chapter 11). The Commission estimates that, since the inception of the National Quality Framework in 2012, approximately 8 per cent of providers have applied to ACECQA for an exemption from staff-related regulatory requirements. However, disproportionately represented among these are long day care providers and services in more remote areas (figure J.13).

Successive changes to regulated staff-to-child ratios and qualification requirements applying to family day care (chapter 7) have affected the return on labour for such providers and forced fees to increase. As was noted by many parents, 'recent changes to family day care ratios have made our previously preferred option more costly, as our carer was forced to increase fees to cover losses' (comment no. 227, users of ECEC services). In part, such changes may have stagnated growth in the number of licensed places. However, following the injection of various sources of government assistance to such services (appendix B), the number of services has increased dramatically from 512 services in 2012-13 (chapter 2) to now over 700 services.

Profitability can vary from year-to-year

The performance of individual long day care centres can vary significantly over time, with some centres making profits in some years and losses in other years. Of course, for many centres, profits and losses may be relatively small, so moving from a lossmaking to a profitable position may not be noteworthy. A better indication of any volatility in profitability would be measured by the magnitude of the change in profits (or losses) from one year to the next. Based on several years of industry provided data, the Commission found that for roughly one in two centres, the change in the overall surplus (or loss) varied by more than 50 per cent from one year to the next. The other centres tended to experience more stable surpluses or losses from year-to-year.

By operating a network of centres, providers can manage year-to-year or cyclical volatility in profits and innate differences in profitability across centres. In particular, with a large network of centres, a provider can:

- insure against threats to financial sustainability, such as if an individual centres faces a temporary downturn in performance due to unforeseeable events or unusual volatility in attendances, an unusual reliance on relief staff or lumpy repairs and maintenance expenses
- keep unviable services afloat through cross-subsidising fees from other profitable services (chapter 10). A significant share of centres operated by not-for-profit organisations may be unprofitable, reflecting that centres are operated with the intention of breaking even across an entire network in the long term.

Services in disadvantaged communities are generally less profitable

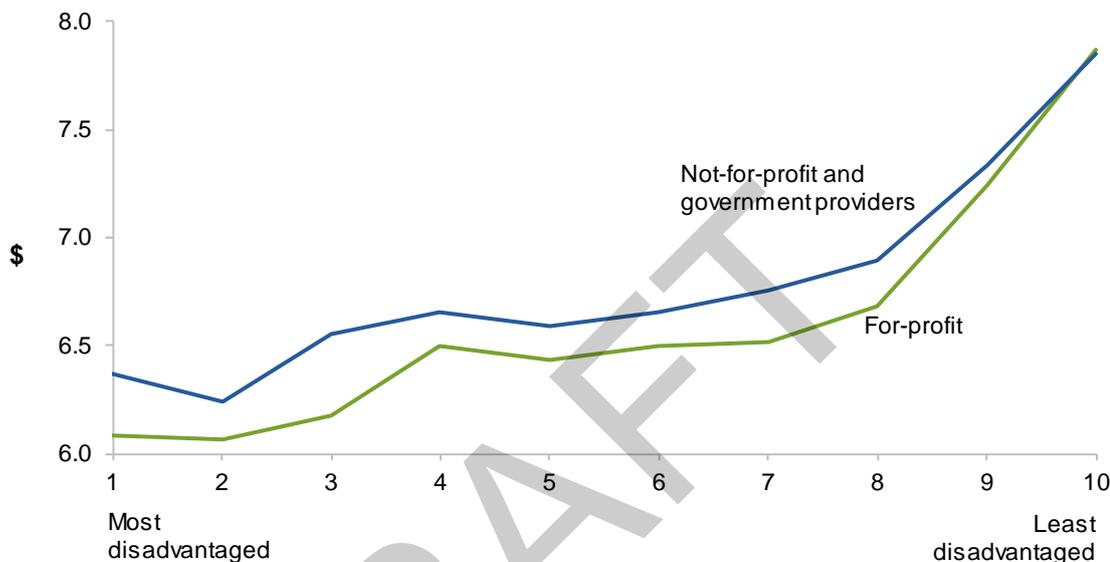
The Commission analysed data from a variety of long day care providers and found profitability was generally lower for centres located in areas of relative socioeconomic disadvantage, as measured by the socioeconomic index for areas disadvantaged (SEIFA). Though the relationship between socioeconomic status and profit was generally positive, the Commission only had access to data on a sample of centres, which may not be representative of the broader sector.

In addition, the averaging of profits across a large number of centres within each SEIFA decile masks significant variability between individual centres. Many centres demonstrate an ability to make a reasonable profit in low socioeconomic areas and some centres make losses in higher income areas.

Fees for long day care services were also found to be slightly lower in more disadvantaged areas and, by a small margin, for-profit providers were found to charge lower fees in such areas (figure J.2).

Figure J.2 Fees are lower in disadvantaged communities

Mean hourly fee for 3-year old long day care services^a, by SEIFA decile (socioeconomic index of areas disadvantaged 2011)



^a The same relationship held for long day care services for 2 year olds, 4 year olds and 5 year olds.

Data source: Commission calculations based on Department of Education administrative data (2011-12).

How do for-profit providers manage business risks?

For-profit providers can reduce financial viability risks by:

- ensuring they pay prudent prices to acquire childcare assets
- accessing capital with sufficiently low debt or equity financing costs
- tightly controlling their costs, and labour costs in particular
- setting prices that match demand for services, including through lifting fees, where doing so would not negatively impact demand and profits.

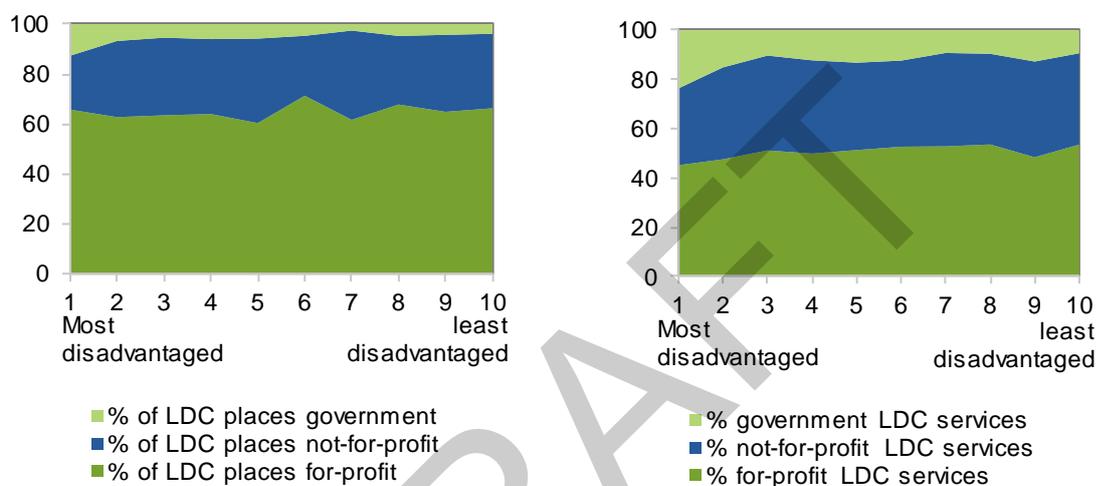
A profit-motivated provider could attempt to limit their exposure to factors that might reduce the profitability of a service, including by 'operating in locations where demographic and competitive factors are particularly favourable' (IBISWorld 2013, p. 8). As Community Connection Solutions Australia suggested:

The commercial market is not able to supply to the most disadvantaged areas. ... nor to isolated and vulnerable communities (sub. 305, p. 8)

However, the Commission found no evidence that for-profit providers avoid lower socioeconomic areas, being nearly equally represented alongside not-for-profit services across all socioeconomic areas (figure J.3). Further, the Commission found that for-profit providers charge fees that are, on average, slightly lower than not-for-profit and government providers in disadvantaged communities (figure J.3).

Figure J.3 Not-for-profit LDC providers are no more prevalent in disadvantaged communities

Per cent of market share, by SEIFA decile (socioeconomic index of areas disadvantaged 2011)



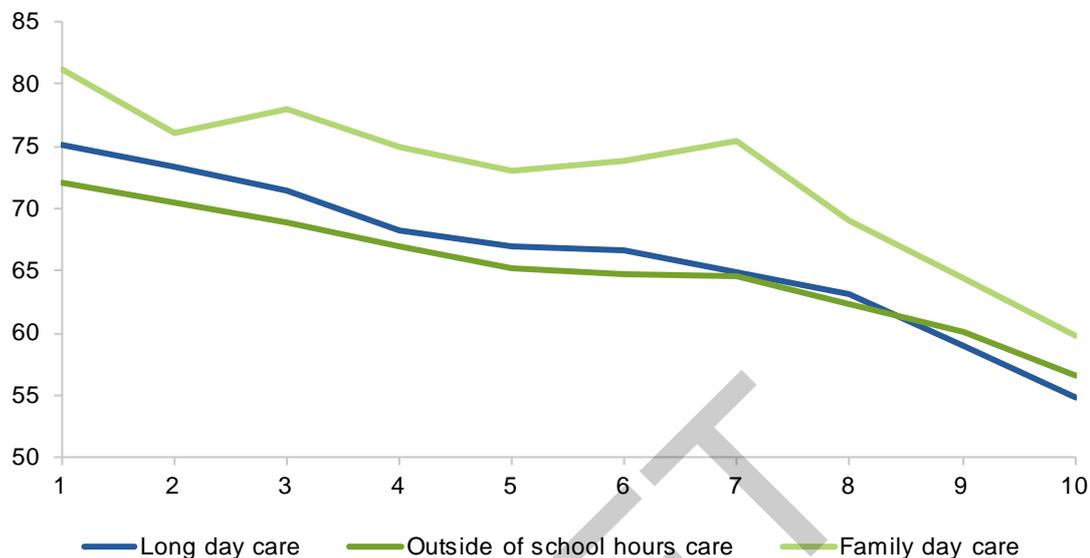
Data source: Commission calculations based on Department of Education administrative data (2011-12).

Targeting of subsidies may have provided an incentive for for-profit providers to operate in disadvantaged communities, correcting for any lower capacity to pay by parents in that area. Figure J.4 shows that government subsidisation of fees loosely targets areas of relative socioeconomic disadvantage.

However, reliance on subsidies can introduce a new set of risks for providers, which are largely outside of their control, such as if subsidies were substantially reduced or re-directed (chapter 10).

Profit-driven providers face numerous other risks and have strong incentives to address various market and operational complexities that could impose significant costs on their business (Centre for Market Design, sub. 375, p. 9).

Figure J.4 The subsidisation of fees targets socioeconomic disadvantage
Per cent subsidy in (gross) fees, by SEIFA



Data source: Commission calculations based on Department of Education administrative data (2011-12).

The potential to make a profit has seen considerable private investment in the childcare sector, with profits of around 15 per cent achieved by some entities. However, volatility in financial performance, either cyclically or from year-to-year, may lower the risk-adjusted rate of return, meaning that profits may not be high in comparison with alternative investment opportunities.

Participants frequently refer to the experience of ABC Learning as evidence that for-profit providers, and especially publicly listed companies, cannot manage business risks *and* make a sufficient return on their investments. Following the collapse of ABC Learning:

- the Senate Committee on the ‘Provision of Childcare’ recommended that public funds should not be available to ‘corporate companies that are floated on the stock exchange’. The Australian Government (May 2014) did not, however, agree to this recommendation
- the Australian Government has legislated power to scrutinise the financial viability of large long day care organisations under *The Family Assistance Legislation Amendment (Child Care Financial Viability) Act 2011*.

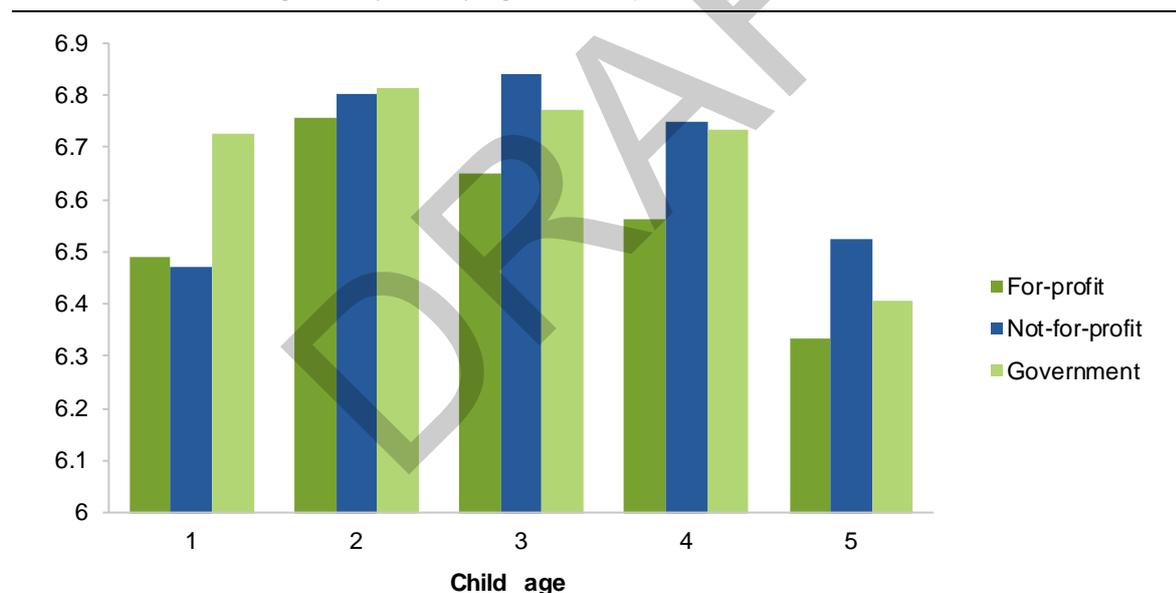
The particular growth and acquisition model that ABC Learning pursued was unprecedented and has not since been repeated. Although some recent market entrants have grown rapidly and acquired several hundred centres, this represents a small share of the overall market, and may be underpinned by relatively low capital

financing costs and prudent assessment of the asset price paid against earnings before interests and tax (Henshaw 2013; chapter 10).

For-profit providers could seek to improve their financial viability by increasing fees. However, the Commission did not find systematic evidence of for-profit providers charging higher prices than not-for-profit providers (figure J.5). This may suggest that:

- parents' demand for childcare services is relatively elastic, which constrains the ability of providers to raise prices
- the quality of for-profit services may be inferior, on average, compared with not-for-profit providers
- efficiently managing costs may be the most feasible means of safeguarding business profitability.

Figure J.5 **Not-for-profit LDC fees are slightly higher on average**
Average hourly fee, by age of child (n=6367)



Data source: Commission calculations based on Department of Education administrative data (2011-12).

How do not-for-profit providers manage financial risks associated with their social goals?

Not-for-profit providers may similarly seek to limit exposure to financial risks and carefully evaluate the continued operation of loss-making services. However, not-for-profit providers may also have social objectives — for example, facilitating community access to services — and these may influence their appetite to manage

the financial risks associated with poor performing services, rather than ceasing to operate loss-making services.

One of the most feasible means of managing such financial risks is by operating a network of services. Although user fees can efficiently reflect the full cost of each service, given the varied needs of families and the different capacities of families to afford the full cost of the services they consume, some providers deliberately use the surplus generated from profitable services to operate other unviable services.

Such cross-subsidisation is common among not-for-profit providers and is driven by various social objectives, including ensuring that childcare is both as widely available and as affordable for parents as possible. In effect, cross-subsidisation across a network of services can smooth the:

- financial cost of operating inherently unviable services to support social goals
- largely unpredictable year-to-year or cyclical volatility in financial performance across a network of services. As a form of insurance, this can be a valuable strategy for both for-profit and not-for-profit providers.

In addition, the financial sustainability of a not-for-profit provider's low-margin or loss making services may be bolstered through a reliance on volunteers, donations, subsidised or free rent and tax concessions (chapter 10).

If the delivery of social goals was the primary focus of not-for-profit providers, such services could be expected to be disproportionately represented in lower socioeconomic areas. However, the Commission found no apparent relationship (figure J.3), with market shares being unrelated to the SEIFA within each postal area code, which suggests that:

- targeting socioeconomic disadvantage is not a central focus of not-for-profit providers
- for-profit providers do not, as a matter of practice, avoid providing services in lower socioeconomic areas.

Further, as shown in figure J.2, not-for-profit and government services are slightly more expensive in more disadvantaged communities compared with average fees set by for-profit providers.

Like most measures of relative socioeconomic status, the SEIFA provides an imperfect measure of socioeconomic disadvantage. Even still, these results raise important questions about the nature of the social and community access goals that not-for-profit providers aim to deliver.

If not socioeconomic disadvantage, what social goals do not-for-profit providers aim to achieve?

It is possible that not-for-profit providers endeavour to meet social goals other than addressing socioeconomic disadvantage.

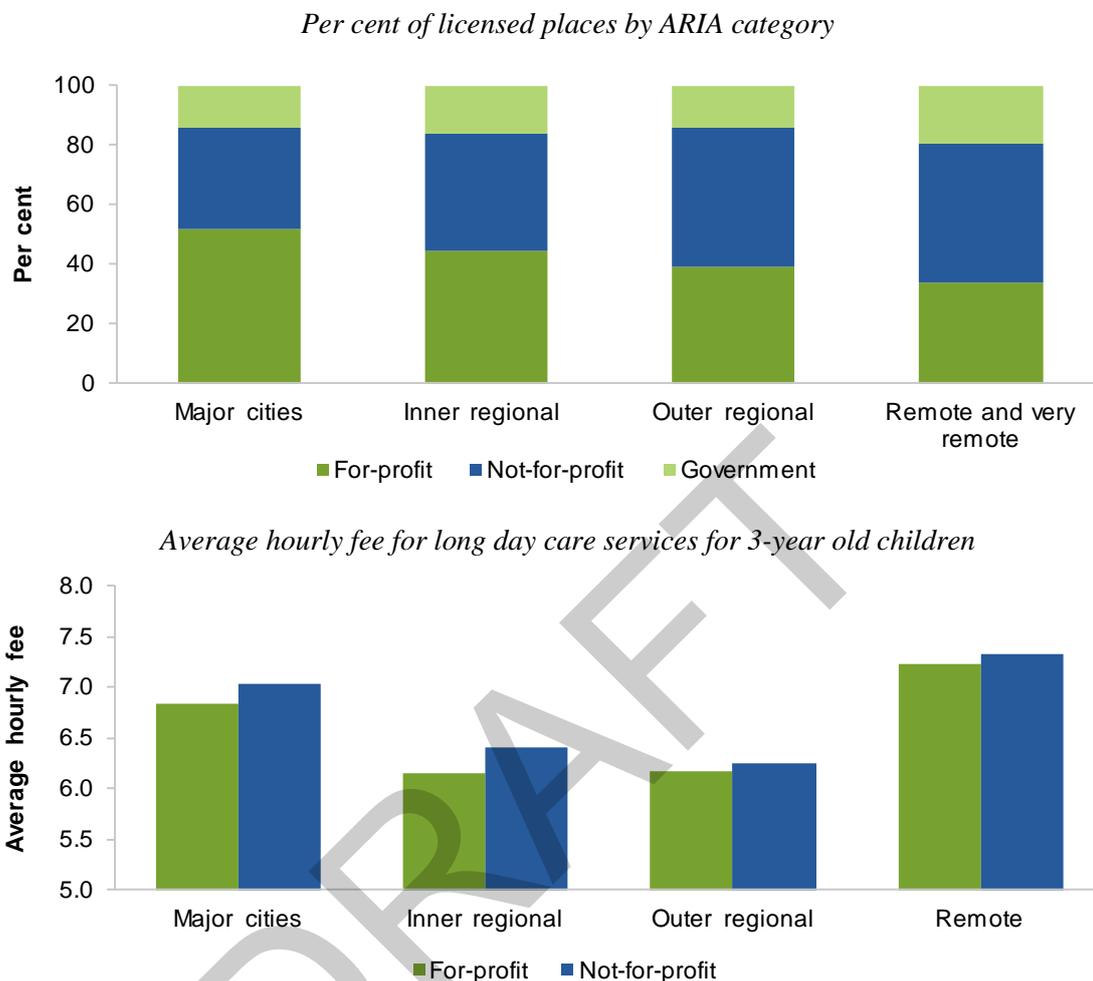
The Commission analysed local childcare markets to identify characteristics of particular centres and locations that might reveal ‘social needs’ that not-for-profit providers may target and that for-profit providers may under deliver. For example, the Commission tested the extent to which not-for-profit providers address access to services for families living in relatively remote areas.

The Commission found no convincing evidence that not-for-profit providers systematically reduce their financial viability in order to support access to services in outer regional or remote areas.¹⁰⁵

- Although not-for-profit services were slightly more prevalent in outer regional areas, for-profit providers still had a significant market presence in remote and very remote areas, accounting for around one-third of LDC places in such areas (figure J.6).
- The fees of not-for-profit services are slightly higher than for-profit services in such areas (figure J.6).

¹⁰⁵ Several hundred childcare providers are block funded (under a Budget Based Funding Program (chapter 4)) when, for example, their enrolments are highly variable or permanently insufficient to maintain a viable service. Such providers are exclusively not-for-profit or government and were not included in the Commission’s analysis. Block funding generally does not cover full operating costs, which means any gap must be recovered from user fees, other profitable activities of the service provider or community fundraising activity. In such cases, not-for-profit providers may deliver important social benefits to the communities they serve, which would not otherwise be delivered by commercial providers. However, substantiating the nature or size of such benefits was not possible with the information available.

Figure J.6 Not-for-profit provision and remoteness



Data source: Commission calculations based on Department of Education administrative data (2011-12).

Not-for-profit providers have told the Commission that they write-off large unpaid debts of a number of low income and disadvantaged families. Also, they may bridge any funding gaps relating to children with disabilities and developmental vulnerabilities, such as where the Inclusion Support Subsidy is not sufficient to cover the hours of attendance and staff costs to support quality care.

Another goal of not-for-profit providers may be ensuring that any established services continue to operate even when it may be unviable by:

- delivering a standardised level of quality and stable fees for their local community
- weathering any changes to market or operating conditions, including levels of competition within an area, enrolments, regulatory-induced costs, or other factors that either have one-off or ongoing influences on the viability of a service
- providing services for all ages of children, including more expensive centre-based services for 0 to 2 year olds (figure J.7).

However, it does not directly follow that meeting any such social goals leads to community wide benefits. The reason why a service is unviable needs to be evaluated carefully before assuming that its continued operation delivers benefits to the community. For example, poor financial performance could be symptomatic of inefficiencies, including:

- poor management and control of costs
- low occupancy compared with competitors within the same vicinity
- a reluctance to raise fees even when users could afford to pay more for services
- paying staff higher wages than competitors or delivering a higher level of quality than required by regulation or for which parents would be willing to pay.

J.2 Long day care costs vary significantly with child age

The cost of providing services differs with the age of children, reflecting the different care requirements of children at different stages of development. In recognition of this, regulatory standards also vary by age of child

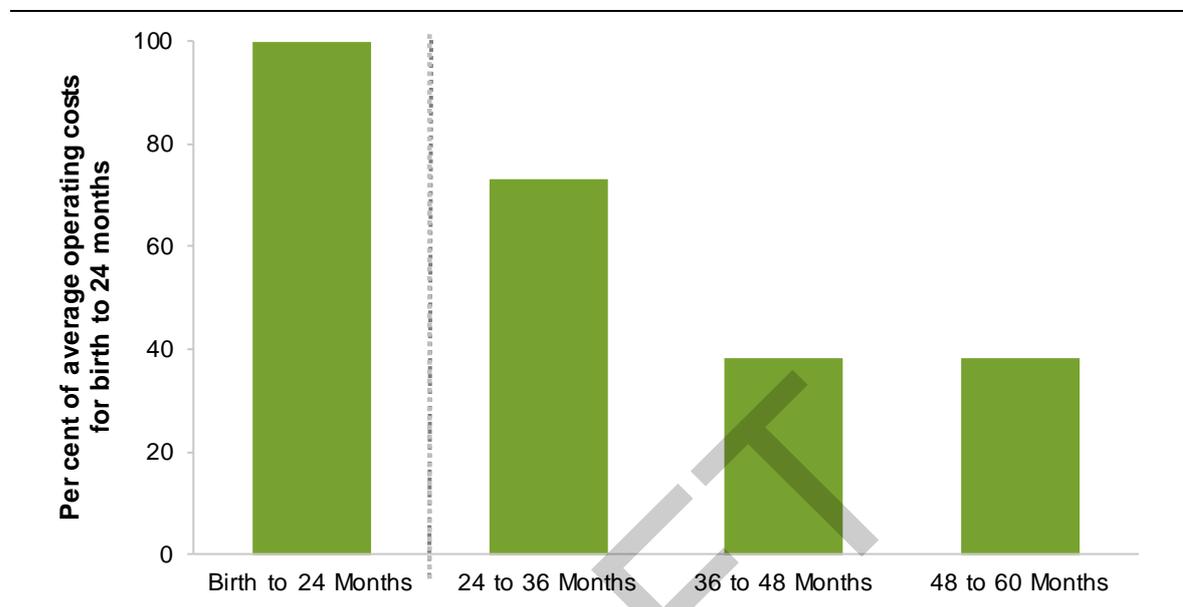
Under the National Quality Framework, ratio and qualification requirements result in labour costs for the care of a 0 to 2 year old being more than double that of children aged 3 to 5 years old (figure J.7). Average fees may not fully recover the cost of services for children in long day care aged under 2 years.

If cross subsidies between different age groups at long day care centres were wound back, the relative price of services would change. In particular, because fees for older children are typically used to cross-subsidise those for younger children, fees could increase for many younger children and decrease for older age groups. In practice, the magnitude of any such changes (from more closely reflecting the costs of services in fees charged) could vary significantly across centres, including depending on:

- whether a centre currently has a flat fee structure
- the age mix of children attending a centre — typically, the greater the share of 0 to 2 year old children at a centre, the higher the subsidy paid by older children
- the size of the centre and occupancy levels.

Figure J.7 **Children aged 0 to 2 cost roughly double that of 3 to 5 year olds in long day care**

Average operating costs per child, by age of child^a



^a Operating costs include centre-based direct staff costs and some non-staff costs (such as nappies), but exclude many fixed costs (such as rent, maintenance, utilities and any non-centre based administrative overhead costs). Factoring in these costs, which are roughly equivalent across age groups, would reduce differences in costs across age groups somewhat. It should be noted that nationally consistent staff-to-child ratio requirements only apply to the 0 to 2 years age group.

Data source: Commission calculations based on industry provided data (2013).

A confidential financial survey of long day care services provided to the Commission found that a 1 per cent increase in the average age of children resulted in a 0.35 per cent decrease in average costs. The survey also found centres with no children less than 2 years old were, on average, 12 per cent cheaper to operate than those centres with children under 2 years.

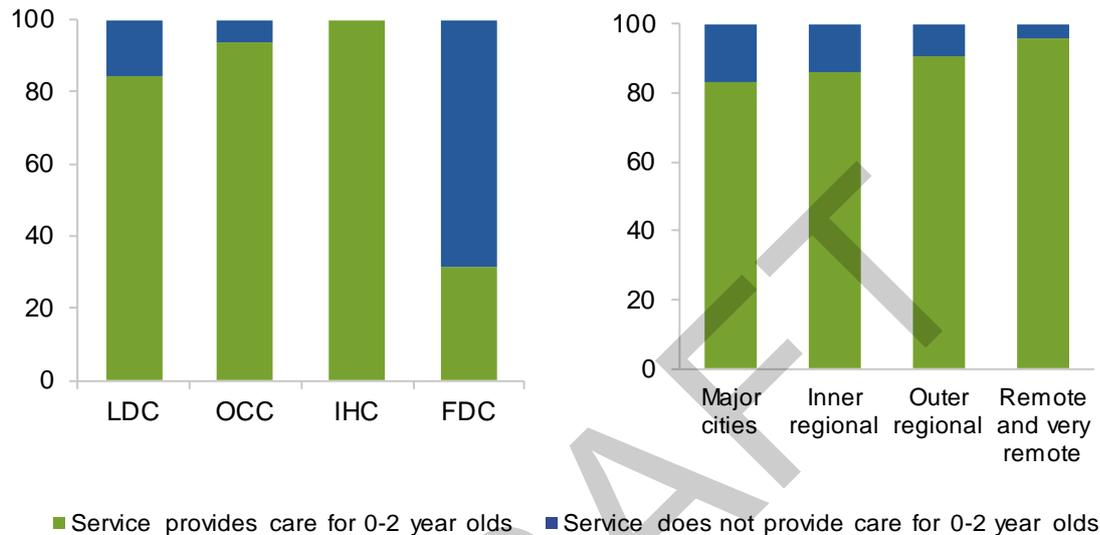
The Commission has been told that, given the higher costs and potential for lower margins on long day care services for 0 to 2 year old children, many for-profit providers are reluctant to offer such services. The Commission analysed the provision of such services based on the profit status of providers and found that 10 per cent of not-for-profit providers of long day care services did not provide places for 0 to 2 year old children, while the equivalent figure for a for-profit provider was 20 per cent.

Consistent with feedback from submissions, the Commission found that long day care services for 0 to 2 year olds may be less available in major cities, with 17 per cent of services not providing care for this age group compared with only 4 per cent in remote and very remote areas (figure J.8).

While family day care is frequently put forward as a care model that can cater for particularly young children in a cost-effective manner, more than two-thirds of such providers do not care for 0 to 2 year olds.

Figure J.8 Provision of care for 0-2 year olds varies across care models and locations

Per cent of services within each category



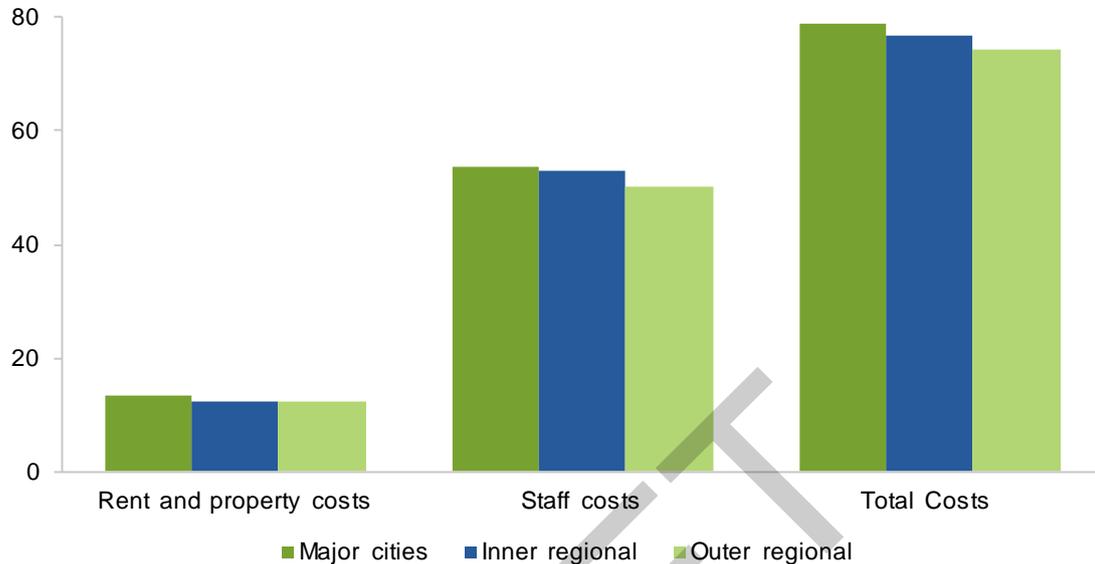
Data source: Commission calculations based on Department of Education administrative data (2011-12).

J.3 Location and remoteness

The Commission has found no evidence that costs per attendance at long day care centres varied significantly by remoteness. (Figure J.9 shows average wage, rent and total costs per attendance across ARIA regions for which sufficient data were available.)

These results were consistent with a confidential study of long day care centres provided to the Commission, which found that the median cost per child did not significantly differ by remoteness.

Figure J.9 Average long day care costs, by remoteness
\$ per attendance within ARIA categories, 2013



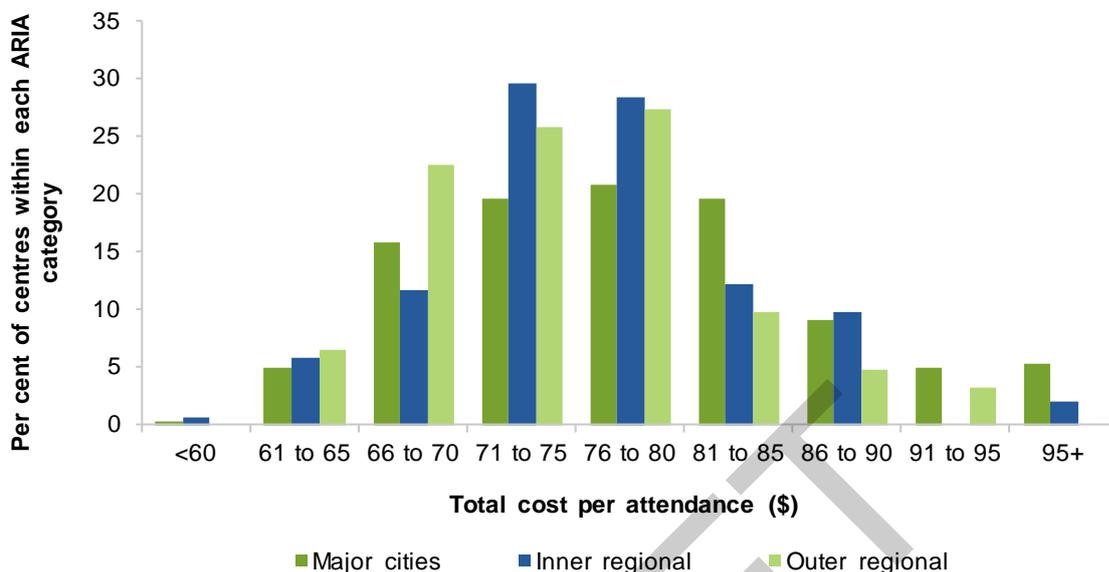
^a 'Rent and property costs' include rent, insurance, repairs and maintenances, gardening costs and utility expenses. Other costs are not shown, but include items such as cleaning expenses, equipment, consumables and administration expenses. As estimates are averages and based on a sample of centres, they may not be representative of all long day care centres.

Data source: Commission calculations based on industry provided data (2013).

In part, the limited variation in costs between ARIA categories — major cities, inner regional areas and outer regional areas — reflects that, on average, there is relatively little wage dispersion across locations, with providers tending to pay employees similar wages, based on qualifications, experience and the relevant state award (section J.4).

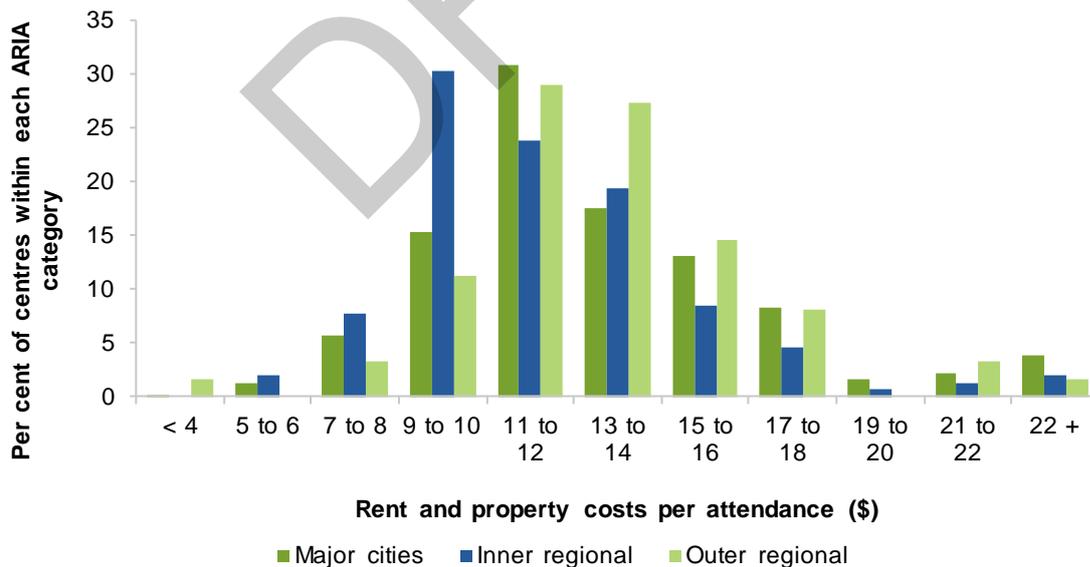
When assessing long day care centre costs per child between similarly remote areas — that is, within each ARIA category — the Commission found that although many centres experienced costs per attendance that were close to the average, there was significant variation across centres (figures J.10 to J.12).

Figure J.10 Distribution of total costs across long day care centres
Per cent of centres, by average costs category and ARIA category^a



^a Estimates are averages and based on a sample of centres, so may not be representative of all long day care centres.
Data source: Commission calculations based on industry provided data (2013).

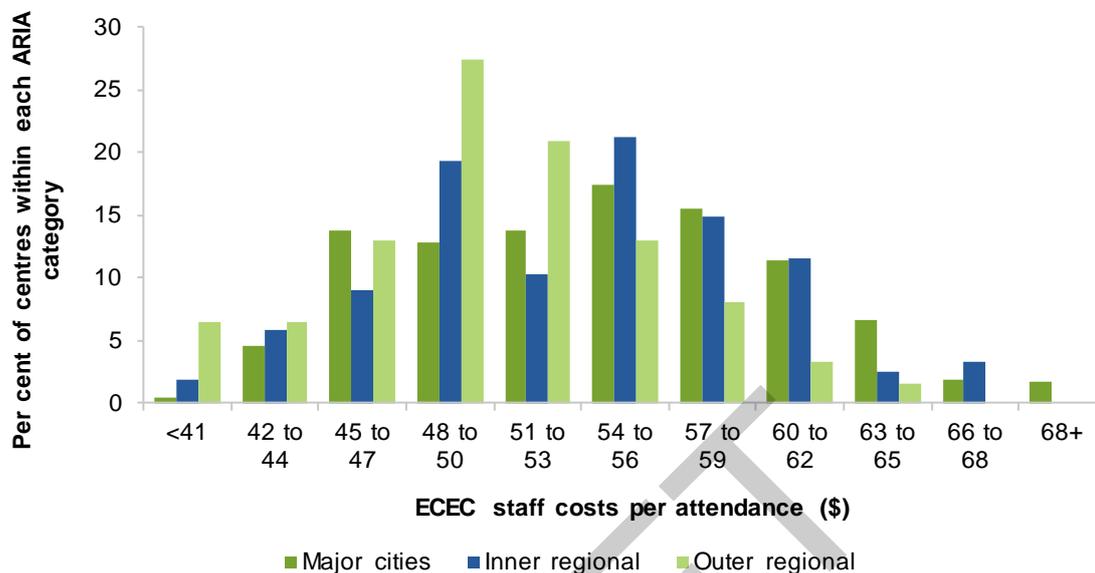
Figure J.11 Distribution of rent and property costs across long day care centres
Per cent of centres, by average cost category and ARIA category^a



^a 'Rent and property costs' include rent, insurance, repairs and maintenances, gardening costs and utility expenses. Other costs are not shown, but include items such as cleaning expenses, equipment, consumables and administration expenses. As a fixed cost, rent cost per attendance is influenced by occupancy rates. This will cause rent per attendance to vary between centres with similar rents, but different attendances. As estimates are averages and based on a sample of centres, they may not be representative of all long day care centres.

Data source: Commission calculations based on industry provided data (2013).

Figure J.12 **Distribution of staff costs across long day care centres**
Per cent of centres, by average cost category and ARIA category^a



^a As estimates are averages and based on a sample of centres, they may not be representative of all long day care centres.

Data source: Commission calculations based on industry provided data (2013).

Costs of providing services to remote and very remote areas

Insufficient data were available to reliably assess the costs of services located in remote and very remote areas. Many of these services are considered non-mainstream, however, and are currently supported by different funding arrangements (chapter 4). In particular, various sources of supply-side funding are directed at improving service viability where, due to higher costs and low enrolments, government subsidies of childcare fees and competition among providers would otherwise be insufficient to ensure adequate provision of services in terms of equity and access goals.

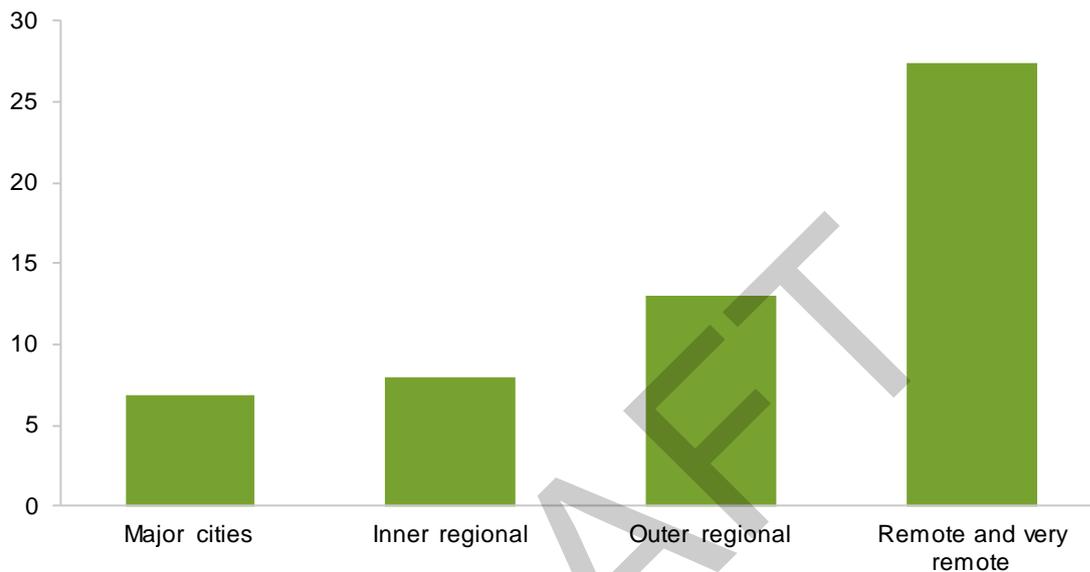
Block funding of services operating in remote and very remote areas — usually, when there is no competition — complicates any assessment of the intrinsic viability of services. In part, this reflects the lack of a benchmark to compare efficient costs and an uneven reliance on user fees from parents for many block funded remote and very remote services.

One factor that could add to the costs of more remote centres is attracting and retaining staff. Because the costs of recruitment and training are largely fixed or sunk, a higher rate of staff turnover could reduce profitability. The Commission found that remote and very remote long day care centres typically had a higher rate

of staff turnover than centres in more urban locations and were more likely to have applied for a waiver from staff-related NQS requirements (figure J.13).

Figure J.13 Services applying for a staff-related waiver

Per cent of services applying to ACECQA for a staff-related waiver since the inception of the NQF in 2012, by ARIA.



Data source: Commission calculations based on ACECQA data.

Another factor reported to impact the viability and cost per attendance in many remote and very remote areas is low and variable enrolments at a service. The Commission was unable to establish how significant an impact this had on the costs and viability of remote services, on average, since:

- several years of financial data would be required to measure the impact on cost per attendance from fluctuations in enrolments
- isolating any impact from low and variable enrolments requires controlling for a range of determinants of costs and viability.

Providing family day care and in-home care services is slightly more expensive in remote areas

For family day care and in-home care services, a confidential study provided to the Commission found that remote areas were not significantly more expensive on average than other locations. The main source of cost variation was in an agency's coordination costs, which the Commission estimates comprise roughly 20 per cent of the hourly cost of services in metropolitan areas, rising to around 25 per cent of the hourly cost in remote areas. However, to offset the higher cost per attendance

associated with coordinator's travel costs to train educators in remote areas, the 2008 study found that coordinators typically made fewer visits to educators and offered less training. The cost of an educator's time did not appear to vary with remoteness.

Recognising such cost differences, current government assistance arrangements provide a specific payment to family day care providers for regional travel (appendix B).

Rent and property costs for long day care vary across locations

IBISWorld (2014) found that property related expenses, such as rent and the costs of owned property, represent 13.5 per cent of industry revenue. However, this can vary across locations, including depending on whether providers are paying full commercial rates or have access to free or heavily subsidised facilities.

- The rent, lease or hire cost of childcare facilities is a more significant expense for for-profit organisations, composing roughly 10 per cent of their total costs, whereas for not-for-profit providers such costs are only about 1 per cent of costs on average (figure J.14(b)).
- Due to competing high-value land uses, rents may be high within an affluent suburb, close to a central business district, along a central commuter route, near a school or at a transport hub. But because location can be a key determinant of a centre's use, high rent costs can be sustainable for some well-positioned centres. The Commission found rent and property costs on a per child basis were broadly similar across locations (figure J.9).
- The Commission's own analysis of the distribution of childcare services suggests that the location of services tends to shift to the outer ring of central business districts in such cases, with such suburbs having a disproportionately high density of services.

Many not-for-profit centres have access to concessionary building and property costs (potentially counteracting their higher labour costs), with some facilities leased to providers at heavily subsidised rates. In particular, local governments provide free or heavily subsidised rents for premises, or make land available at below cost to not-for-profit long day care providers. The materiality of such assistance is unknown, although some local governments are believed to be reducing such support.

Similarly, in some jurisdictions, school facilities can be provided at low or no rent to not-for-profit outside school hours care providers. However, with the growth in

for-profit providers across all ECEC services, competitive neutrality issues, along with budgetary pressures, are seeing a trend away from this type of in-kind support.

Break costs associated with commercial leases can be large and leases are typically very long term, which reflects the dedicated nature of such facilities. That said, more flexible building design and fit out could reduce risks, particularly when regulations and the age mix of children attending a centre changes.

When spreading rent and property related expenses across the number of children attending a centre, locational differences in expenses are less significant.

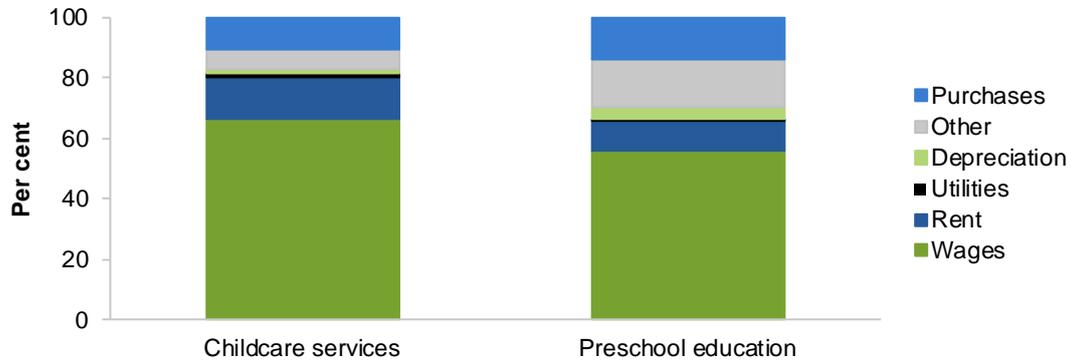
J.4 Wages

Labour costs are the largest item of expenditure for childcare services, accounting for around 60 per cent of total costs (figure J.14).

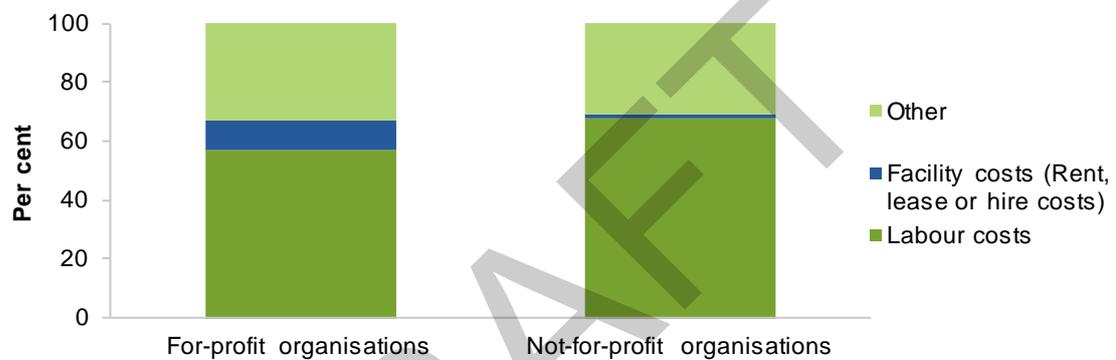
The fixed nature of a significant share of labour costs, in part due to regulatory restrictions, can be a barrier to profitability. Figure J.14(d) shows that annual ECEC staff costs per occupied place vary across centres, in part, reflecting factors including: the age mix of children, different staff to child ratios across child ages and states, and differences in awards and market wages.

Figure J.14 The cost structure of childcare services

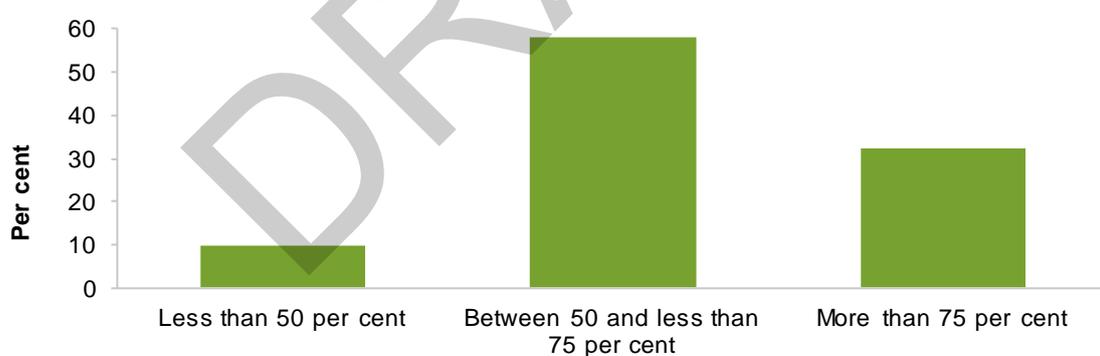
(a) Cost components as a share of industry revenue



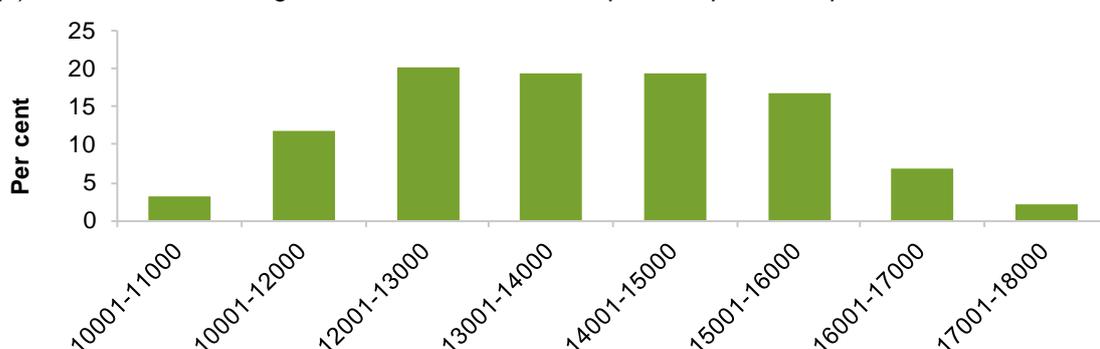
(b) The share of labour costs as a proportion of total costs, by profit status (2008-09)



(c) Distribution of per cent of wages in operating expenses (2013)



(d) Distribution of average annual ECEC staff costs per occupied LDC place



Data sources: (a) IBISWorld (2010, 2011, 2013, 2014); (b) ABS (2010); (c) Fair Work Commission (2014); (d) Commission calculations based on industry provided data.

Improvements in labour productivity can arise from tight scheduling of staff rosters around child attendance patterns and ensuring the room configuration and age mix of children can fully utilise the staff onsite at all times. This can reflect a range of factors including the ability to configure childcare places per room in order to optimise both building design and staff-to-child ratio and qualification regulations. Such considerations can change from day-to-day and hour-by-hour depending on attendance patterns and staff or child absences. Many centres have indicated they have daily and monthly labour targets to encourage efficient management of wage costs, with an emphasis on minimising reliance on relief staff, which is a higher cost form of labour.

Nevertheless, because labour costs are somewhat fixed due to regulated staff qualification and ratios, improvements in labour productivity may be restricted to increasing the quality of care rather than through increasing the number of children in care.

Wage costs are typically a larger share of total costs for not-for-profit organisations — in 2008-09, averaging 68 per cent of total costs, compared with 57 per cent for for-profit providers (ABS 2010). Some not-for-profit providers have indicated their wage costs comprise about 80 per cent of operating costs and may be sensitive to fluctuation in enrolments from year to year (Uniting Care Gippsland, sub. 225, p. 1). This can be for a range of reasons, including that not-for-profit providers tend to:

- employ more qualified staff. For example, a confidential financial survey of long day care providers found that 63 and 65 per cent of staff were qualified in not-for-profit and state operated centres compared with 59 per cent in for-profit centres.
- care for more children under 2 years, which require more intensive use of labour
- have access to cheaper rents (figure J.14(b)) thus reducing their overall costs.

Most providers and parents recognise the benefits of low employee turnover, including reducing fixed recruitment and training costs and improving a child's continuity with carers. For many parents, low staff turnover is a key determinant of care quality (comment no. 135, 156 and 230, users of ECEC services).

A range of factors may influence rates of staff turnover, but wages and the availability of career progression are typically credited as key drivers.

- For degree-qualified teachers at long day care centres, more attractive pay rates and conditions may be available within pre-schools and the schools system (chapter 11), which may result in a slightly higher rate of staff turnover compared with other LDC centre staff.

- A 2013 survey by the Fair Work Commission of award-reliant childcare providers found that around 30 per cent of them would progress employees off award rates in order to retain good employees (Fair Work Commission 2014, p. 40).

Based on a 2009 confidential study, state government owned centres appear to pay relatively higher wages. One not-for-profit provider indicated to the Commission that it paid their staff around 5-15 per cent higher than do their competitors.

However, many other providers tended to pay wages consistent with industry benchmarks, including the Children's Services Award. The Fair Work Commission survey found that the most common reasons why childcare providers paid award rates were that that they are considered:

- affordable to the organisation (34.5 per cent)
- fair remuneration (26.6 per cent)
- common practice in the industry (19.2 per cent).

Figure J.15 shows that labour costs per attendance at long day care vary across jurisdictions. This is expected given different regulated educator-child ratios, differences in qualification requirements and other state specific regulations, differences in child age mixes, as well as the application of different awards and market wages (chapter 11).

Figure J.15 ECEC labour costs per attendance in long day care

Average labour costs (\$) per attendance, by jurisdiction



Data source: Commission calculations based on industry provided data (2013).

J.5 Does productive efficiency vary across providers?

The Commission found that for-profit providers of long day care services set lower fees on average than not-for-profit or government providers (figure 10.4). The lower fees indicate that profit-motivated providers may:

- deliver slightly lower quality services (leading to closer alignment between quality-adjusted prices)
- specialise in the delivery of intrinsically lower cost childcare services, such as for older children
- not cross-subsidise services as extensively as not-for-profit providers
- manage costs more efficiently than not-for-profit providers.

Not-for-profit providers could face a cost disadvantage if having more bureaucratic control mechanisms (Rose-Ackerman 1986) or if they are less inclined, or less able, to adopt innovations that improve the quality and productivity of services. As Penn suggested:

... technology improvement in childcare enterprises are limited to more marginal activities, such as administration and management, ordering supplies and so on. Here the for-profit sector can excel. ... There may be less pressure — and less investment available — to introduce technological change in state or non-profit services ... (2012, p. 27)

Fundamentally, however, childcare is a labour intensive business (section J.4), and labour use is largely determined by regulation, which limits scope for large differences in productive efficiency across providers. That said:

- it is sometimes argued that not-for-profit providers may have labour productivity advantages if staff are more highly motivated, including if ‘mission-driven’ employees donate their time (Lam et al. 2013, p. 525). However, many owner-operated, for-profit providers may also ‘donate’ their time, undertaking tasks after hours that a not-for-profit organisation would employ people to perform.
- compared with for-profit providers, not-for-profit childcare providers may operate with higher staff to child ratios, employ more staff with higher qualification levels, and pay higher wages accordingly (section J.4).

Although based on information from service providers prior to the introduction of the NQS, one confidential study that was provided to the Commission on centre-based care in Australia found:

- government owned centres were more than 15 per cent more expensive to operate than centres operated by a for-profit agency

- not-for-profit centres were 10 per cent more expensive to operate than centres operated by a for-profit agency.

Another confidential study provided to the Commission on family day care agencies found that the cost per place in community run not-for-profit services were 12 per cent lower than in government operated services, and lower still for the small number of for-profit providers for which cost information was available.

However, care is required in drawing inferences from this evidence.

- The evidence is incomplete and draws on overseas studies and data gathered prior to the introduction of the NQF. Reliable findings would require both costs and prices to be quality-adjusted, including controlling for a range of largely unobservable quality dimensions.
- Findings reflect ‘average’ outcomes across a large number of providers, which masks variability across individual providers.

J.6 Do not-for profit providers deliver higher quality services?

It is sometimes argued that not-for-profit providers of childcare services can help to overcome information asymmetries that can frustrate the market-based delivery of high quality childcare services. Specifically, it is argued that a provider that is not motivated by profit will:

- be less likely to compromise quality in order to reduce costs
- typically garner higher levels of trust, which can reduce search costs for parents¹⁰⁶.

It is difficult in practice to discern the extent of any systematic or significant difference between the ‘average’ quality and viability of for-profit and not-for-profit childcare services.

For-profit and not-for-profit providers may operate centres with different cost structures and levels of profitability and that makes it difficult to compare quality. For instance, not-for-profit providers may keep unviable or more marginal services operating in remote areas that a for-profit provider would not. However, the Commission found that not-for-profit services are not significantly more prevalent in remote and very remote communities compared with for-profit services (figure J.6).

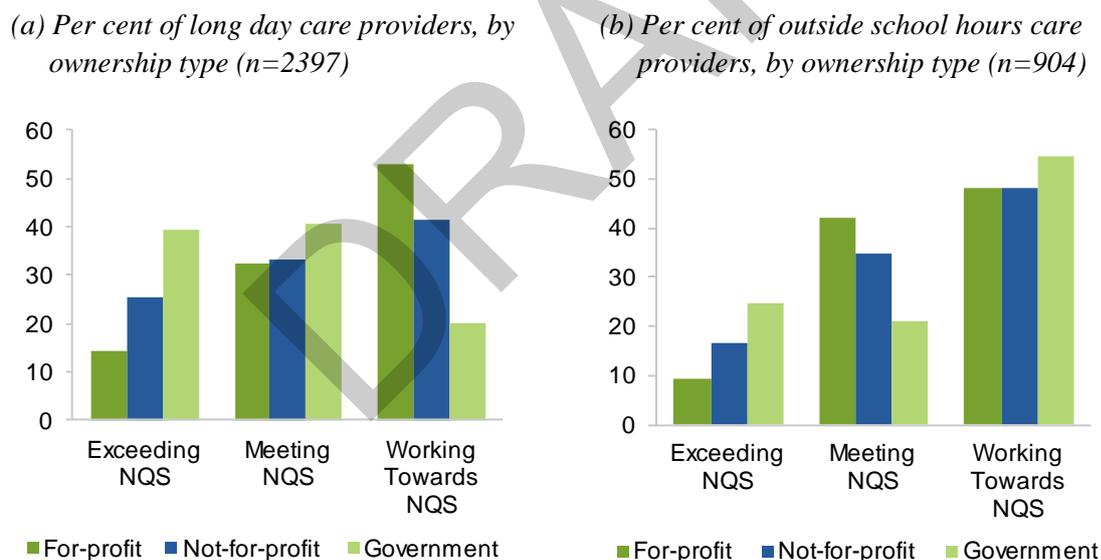
¹⁰⁶ With genuine community representation, a not-for profit governance structure can provide a type of ‘backward vertical integration by demand side stakeholders’ (Ben-Ner and Gui 1993, p. 8).

Australian studies analysing the quality of childcare services are limited and have mixed findings. For example:

- Rush (2006) found that employees in long day care centres perceived that corporate chain providers delivered the lowest quality care when compared with community and independent private centres.
- For OSHC, 29 per cent of staff in community managed services had not received relevant training, compared with less than 25 per cent in privately managed institutions (McNamara and Cassells 2010).

Based on NQS ratings, which are available for about one-third of childcare services, the Commission found that, not-for-profit and government providers achieved a slightly higher average quality than for-profit providers (figure J.16). However, a large number of factors influencing childcare quality were not controlled for in this simple analysis, and some aspects of quality valued by parents may not be captured by NQS ratings, including locational convenience.

Figure J.16 Quality ratings



Data source: Commission calculations based on Department of Education administrative data (2011-12).

Similarly, in other countries, not-for-profit providers are found to perform better at delivering quality services when measures of quality are based on observational data (Whitebook, Howes and Phillips 1990) or when regulations to protect quality are considered inadequate (Helburn 1995; Morris and Helburn 2000). In some studies, the effect of not-for-profit status on quality is highly sensitive to model specification (Blau 2000), which reduces the reliability of any inferences about the causal impact of profit motive on quality.

In Canada, Cleveland and Krashinsky (2004) found that, even after a range of variables were controlled for, not-for-profit centres were rated about 10 per cent higher in quality than for-profit centres, which were overrepresented among lower quality centres. Doherty, Friendly and Forer (2002) attributed lower quality rating of for-profit providers to behaviours including reliance on untrained staff, lower wages, higher staff turnover, lower morale and higher staff to child ratios.

A more recent study by Cleveland and Krashinsky (2009) found evidence that quality differentiation of services can only occur in dense markets¹⁰⁷, and only in such markets were not-for-profit providers found to deliver higher quality services. A more recent study still found that larger not-for-profit centres are more likely to provide better quality services, in part due to their capacity to take advantage of tax privileges (Lam et al. 2013, p. 525).

Mocan (2007) found that once corrections were made for non-ownership type factors; including inherent costs of a service, tax concessions and household income effects; ownership type was not a strong predictor of service quality. Other within- and between-firm factors (some of which may correlate with ownership type) are likely to account more strongly for measured quality, productivity and efficiency differences than ownership type.

J.7 High occupancy rates are essential for centre-based care

Full occupancy¹⁰⁸ at a centre allows all fixed and sunk costs to be fully utilised, reducing the average costs of delivering services and allowing fees to be lower.

Causes of low occupancy are varied, but once the problem emerges, a downward spiral in profitability can result. With low occupancy, prices must increase to cover fixed costs, which can further reduce occupancy, undermine the capacity to invest in quality improvements and ultimately erode a centre's viability.

Generally, 70 per cent occupancy has been the industry benchmark for long day care centres to be profitable (IBISWorld 2011), but recent regulatory changes may have nudged required occupancy levels closer to 80 per cent (IBISWorld 2013).

¹⁰⁷ Dense markets have a large number of buyers, which increases the range of quality attributes that providers can specialise in offering while still achieving efficient scale.

¹⁰⁸ Occupancy can be interpreted either as a per cent of the number of licensed places or as a per-cent of the number of 'configured places', which reflect the capacity at a centre given regulatory requirements and physical room dimensions.

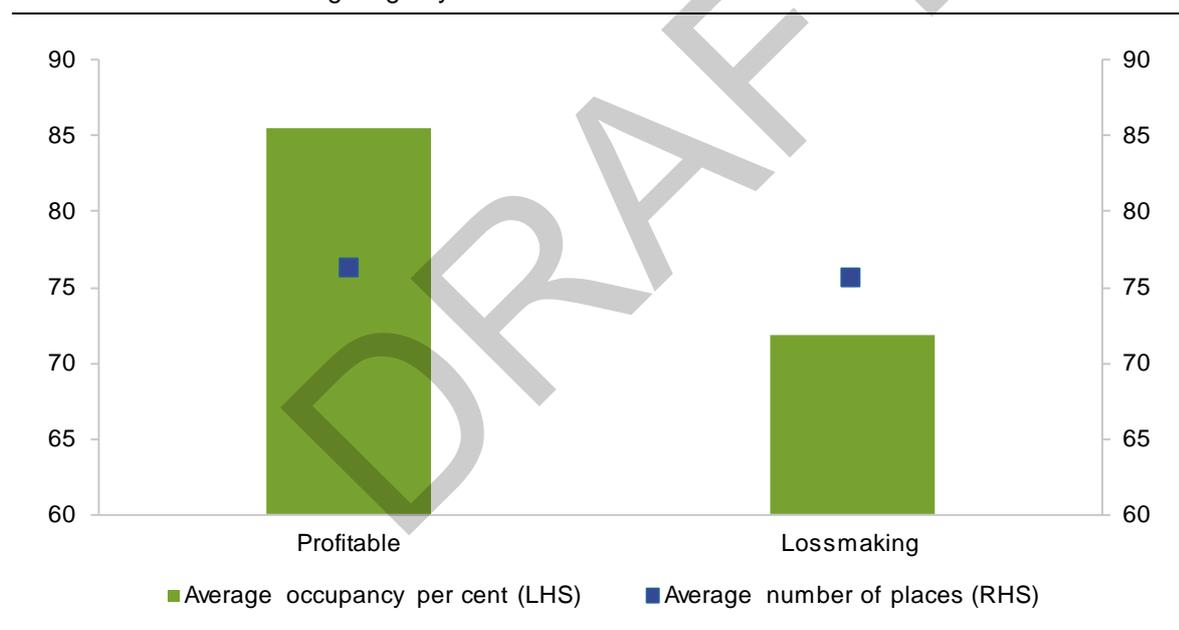
For-profit providers told the Commission that for a centre to be viable on a standalone basis, 80 per cent occupancy is required to breakeven, but 90 to 100 per cent is preferred for financial viability. G8 Education reports an occupancy rate of 83.8 per cent across 126 centres, noting that:

... occupancy levels represent the key to financial success for the Group given the largely fixed cost-base of child care centres. (2013, p. 66)

The Commission analysed occupancy levels across a range of centres and found that profitability generally improved with occupancy (figure J.17) and that centres reporting losses often has occupancy levels below 80 per cent. However, there was significant ‘noise’ around this relationship — for example, some centres had high occupancy rates, but still reported losses.

Figure J.17 Occupancy can increase profitability

Average occupancy (per cent) and number of operational places, for profitable and lossmaking long day care centres



Data source: Commission calculations based on industry provided data.

The Commission assessed whether centres were profitable or lossmaking, and then according to the average number of places and whether occupancy levels were above or below 80 per cent. Large, high-occupancy centres were typically found to be more profitable than smaller high-occupancy centres, but the impact of a centre’s size had the reverse effect when occupancy levels were lower. This result suggests the presence of scale economies, which might either improve or worsen profitability depending on occupancy rates.

Providers often attribute low occupancy rates to competition from other providers (section J.9). Occupancy rates can also fall or rise depending on economic factors

outside of an operator's control, such as if a major employer in a town ceases to operate. Similarly, as was discussed in chapter 10, heavily cross-subsidising services for 0 to 2 year old children may contribute to low usage by older children and (although attracting more use from 0 to 2 year olds) lower overall occupancy.

J.8 Scale economies in service provision

Exploitation of scale economies may be a source of cost minimisation in the provision of long day care services. Large centres can lower unit costs and optimise overall quality by allowing providers to differentiate and specialise services and tasks and to spread managerial supervision, planning and some regulatory compliance costs across a greater number of places.

Scale economies may be particularly important for long day care centres, since a failure to achieve the minimum efficient scale could mean centre-based care is not competitive with lower cost in-home care or family day care arrangements.

Various providers have told the Commission that around 60 licensed places is the minimum number necessary to be viable, but other providers have indicated that 30 places may be viable depending on the circumstances.

Cost reductions from larger scaled operations may extend beyond an individual centre. Strategic clustering of centres with centralised management and payroll systems can minimise costs across a chain or large network of centres.¹⁰⁹ Such approaches also allow greater flexibility in staffing practices and defray management, marketing, IT system and regulatory compliance costs.

As described by Petra Capital when reviewing the investment potential for G8 Education (GEM):

GEM has developed systems, people and structures that have made it operationally scalable. The rising burden of curriculum and regulatory oversight is increasing the barriers to entry and increases the competitive advantage of scale. (Henshaw 2013, p. 3)

Centres with a smaller number of licensed places or family day care providers with a smaller number of educators may be less competitive. During the period of the Global Financial Crisis, when the UK formal childcare market started to contract, small scale providers were the first to exit, with the average capacity of deregistered

¹⁰⁹ For a network of centres, it is suggested a 'critical mass' of centres is needed to warrant investing in an additional layer of overheads, such as to establish centralised payroll systems and ensure adequate quality control across centres.

establishments being significantly below the average capacity of remaining providers (OFSTED 2009, 2011).

Based on ABS data, the rate of exit by childcare providers over the period from 2008 to 2012 was highest among providers with particularly low turnover — less than \$50 000 — which experienced an overall decline in the number of services (ABS 2013).

However, small centres are not always less viable, with some providing services at considerably lower cost and achieving greater profitability per place than larger centres. It is unclear what characteristics might explain how such providers are able to do this, which may include the quality of services they provide, access to cheaper labour, rent or other expenses, or specialising in the care of less costly older children.

Depending on the age distribution of children, scale economies may be exhausted at somewhere between 30 and 70 full-time equivalent children (Cleveland and Krashinsky 2009). The narrower the range of child ages, the greater the scope for scale advantages, particularly when providing specialist services to 3 to 5 year olds.

When investing in new facilities or a capacity expansion, economies of scale in investments will only be achieved if capacity increases are stepped. As such, providers have told the Commission that an increase of generally no less than 30 places is required to justify expanding a centre or entering the market.

The density of demand for services within a geographic area may constrain the ability to exploit scale advantages, and the Commission found the impact of this factor was more pronounced for centre-based care than for other care models. The reason for this is that a high concentration of demand within a relatively small geographic area can optimise both a provider's need for scale economies and a parent's need for proximity.

However, based on the information from childcare providers available to the Commission, it was not clear that scale economies had a significant impact on the costs of delivering services. This suggests other factors also driving average costs may be hiding the influence of scale economies — factors that were not controlled for in the simple analysis undertaken. For example, as discussed in section J.7, although occupancy rates can be a key determinant of profitability, this impact is likely to interact closely with the number of licensed places (and, in turn, scale economies).

Previous studies¹¹⁰ that have controlled for the impact of other factors on costs found scale economies had a relatively minor influence on profitability, implying that fixed costs are a small proportion of total costs. However, such studies were undertaken prior to the introduction of the National Quality Framework, and may not be representative of current costs. It was also found that fixed costs for family day care agencies (under which many family day carers may operate) were slightly more important than for an individual long day care centre.

The Commission was unable to obtain detailed information about the coordination and overhead costs of family day care agencies. However, the advantages of scale are likely to be relatively minor, especially when scale requires coordinators to travel greater distances or stay in a location overnight when visiting educators.

J.9 Competition and new entry can drive exits

Vigorous competition should encourage the least efficient (highest cost) providers of services to exit a market if there is any excess of childcare places above the level demanded. The lowest cost providers, or those providing a niche service, would persist in the market.

These are efficient outcomes from a competitive market, with the minimisation of costs, the charging of cost reflective prices and the spurring of innovation in service delivery being key components of economic efficiency. Entry and exit rates in the childcare sector range between 10 and 15 per cent in most jurisdictions (figure J.18).

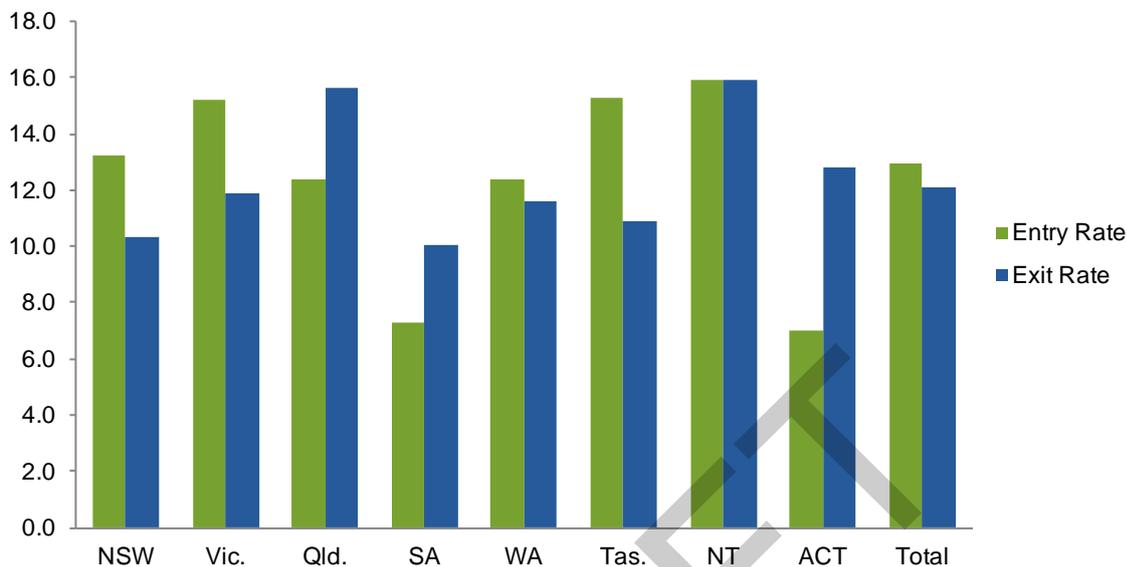
Based on Australian Taxation Office data, the performance of established providers of childcare services appear to be no better or worse than that of newly commenced services, with profit margins being roughly comparable (ATO 2013). However, there is significant heterogeneity within the broad category of ‘established’ providers, which includes:

- both for-profit and not-for-profit providers
- a mix of growing and more productive operations as well as less productive providers with a dwindling market share.

¹¹⁰ These were econometric studies, undertaken in 2008 and 2009, which were provided to the Commission on a confidential basis.

Figure J.18 The rate of entry and exit in the childcare sector

Annual per cent based on counts of childcare services (ANZSIC 8710) from 2008 to 2012, by jurisdiction



Data source: ABS (2013).

J.10 Summary and conclusions

The profitability of the childcare industry is variable, across both providers and from year-to-year. On average, the majority of childcare providers make a profit, but around one-third may operate at a loss.

The Commission found no apparent relationship between an organisation's ownership and a decision to operate in lower socioeconomic areas, with market shares being unrelated to the SEIFA within each postal area code. This suggests that:

- targeting socioeconomic disadvantage is not a central focus of not-for-profit providers
- for-profit providers do not, as a matter of practice, avoid providing services in lower socioeconomic areas.

Average operating costs for the care of 0 to 2 year olds in long day care are more than double that of children aged 3 to 5 years old. However, because fee structures are generally flat across age groups, many services incur losses for such children, which are then cross-subsidised by the parents of older children.

The Commission found no conclusive evidence that wage, rent or total costs per attendance at long day care centres varied significantly with the remoteness of a

centre's location. Similarly, for family day care and in-home care services, the costs of educators in remote areas were not significantly more expensive on average than other locations. However, there was some variation in a care agency's coordination costs, which the Commission estimates comprise roughly 20 per cent of an hourly cost in metropolitan areas, rising to around 25 per cent of the hourly cost in remote areas.

Wages account for about 60 per cent of total costs for long day care centres and are sensitive to regulatory changes affecting the required ratio and training of staff. Because regulatory changes affect most service providers equally, price competition should see regulatory-induced increases in wage costs reflected in fees, and with the availability of government subsidies, such cost increases will be partially transferred to taxpayers. As such, recent National Quality Framework changes may not have dampened profitability for many providers or prevented investment in the sector. However, this is likely to vary across local markets and providers.

The Commission found that:

- not-for-profit and government providers achieved a higher average quality than for-profit providers
- not-for-profit and government providers of long day care services set higher fees on average than for-profit providers.

DRAFT

Non-market production	<ul style="list-style-type: none"> • Childcare services • Household services 	<ul style="list-style-type: none"> • Substitution with informal childcare (grandparents, friends) • Changes in non-childcare household activities associated with additional hours of work 	<ul style="list-style-type: none"> • Child development effects • Health effects
Community wellbeing	<ul style="list-style-type: none"> • GDP • Non-market production • Leisure 	<ul style="list-style-type: none"> • As above • Changes in leisure associated with additional hours of work 	<p>Social attitudes</p> <ul style="list-style-type: none"> • empowerment of women • changes in workplace practices

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K A cost-benefit framework

This appendix sets out what is involved in undertaking a cost-benefit analysis of the Commission’s proposed funding and other changes to the early childhood education and care (ECEC) system. It first sets out a framework for estimating the impact of policy change. It then describes the type of evidence and analysis needed to undertake a broad cost-benefit analysis of the proposed ECEC reforms. Many of these parameters remain unknown or are highly uncertain, so estimates of the impact of the policy change will be partial. Nevertheless, thinking about the impacts of policy in broad terms is important in making judgments about whether the policy change is likely to deliver community-wide benefits.

K.1 A framework for estimating impacts

To assess the economywide effect of any policy change requires first measuring the direct changes that result from the implementation of the policy (sometimes referred to as the ‘shock’). The next step requires tracing through the consequences of the policy changes (the ‘outcomes’) over time. These outcomes usually go beyond the ‘first round’ direct effects as the policy shock sets in train further changes, some of which can take a long time to observe. The final set of outcomes (‘impacts’) can be contingent on what is happening in the broader environment, which can change over time in ways unrelated to the policy change in question. So projecting the impacts of a policy requires making (evidence and theory-based) assumptions about the mechanisms of change and about the situations in which these changes are occurring. Estimating the net effect of a policy change requires a further step, which is assigning comparable values (usually dollars) to the outcomes, including how outcomes that take some time to occur are treated relative to those that arise quickly. This requires selecting a discount rate, an issue that can be controversial (see, for example, Harrison 2010). The net present benefit of a policy is the sum of the discounted values placed on the final set of outcomes (impacts), including the cost of implementing the policy.

A cost-benefit framework provides one way to ‘add-up’ the impact of a change in policy across people and over time. It is a universal framework that can accommodate any cost and benefit to any identified group of people, or even

individuals.¹¹¹ It is limited only by what data are available to populate the framework.

In practice, many assessments of policy focus on the longer-term impacts — whether they are positive, large and permanent at some time in the future — rather than assiduously adding up the net effect for each year. This can be for simplicity or because a high discount rate can make policy changes that have long-term pay-offs, but involve short-term costs, look marginal. Yet, because they form an important part of an evolving policy framework for the economy and society, such reforms can contribute to a much greater net benefit than is able to be estimated.¹¹² While looking at a snap-shot in time some years hence has merit, attention to the short-term cost of policy change is also needed as, even if the long-term gain is considerable, minimising the costs of adjustment will be important to ensure that the policy change delivers a net benefit.

The outcomes of changes in ECEC policy

The immediate, intermediate and long-term outcomes from a change in ECEC policy have to be estimated relative to what would have occurred in the absence of policy change (the counterfactual). This presents complex challenges:

- *The immediate (first round) outcomes — changes in the use of ECEC services:* The change in the use of ECEC services depends on how both demand for and supply of ECEC services respond to the changes in the subsidies provided for ECEC services and other policies that result in changes in the cost, availability and quality of care.
 - The change in demand for ECEC services by families will also depend on parental employment opportunities and wages as well as family views on the child development value of ECEC services.
 - On the providers' side, the scope to expand or contract existing services, and to open or close services, will affect the supply responsiveness to changes in demand.
 - Decisions by providers on the price and quality of services and the families' response to changes in what providers offer can take some time to play out,

¹¹¹ While cost-benefit analysis was developed to estimate the financial returns to a firm on long-lived investments, it can easily include other economic outcomes and, if measurement is possible, environmental and social outcomes.

¹¹² For example, there may have been some privatisations that, looked at by themselves, did not result in a positive net benefit, but getting government out of market production resulted in a more flexible and vibrant economy.

but as long as the market functions well, price and quality combinations that families most prefer should be delivered.

- The eventual ‘equilibrium’ in the ECEC market is, however, contingent on the broader economy and in particular the extent to which it provides job opportunities for mothers. The first round modelling assumes that these opportunities are available so in many ways is a longer term outcome than (comparative static) general equilibrium modelling that take second and subsequent round effects on the sectors included in the model into account.
- *The intermediate outcomes — changes in child development and workforce participation of parents:* Changes in ECEC policy have consequences for both child development and workforce participation (including hours of work).
 - Workforce participation (joining the workforce and hours worked) is jointly determined with the use of ECEC services. The change in workforce participation should largely match the change in the use of formal ECEC services, allowing for travel time, unless there has also been a change in the use of informal ECEC services.
 - Child development outcomes will depend on the hours of care, the quality of care, and the vulnerability of the children who experience changes in their use of ECEC services.
 - The change in the supply of labour has direct and immediate impacts on the level of market production and hence gross domestic product (GDP).
 - The change in wage income and profits associated with the changes in the labour supply have implications for government revenue through the taxes levied on income. Government expenditures are also affected, notably childcare assistance, Family Tax Benefits (FTB), and the Parenting Payment.
 - Change in workforce participation has impacts on the level of household production. As a mother’s workforce participation increases, hours of childcare provided by the mother decline, as may some other household activities and volunteer work. In addition to ECEC services, some household work may be replaced by families employing others to do the work, such as a cleaner. As a result, part of non-market production moves into market production.¹¹³

¹¹³ Computable general equilibrium (CGE) models rarely include the non-market sector, and the most interesting substitution effects for childcare are between market and non-market production rather than between different industries or consumer goods and services. There could be a wage effect in industries that predominantly employ women (increasing supply of labour driving down wages), and a rise in demand for industries that sell services that working mothers consume disproportionately (such as cleaning services and prepared food). These substitution

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- *Longer-term outcomes — the effect of changes in human capital investment:* To the extent that the intermediate workforce participation and child development outcomes build human capital there is a longer-term impact on the economy. There can also be social impacts from changes in employment and from changes in the number of children who grow up in poverty.
 - Wages growth is lower for parents who take long periods of time out of the workforce, and for part-time workers more generally. The shorter the period workers spend out of the workforce and the closer to full-time hours they work when they return, the less the wage growth penalty. This translates to higher human capital and, hence, GDP over time.
 - The impact of the changes in child development are similar, but will be more sensitive to the environment that children face as they grow up and enter the workforce, notably the quality of their formal education after early childhood education, and the job opportunities that are available. As the long-term impacts are contingent on a range of external events that can amplify or dampen the impacts, they are inherently more uncertain than the intermediate impacts.
 - If workforce participation and/or use of ECEC services affects the underlying sources of disadvantage, they can have further fiscal impacts. This arises from changes in demand for government programs that aim to address the consequences of disadvantage. The impact of such outcomes is measured in terms of changes in ‘regrettable’ expenditure.¹¹⁴ Community welfare rises with a fall in regrettable expenditure (although GDP may be unchanged) because public expenditure is redirected to things that have value to the community¹¹⁵ or because taxes are reduced.

These main elements are summarised in figure K.1. On the left hand side are the main mechanisms by which ECEC policy changes translate to outcomes for government and the community. On the right hand side are the impacts of policy changes that might be observed and measured. The circles in the middle are ‘feedback loops’. The timeline in the figure is indicative only as some impacts will continue over time, and some will take time to occur. Proposed policy changes

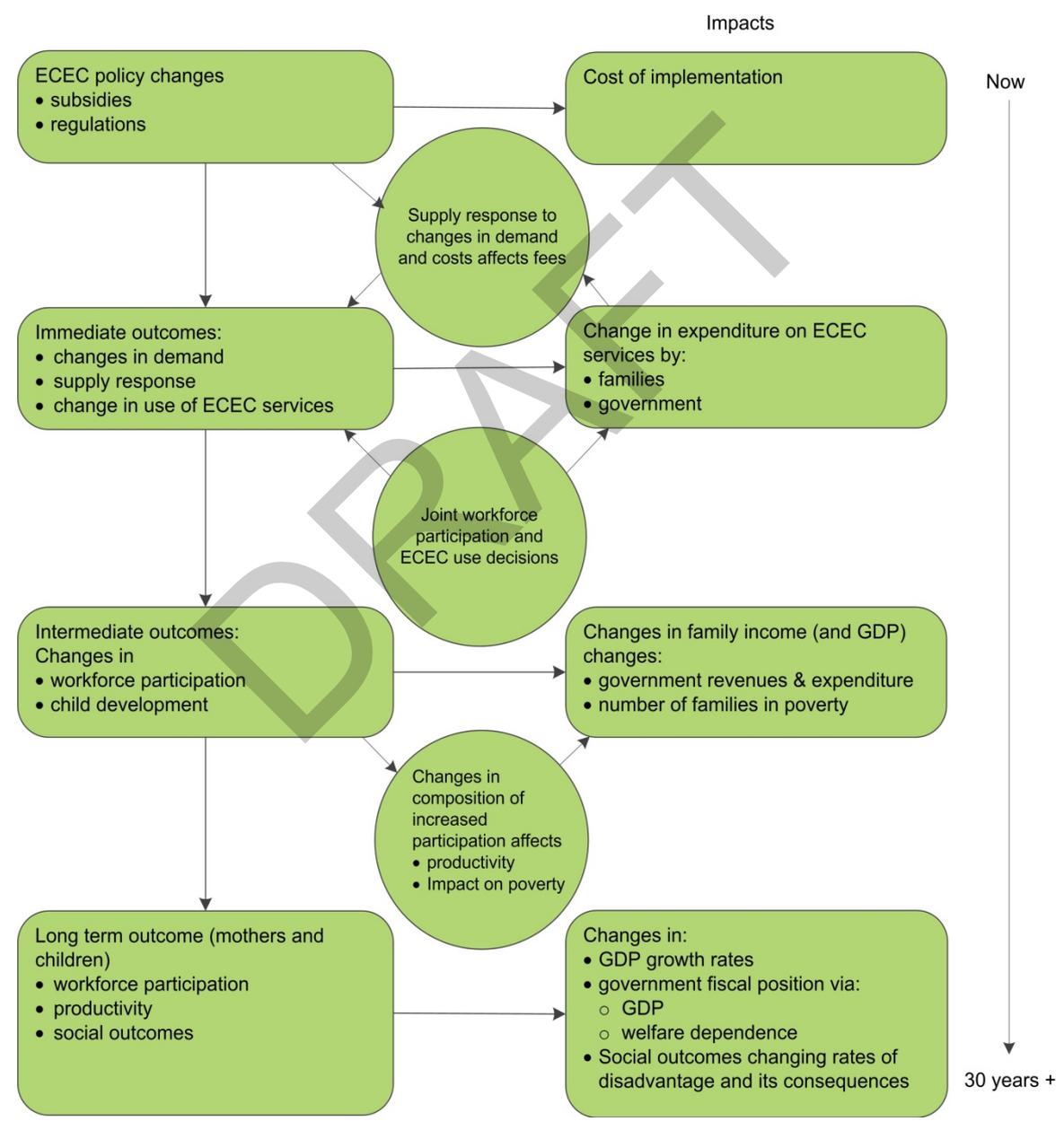
options need to be built into existing CGE models to get a better understanding of the welfare effects of the reallocation of activities across the market and household sector.

¹¹⁴ The OECD define ‘social regrettables’ as expenditure that does not directly contribute to wellbeing, but are nevertheless deemed to be necessary, such as national security, and incarceration of criminals (OECD 2013)

¹¹⁵ The category of regrettable expenditure is something that has value because it addresses a problem (or reduces its impact on the community), but in the absence of the problem would not be a desired expenditure. Hence removing the problem has value to the community as this expenditure is no longer needed.

should be compared to what is expected should the current ECEC arrangements continue. Notably, this counterfactual (or ‘business as usual scenario’) is expected to include more families ‘hitting’ the Child Care Rebate cap or arranging their workforce participation (and informal care arrangements) to ensure that they stay below the cap. This means the counterfactual, against which the impacts of the proposed policy changes are assessed, is not static but changes over time.

Figure K.1 A cost-benefit framework for proposed ECEC policy changes



The rest of the appendix goes through ways in which the ‘immediate’, ‘intermediate’ and ‘long-term’ impacts arise. ECEC policy changes will continue to have effects throughout the whole period, not least in terms of the expenditure on ECEC services. The only impact that is really short-term is the upfront cost of implementing the policy change.

K.2 Modelling the immediate effects of a policy change

The impacts of any policy change depend on the behavioural change induced. Behavioural changes might be intended, notably increasing the use of ECEC services to promote child development and workforce participation. But they can also be unintended, such as changing the demand for informal care (provided, for example, by grandparents), and changing time spent on household work and volunteering. Hence, in assessing the impacts of a policy change, tracking changes in these areas can be as important as assessing changes in the use of ECEC services, child development and workforce participation.

Modelling the impact on the demand for ECEC services

The main driver of changes in the demand for ECEC services for many families is the impact on the out-of-pocket costs for the users of these services. This works through changing the net wage (see below) which determines the change in workforce participation and, with this, the change in demand for ECEC services. The out-of-pocket cost depends on the subsidy rate (which depends on family income) and deemed cost and on any fees charged by the ECEC provider in excess of the deemed cost. Hence, the final out-of-pocket cost a family faces depends on the supply response to the change in demand as well as the family income.

Families tend to respond to the net rather than the gross price of ECEC services (chapter 6 and appendix F). They are fairly rational in assessing and basing their choices about use on the out-of-pocket cost. This is determined by the price of the ECEC services they have access to and the subsidy provided. In modelling the impact of the change in policy on the demand for ECEC services, what matters is the difference between the out-of-pocket cost families pay under the old policy compared to the new system. Under the options assessed in chapter 13, this will not be the same for every family — some families will face lower out-of-pocket costs, and others will face higher out-of-pocket costs per hour of ECEC used.

The effect of the change in out-of-pocket cost on workforce participation (measured in terms of the change in hours of work) depends on the net change in family income from a change in participation. The change in family income (net wage) can

be estimated by the hourly wage multiplied by the change in hours of work, less changes in taxes and transfers, less the out-of-pocket cost of ECEC services required to work. In Australia, as it is the mother who usually takes on the childcare responsibility, it is their reservation wage — the net wage they need to receive to be induced to work — that matters. A person’s reservation wage is lower if they enjoy work, expect their work experience to positively affect their future wage growth, and view their involvement in the workforce and ECEC as positive for their children (which is also a function of the quality of the ECEC they can access). The reservation wage is higher for people who do not see long-term gains from working while their children are young, put a higher value on their time parenting and their leisure time, and have concerns that ECEC may have negative implications for their children (chapter 5). The reservation wage also differs between mothers, and survey results suggest that for some mothers it is close to, or below, zero as they choose to work despite the ECEC out-of-pocket cost, taxes and benefit losses exceeding their wage income (CareforKids.com.au 2014).

Where the policy change results in the net wage for a mother rising above her reservation wage, she has an incentive to participate in the workforce. Similarly, where the change means a mother’s net wage falls below her reservation wage, she will leave the workforce. For mothers already working (net wage exceeds the reservation wage), they may be willing to work more hours if their net wage rises, or fewer hours if it falls. This responsiveness to changes in the net wage is known as the price elasticity of supply of labour (appendix F). This is a key parameter in estimating the response to a change in out-of-pocket costs.

The relationship between out-of-pocket costs, the net wage, and hours worked is not straightforward. As hours of work increase, the rate of income tax (and levies) usually rises, and as family income rises, Family Tax Benefits and the Parenting Payment will fall for those who currently qualify. This effect, along with the out-of-pocket cost of ECEC services, determines the effective marginal tax rate (EMTR) for mothers contemplating a change in hours of work. As noted in chapter 6 and appendix G, under the current ECEC system, some mothers will face an EMTR of over 100 per cent if they work more than 2 to 3 days a week. This is due in part to the current cap on the Child Care Rebate, a feature that the Commission’s proposed system does not replicate. Nevertheless, EMTRs will continue to be relatively high for some mothers, which is a feature of all means tested welfare and progressive tax systems. As explained in appendix G, to reduce the incidence of EMTR ‘cliffs’ for mothers, the threshold and taper rates for the ECEC subsidy should not directly align with thresholds for access to Family Tax Benefits (or the Parenting Payment). Because of Family Tax Benefits and the

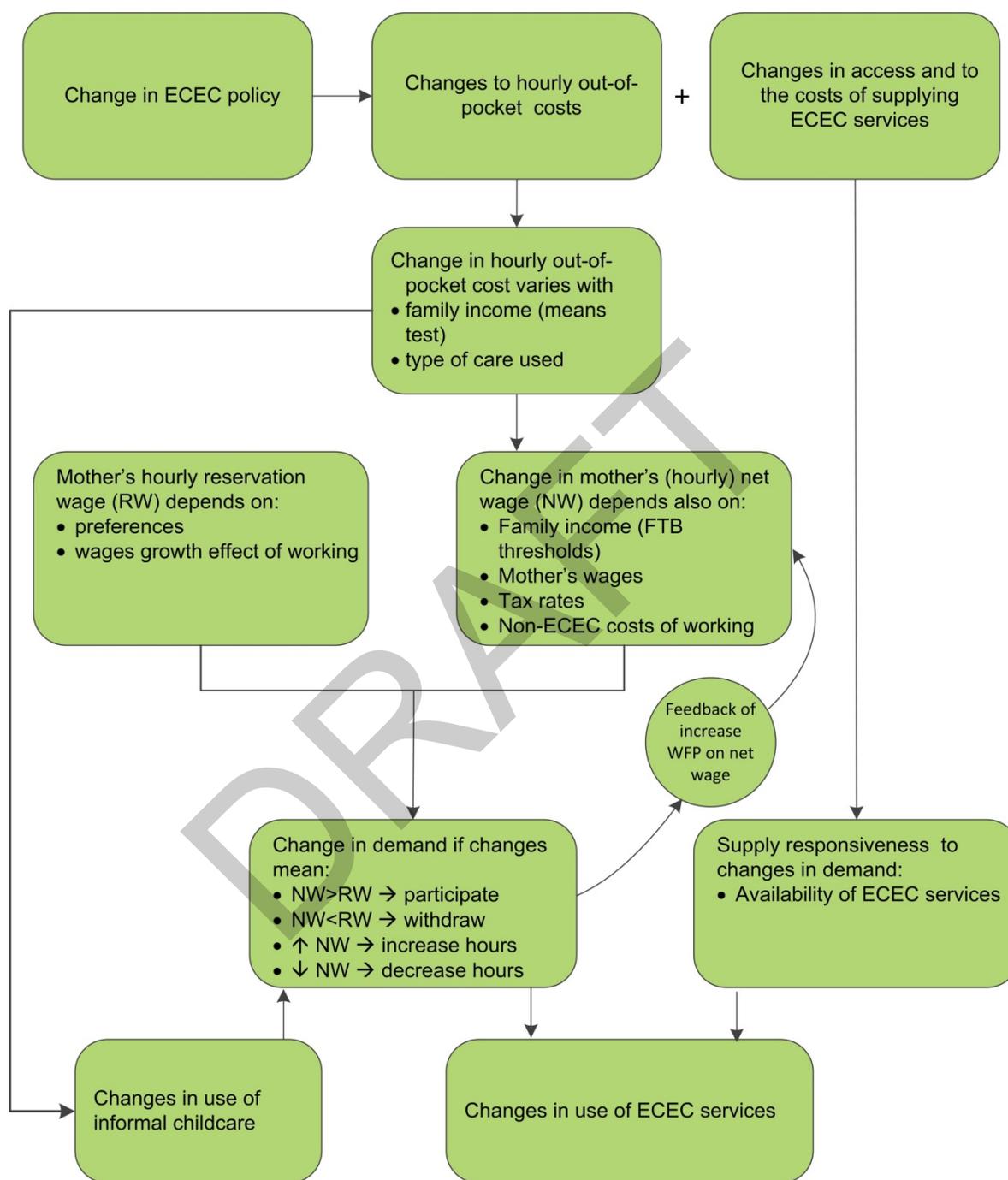
Parenting Payments, family income is likely to play a role in determining the net wage of mothers.¹¹⁶

An added complication for assessing the effect of changes in ECEC subsidies is the extent to which families have access to and use informal care to support their workforce participation. Little is known about how families and those providing informal care will respond to changes in out-of-pocket costs. The introduction of the 50 per cent CCR led to a major increase in the demand for ECEC services. It is likely that some of this increase in use came from families reducing their reliance on informal care providers, such as grandparents, rather than increasing their workforce participation. Provision of informal care also comes at an opportunity cost, whether this is in the form of less leisure time, volunteering, or workforce participation (such as where a grandparent retires early to care for their grandchildren while the parents of the children work). With little data on the willingness amongst families to substitute between informal and formal care, this behavioural response cannot be estimated. If most families use informal care by preference where it is available (for example, because it is often ‘free’) then their workforce participation response may be very small.

Figure K.2 sets out the considerations required for estimating the workforce participation and ECEC use response. The decision criteria for mothers is based on whether the policy change increases or decreases the net wage relative to the mother’s reservation wage. What mothers are doing is choosing to work more or less based on the hours of work that maximises their welfare (utility) under the new ECEC system relative to the old ECEC system. As work and ECEC services are available in ‘chunks’ of time, at the individual family level the changes can be fairly large. For example, mothers wanting to work may face a minimum hours of work requirement, and if the policy change means their utility is now higher from working these hours they will join the workforce. Unless there is a lot of clustering of incentives (and employment opportunities), in aggregate the changes are more continuous in response to a policy change.

¹¹⁶ Higher Education Loan Program debt also adds to the effective marginal tax rate that mothers can face, as they become liable to repaying debt after reaching a given income threshold.

Figure K.2 Factors in modelling the change in demand for and supply of ECEC services



^a NW is net wage and RW is reservation wage, WFP is workforce participation.

Mothers' participation response

Several OECD studies have modelled impacts on the participation rates (including full-time and part-time participation rates) of women aged 25 to 54 years, for a range of policy changes including family policies such as public spending on childcare services for children aged under 3 years. Jaumotte (2003) found that the workforce participation rate of women aged 25 to 54 years between 1985 and 1999 appears to be stimulated by public spending on childcare (formal day care and pre-primary school). Similar results were found in two models that had part-time and full-time workforce participation as the dependent variables (Jaumotte 2003).

Thevenon (2013) modelled the impacts on the workforce participation rate of women aged 25 to 54 years of various factors including work-life balance policies over the period 1980 to 2007. He found that the full-time workforce participation rate was unambiguously stimulated by public spending on childcare services for children aged under 3 years. However, public spending on childcare was estimated to have a negative influence on part-time work in some of his models. He concluded that increased public spending on childcare does not necessarily lead to more part-time employment as it may facilitate movement into full-time work or improve the quality of childcare without affecting hours worked per week.

While these studies looked at the 'macroeconomic' effect of a policy change (or differences), others have looked at the effect of the price of ECEC services on mothers' decisions about workforce participation. As noted in chapter 6 and appendix F, relatively few Australian studies have estimated the sensitivity of demand (elasticity) for ECEC services or workforce participation to changes in the cost of childcare. (In comparison, there are many more studies that have estimated the participation responsiveness of mothers (or single parents) to changes in their wages.) Most estimates suggest that mothers' workforce participation decisions are not highly responsive to changes in ECEC prices (gross or net). Mothers with younger children, multiple children, a lower education level, on lower wages, and with a lower family income, are more likely to increase (reduce) their participation and hours worked in response to a fall (increase) in ECEC prices than mothers without each of these characteristics.

Micro-simulation modelling is needed to estimate the demand response

As both the resulting net wage and the reservation wage differ between families (as well as the 'shock' to out-of-pocket costs which drives the immediate change in the net wage), a model that can trace out the impacts on different types of families is required. A micro-simulation model was used by the Commission to estimate the

likely workforce participation and ECEC demand response to the proposed policy changes.

Behavioural micro-simulation models effectively apply the policy change to each family based on their unique circumstances, then add up the changes in each family's behaviour to estimate the population level changes.¹¹⁷ Where the majority of the population can be categorised into a number of different family types, each of whose circumstances and estimated response are sufficiently similar, this can simplify the modelling required. In the microsimulation models the change for each 'stereotype' family is estimated. The population level change is then estimated based on the relative share that each 'stereotype family' makes up of the total population. The main difference between micro-simulation models is the number of family types the model can accommodate, as well as the sophistication of the theory applied to estimate the changes in behaviour in response to a policy change. As the Commission's model is based on the Australian Bureau of Statistics (ABS) Survey of Income and Housing, this survey sets the number of 'stereotype' households (which comes to a little under 3000). Population estimates are made by adding up the household changes, where each household type has a population weight, reflecting the share in the population of similar households.

Micro-simulation models do not usually incorporate a supply side response. This has to be imposed as a constraint on the choices that families can make and the expected impact that the supply response has on fees and hence out-of-pocket costs faced.

A limitation of behavioural microsimulation models that use a utility maximisation approach is that, unless constrained, they assume that parents can easily change the hours of care they use by a small amount. However, decisions about both work and purchase of childcare are often 'lumpy' — most providers require parents to purchase a full day service even if they only need a few hours (this is less of an issue for outside school hours care). The microsimulation model only allows families to work, and use ECEC services in discrete 'lumps' of time. The Commission's proposed changes to encourage more sessional supply of ECEC services for periods shorter than a full day, would make this assumption more realistic as long as providers respond (chapter 8).

A description of the micro-simulation model used to estimate the effect of changes in ECEC assistance will be provided in a technical supplement to the report.

¹¹⁷ The original micro-simulation models did not incorporate behaviour so were effectively a very detailed accounting exercise.

Estimating the supply response

In Australia, supply of ECEC services has been highly responsive to demand. However, fees have also risen considerably. The key question is what effect the proposed changes in the ECEC system will have on the costs of supply, the competitive constraints on fees, and ultimately the quality, availability and price of ECEC services.

The aim of many of the Commission's proposed changes is to reduce some of the pressures on costs (notably through reforming the National Quality Framework and streamlining funding administration), improve competition (mainly through reducing operating requirements that could form barriers to entry and exit and addressing planning impediments), and improve availability (through including approved nannies, and removing regulatory barriers to greater variation in operating hours). These should all work to lower costs for any given service quality. Moving to a 'deemed cost' model as the basis for the subsidy rather than the actual fee paid should also put downward pressure on fees to the extent that providers currently offer a 'premium' service that some families would not choose if they faced the full additional cost. Competition should constrain ECEC fees to the actual cost of providing the service (including a return on capital).

In the absence of detailed cost information, it is difficult to predict the supply response to shifts in the demand for ECEC services. Centre-based supply tends to be fairly lumpy and the costs of establishing a new service can be considerable. This is particularly so for younger children (in the order of \$2 million for a purpose built long day care centre, but lower for conversions), and around 80 places are considered to be required to deliver economies of scale (chapter 10). Services for school-aged children are also fairly lumpy with around 30 places to fully utilise minimum staffing, although the capital costs of entry (and exit) should be lower. However, home-based services, whether in the carer's home or the child's own home should involve a low entry (and exit) cost.

With some families likely to be facing higher out-of-pocket costs and some lower, the change in demand facing services in different locations will vary. The shift to a deemed cost based on the age of the child will also change the dynamics for providers catering to younger children. In addition, allowing greater flexibility of hours should see more providers offer shorter sessions in response to demand for occasional care type services. So some change in the composition of the supply of ECEC services is likely. This will take some time to play out.

For modelling purposes, supply of ECEC services is assumed to be perfectly elastic. That is, while there will be changes in composition of supply, it is assumed that overall supply will adjust to accommodate demand with little effect on the fees

charged relative to under the current policy. While in general this assumption may hold, there will be some locations where this might not be the case. Better understanding the supply response is an important part of the ongoing analysis.

Estimating the cost of subsidies for ECEC services

The micro-simulation model estimates the first round changes in the use of ECEC services by different families. Adding up the hours of services and the hourly subsidies paid gives an estimate of the government expenditure on ECEC services for ‘mainstream’ services (used by families who receive the Early Care and Learning Subsidy (ECLS) and the Special Early Care and Learning Subsidy (SECLS)).

The Government has several policy parameters that it can use to manage the cost of ECLS and SECLS. These are the subsidy rates (particularly the maximum and base subsidy rates and the upper and lower thresholds where these end and begin, although they can also change the shape of the taper in between). Over time the indexing of the thresholds will also affect the cost of the system. However, changing these parameters will have impacts on the demand for and use of ECEC services.

What the micro-simulation model does not include is the funding that goes to children with additional needs and the preschool funding that make up the rest of the cost of the ECEC system. Unlike the mainstream program where funding depends on demand, these programs are capped, and funding allocated according to established criteria reflecting priorities. Hence, modelling the cost of these programs is relatively simple, what is difficult is estimating the benefits to the children and their families, and the broader community (below).

Table K.1 summarises the main information required — at a population scale, which is the sum of the individual family decisions — to estimate the immediate effects of changing the ECEC funding arrangements. Work associated costs, other than ECEC services, are captured in the modelling as part of a set of ‘other’ unmodelled factors that influence utility and hence decisions about workforce participation. While it would be better to model these non ECEC work related costs explicitly, the data to support their inclusions (and variation with hours worked) is not available.

Table K.1 The immediate costs and benefits of proposed changes: what needs to be known?

<i>Components</i>	<i>What changes?</i>	<i>What does it depend on?</i>	<i>What are the driving factors?</i>
Australian Government expenditure on ECEC	<ul style="list-style-type: none"> • Direct subsidies to parents • Tax expenditures for parents/employers • Block funding to providers • Tax expenditures for providers • Administrative costs 	Changes in: <ul style="list-style-type: none"> • Number of children in care • Hours of care per child • Subsidy per child per hour • Block funding arrangements 	<ul style="list-style-type: none"> • Objectives of policy • Child development • Workforce participation
Family out-of-pocket costs	Total expenditure by families on ECEC less any subsidies received	<ul style="list-style-type: none"> • Hourly cost of care • Hours of care used • Hours paid • Subsidies per child 	<ul style="list-style-type: none"> • Competitive nature of the market • Quality of service • Cost of inputs (labour, capital, etc.)
Gross income earned	Total individual income after tax of parents	<ul style="list-style-type: none"> • Participation in hours • Hourly wage 	<ul style="list-style-type: none"> • Preference for work • Skills & education
Income taxes paid	Individual income tax	<ul style="list-style-type: none"> • Annualised gross income 	<ul style="list-style-type: none"> • Marginal tax rates and thresholds
Government transfers to households	Entitlement to: <ul style="list-style-type: none"> • Family Tax Benefits (FTB) • Other welfare payments 	<ul style="list-style-type: none"> • Annual gross household income (FTB Part A) • Second worker income, and household income (FTB Part A) • Second worker income, household income and assets (most welfare payments) 	<ul style="list-style-type: none"> • FTB subsidies and taper rates • Other welfare payments and taper rates
Additional expenses	Household expenses due to additional costs in earning income	<ul style="list-style-type: none"> • Travel costs to access employment • Other work associated expenses • Replacement costs for household services 	<ul style="list-style-type: none"> • Distance from employment • Number of shifts worked • Household income and preferences

K.3 Modelling the intermediate impacts

To understand the intermediate effects on income, the fiscal effects for government, family poverty, and household production, it is important to track which types of families are working increased hours and which types are working fewer hours. This affects the impact of the policy changes on:

- labour productivity, and hence on GDP, and in turn this affects tax revenue
- family income as changes in work effort change family income and in turn the welfare payments (including FTB, the Parenting Payment and other welfare payments), both of which affect family disposable income.

In turn these affect the:

- government's net fiscal position
- share of families living below the poverty line (and the share no longer reliant on income support payments).

The change in workforce participation also affects household production. There are also effects of attending ECEC services on child development. While the development outcomes are an intermediate impact that can deliver social benefits, it is the longer term impacts that are of greater interest. But to estimate these requires measuring the changes in development that result from changes in ECEC attendance. Relating changes in ECEC use to a developmental measure such as the Australian Early Development Index (AEDI) is one way to monitor this type of child development outcome.

Estimating the impact of the policy on GDP — labour supply and productivity

To properly estimate the effect of the policy changes on GDP requires modelling both the effect on the supply of labour and the demand for labour. The effect on the supply of labour is mainly due to the changes in the mother's workforce participation, as what evidence there is suggests that in aggregate the response of father's workforce participation to changes in out-of-pocket ECEC costs is comparatively small. There may be substitution between formal and informal ECEC that affects the workforce participation of people who were providing informal ECEC but this too, is likely to be small. Hence the main labour supply effect is the change in mothers' labour supply — participation and hours worked.

The impact on GDP of the policy change depends critically on the economy's capacity to absorb additional labour. As the policy intent is to encourage mothers into greater participation in the workforce, their level of education and previous work experience also have an important effect. Where the additional labour cannot be absorbed without a significant fall in wages (inelastic labour demand), the effect on GDP is lower than where additional labour can be absorbed at the going wages (highly elastic labour demand). There is also a change in labour demand as changes in the use of ECEC services translates through to demand for formal ECEC workers.

The impact of these labour demand and supply 'shocks' can be modelled using a computable general equilibrium model (CGE). In addition, in the short run, any changes in the 'quality' of labour due to a changing composition of the workforce needs to be tracked, while longer run models will need to account for the impacts of changes in the accumulation of human capital. Finally, assumptions need to be made about how the economy adjusts to these shocks.

If capital markets are flexible and able to attract investment to make good use of any net increase in labour supply then the economy will tend to expand in line with the rise in the supply of labour.¹¹⁸ However, if capital is not easy to access, and/or there are rigidities in the economy, then the only way for labour to be absorbed is for wages to fall, so the net effect on GDP is much smaller.¹¹⁹ An additional complication is the response of government to changes in ECEC expenditure. Any change in government expenditure needs to be reflected either in the level of tax revenue that needs to be collected, or in a change in the government budget deficit. The assumptions about the government response will affect the adjustment of the economy. For example, if government elects to maintain the existing budget balance, an expansion in expenditure on ECEC will need to be offset by a rise in taxes or a reduction in another area of expenditure. Like the assumptions about the access to the capital market, the approach taken to determining the fiscal balance can affect the modelling results. Given the complex nature of, and considerable uncertainty in, most of these responses any estimate of the impact on GDP is inherently approximate at best.

118 If capital is borrowed from overseas, then GDP growth will exceed that of national income, as part of the rise in GDP will be paid to the foreign owners of capital.

119 This assumption guides the 'closure' of a CGE model. Also crucial is whether the modelling keeps the government's fiscal balance, or tax parameters, constant.

Most modelling of the impacts of increased female workforce participation assumes that the demand for labour is perfectly elastic, so the impact on GDP is simply the additional hours times the average wage rate for these workers (for example, Daley 2012; Ernst & Young 2013; Pricewaterhouse Coopers 2004). While over time this assumption may be a reasonable one, especially in open economies with growth-oriented policies, adjustment to a labour supply shock usually takes some time. As mothers will only increase their use of ECEC services for work-related purposes where they can find a job, this implies that the labour supply shock is itself contingent on the ability of the economy to absorb more labour. Hence, the impacts on GDP of a policy change that induces workforce participation should be considered as rising over time.

The model used in this draft report to estimate the impacts on GDP takes the same simple approach, although it does take into account the productivity impacts of a change in the composition of labour supplied by prime-aged women. The output of the micro-simulation model provides the inputs in terms of labour supply ‘shocks’ for the GDP model, that is, the change in female labour supply by age cohort.

The aggregate labour supply change

The micro-simulation model takes into account the family circumstances (family income, mother’s education, number and age of children) in estimating the likely labour force response for each family type. The total labour supply change depends on the aggregate net change in hours worked which is the weighed sum of changes for each family type. In this way, the effects of different family compositions across the different age cohorts (such as older mothers are less likely to have pre-school aged children and are more likely to work) can be taken into account. The total change in hours worked is simply the weighted sum of all the individual changes and is used to estimate the change in the labour supply.

The aggregate productivity change

As not all hours of work are equal in their contribution to the broader economy (some workers are more productive than others), the impact on the economy of the change in hours of work should include any changes in the productivity of the workforce (that is, the change in the effective labour supply). This requires estimating the change in the productivity either within the age cohort (if there is a change in the skill profile as some reduce and some increase hours), or across the age cohorts (if the average skills vary across the age cohorts).

One way to track the change in productivity is to use the education profiles of different age groups of women (table K.2).

Table K.2 Educational attainment by women by age cohort ^a

Age	Year 11 or below	Year 12	Diploma/Certificate	Degree or higher
	% of the age cohort			
25-34	14.7	15.2	29.8	40.4
35-44	23.7	17.2	26.4	32.8
15-44	24.1	22.8	25.2	27.9

^a Based on numbers of women whose educational attainment is known. Data for 15-24 is omitted as many have yet to complete their education.

Sources: Commission estimates based on unpublished data from the ABS (*Programme for the International Assessment of Adult Competencies, Australia 2011-12*, Cat. no. 4228.0); ABS (2013); Programme for the International Assessment of Adult Competencies: Australia 2011-12.

The level of education forms a proxy for the labour productivity of women, which is reflected in the hourly wages earned. For example, a Commission Staff Working Paper (Forbes, Barker and Turner 2010) using Household Income and Labour Dynamics in Australia (HILDA) survey data and controlling for individual fixed effects, found that the level of education had a significant influence on hourly wages earned in Australia. Compared to a person with a year 11 education or less, on average: a man with a year 12 education earns around 13 per cent more, and a woman with year 12 education earns around 10 per cent more; a man with a diploma or certificate earns around 14 per cent more, and a woman with a diploma or certificate earns around 11 per cent more; and a man or a woman with a university education earns around 40 per cent more.

More recently, Shomos and Forbes (2014) estimated the effect of education on wages, as well as the effect of literacy and numeracy. They found that the marginal effect of educational attainment is positive and similar for men and women for those who attain year 12 (relative to those who do not). The effect of education is slightly higher for workers with a diploma or certificate, and substantially higher for those with a degree. The gap between men and women also widens with the level of education (table K.3).

Table K.3 Educational attainment marginal effects for wages models^{a, b}
2011-12, 25–64 year olds, per cent

<i>Explanatory variable</i>	<i>Men</i>		<i>Women</i>	
	<i>Model 1</i>	<i>Model 2</i>	<i>Model 1</i>	<i>Model 2</i>
Degree or higher	71.3**	54.1**	63.8**	46.6**
Diploma or Certificate	19.0**	14.5**	16.3**	11.5**
Year 12	17.3**	10.1*	14.6**	10.0**
Literacy and numeracy		9.8**		11.3**

** significant at 1 per cent, * 5 per cent ^a Marginal effects are estimates of the increase in wages (per cent) associated with a change in the explanatory variable. ^b Estimates for educational attainment are relative to having Year 11 or lower education.

Source: Shomos and Forbes (2014).

Participation rates also vary systematically with the level of education. Laplagne, Glover and Shomos (2007), when analysing HILDA data, found that having a degree or higher qualification has the largest impact on labour force participation (relative to not completing year 12) — boosting female participation by 20 percentage points and male participation by 9 percentage points. Attaining year 12 was associated with around a 9 percentage point higher participation rate for women (compared with those who had attained year 11 or lower), and around 6 percentage points higher participation rate for men. These differences in the rates of participation are accounted for in the micro-simulation model.

As women tend to be paid less than men, particularly at the higher end of the education scale (Cobb-Clark and Barron 2010), the initial productivity shock based on wages may be understated. This will occur if higher educated women contribute more to productivity relative to their wage than men.¹²⁰ Some have argued that the gender wage gap (which is around 17 per cent) reflects this. However, it may also be due to women choosing lower paid jobs that offer more family-friendly employment, where the wage (and by association productivity) may be lower (Gordon 2012).

If the changes in workforce participation are uniform across women of different productivity levels then there is no productivity shock. Hence, it is important to estimate whether the change in the ECEC system results in a change in the relative rates of participation of women with different education levels. The micro-simulation model is used to estimate this change.

¹²⁰ Ideally, the model would also track the requirements of the job undertaken by those workers changing their hours. Many women take jobs that do not fully utilise their skills as these jobs may offer them the flexibility to combine work with family commitments. However, some studies have found that part-time workers, and mothers in particular, are more productive than equivalent full-time workers (Ernst & Young 2013).

The fiscal impact

Government is interested in effects of any policy change on its net fiscal position. In the intermediate term, this depends on changes in:

- tax revenue arising from the change in labour supply and productivity
- welfare spending arising from the changes in family income
- government expenditure on the ECEC system.

Changes in tax revenue and family payments

The micro-simulation model estimates the first round effects on the hours worked and, as it maps the change in income for each worker, it can calculate the change in taxes paid by these workers. The effect on family income of the change in the second income earned is calculated as it affects the ECEC subsidy rate and family payments.¹²¹ The total effect on tax revenue and expenditure on FTB and the Parenting Payment is added up across all the families to provide an estimate of the total of each.

There is a second round effect on the fiscal balance as families' consumption will affect GST revenue. To the extent that untaxed household production and consumption is replaced by market produced and, hence, taxed consumption goods and services, the impact on GST revenue will be proportionately higher than the labour supply shock. This is not taken into consideration in the modelling for the draft report.

In addition to the fiscal effects of workforce participation changes, a number of the Commission's proposals should affect tax revenues. The draft recommendation to remove the Fringe Benefit Tax (FBT) concessions to not-for-profit providers is expected to result in higher tax revenue (lower tax expenditures). Similarly, removing the FBT exemption for employer provided childcare would reduce the potential for loss of tax revenue through this mechanism. While this is currently not widely used, as the CCR cap begins to affect more families, the size of this concession could grow in the future. The modelling does not take into account the fiscal impacts of these recommendations, in part, because these tax expenditures are not currently measured and, in part, as the modelling is for the 2013-14 year so the longer-term impact of removing the employer provided exemption is not captured (see below for a discussion of the counterfactual).

¹²¹ There is a feedback loop between hours worked and the subsidy rate and family payment changes that is internalised in the decision making about how much to work in response to the policy change.

The final impact on the government's fiscal position should take into account all the labour market adjustments over time as well as the effect of income on GST, and the changes that will affect tax expenditures. As discussed above, these changes are complex and uncertain, hence the fiscal impact estimates must be treated as indicative only.

Changes in the cost to government of the ECEC system over time

The other intermediate fiscal impact comes from the change in program costs. These depend on the change in the use of ECEC services under the new system compared with these outcomes under the current system. Estimating the change in the ECEC cost properly requires projecting out what would happen under the current system. This need not be proportional to the current impacts, so simply adjusting for the effect of inflation and population growth is not sufficient. For example, a feature of the current system is the subsidy cap per child on the CCR, and caps in occasional care and in-home care. The cost of the system depends critically on what happens to these caps. There is also a feedback effect on the other elements of fiscal cost if the caps are reached by more families and so affect more decisions about workforce participation (and, hence, income tax revenue and welfare payments). The modelling for the draft report does not address this problem of changes in the cost and fiscal impact of the current system over time (to do so needs a dynamic counterfactual). Rather the two systems are modelled for a base year where the caps on CCR affect relatively few families.

Other fiscal impacts due to flow-on effects on the demand for services

Improving access to suitable ECEC services for children with additional needs can add to costs and/or bring offsetting savings for government expenditure in other social services. Use of ECEC services can prevent, or be a substitute for, other services, including high cost interventions that might otherwise be required. But it can also lead to higher expenditure if the need for specialist intervention is recognised. This should bring benefits in the future at the expense of a higher cost today, although the net cost to government may still be higher. Some of these costs and savings will accrue to state and territory governments as they provide the majority of direct services to disadvantaged children and families. Estimating these flow-on costs and savings is complex and most studies that have attempted to estimate these types of net benefits have taken a longer-term view. Nevertheless, in estimating the intermediate flow-on effects, consideration should be given as to whether the proposed system is likely to create significant changes in demand for other services.

Social impacts

Not all changes that result from moving to the proposed ECEC system can be reduced to a monetary value. For example, the value to parents of having one parent dedicated to raising their children is something that cannot be quantified as it is highly individual and can reflect the parent and family's culture and values. Similarly, some mothers can be empowered by participating in the workforce, which can change the dynamics of their relationships with others in ways they value. Such outcomes should be recognised and included in the cost-benefit 'ledger', even if it is not clear how they should be 'valued'. There are two areas that are worth some attention where measurement of the outcomes might be possible, even if there is no consensus on their value.

Families living below the poverty line

There is a substantial literature on the potential life time impacts for a child that grows up in poverty (below). But even in the short term, families that live below or close to the poverty line report lower levels of wellbeing than those consistently above it (Saunders 2011).

It is relatively straightforward from the micro-simulation model to estimate the impact of the policy changes on the share of families that are living at or below a 'poverty' income threshold. Ideally, this threshold is based on disposable family income and adjusted for the number and age of family members. The impact on the number of families with an income below the threshold will depend on the change in employment for families in the bottom income levels, both in terms of participation and hours worked, and the impact this also has on tax benefits and family payments.

While a useful metric to report, the change in income that leads to this outcome is already included in the cost-benefit bottom line. In general, cost-benefit analysis will report on the distributional outcomes (who wins and who loses from the policy change) without making any judgment about the impact of the distributional outcome on community wellbeing¹²². As Cleveland (2012, p. 84) noted 'the implication is that a proposed ECEC policy that passes a cost-benefit test and also improves social equity will have very desirable results'.

¹²² An alternative approach is to use non-market valuation techniques to assess the 'willingness to pay' of the community for a distributional outcome in the same way that environmental outcomes can be 'valued' (Baker and Ruting 2014).

Non-market production

Mothers working can come at a cost to household services as well as the mother's leisure. In 2006, the estimated value of unpaid work (household and community and volunteer work) ranged between \$416 and \$586 billion (depending on the valuation method used). Childcare made up 15 per cent of the value of unpaid work (ABS 2014). Time-use studies show that women do a higher share of household work than men (ABS 2008). They also show that when women work more hours in paid employment they do less household work, but only by a small amount. Conversely, men whose partner works in paid employment only spend a small amount of time more on household work than men whose partner does not work (chapter 6).

A social cost-benefit analysis should take significant non-market production effects into account. The time use data imply that there would be only a small net change in household production (slightly more on childcare)¹²³ when women work more hours. Nevertheless, even small reductions in time do add up if they apply to a large number of households. This loss in household production could be significant in aggregate, but it is a private rather than a community cost.

Loss of volunteer time would however, be a cost to the community. As the rate of volunteering is higher for working (in 2006, 37 per cent for those working full time and 49 per cent for those working part-time) than non-working women (33 per cent), it is unclear what the impact in terms of volunteer time will be (ABS 2014a). If workforce participation gives women greater capacity to engage in volunteer work, volunteering could rise, but as mothers move from part time to full time work it could fall.

If non-market production simply moves into market production, the question of whether the community is any better off than before arises. GDP is higher (and hence government tax revenue for the same policy settings), but in terms of wellbeing, the improvement depends on how much families prefer market goods and services relative to home produced ones, and how much intrinsic gain (or loss) they get out of the associated workforce participation and child attendance at ECEC services.

A rough approximation of the change in household production is the change in hours worked by mothers times the implied change in hours of household work per

¹²³ One of the difficulties with time use surveys is that the time has to add to 24 hours a day. As childcare and many other household tasks are achieved by multi-tasking, the substitution between parental care and formal ECEC care shows up only as a small reduction in the time allocated to childcare by working mothers compared to non-working mothers.

extra hour worked (the net change of women and men in partnered households). There are several methods by which household work is ‘valued’, the most common is to apply a relevant market wage (the ABS use the housekeeper replacement cost method and a gross opportunity cost method based on a person’s wages rate). The change in non-market production is not taken into account in the modelling estimates in chapter 13.

K.4 Modelling the longer term impacts

There are two main sources of longer-term impacts — those arising from changes in the workforce participation rates (and productivity) of women over their lifetimes due to the change in participation while their children were young; and those arising from the child development impacts. Both have an economic (income) and a social dimension. Although there is also potentially an even longer-term impact through the effect on fertility, it would probably take a much greater change than the proposed policy changes and is not discussed further.¹²⁴

Longer-term labour market effects for mothers

The cost of childcare and the number of hours of care to which subsidies apply affect the number of hours of work as well as the decision about whether to work. While these decisions directly affect current income, they can also affect longer term income by changing the probability of working and hours worked once children no longer need childcare, and by changing the wages the mother is likely to earn. As the wage that can be earned will affect the decisions about work (along with other things such as household income, health, and other caring responsibilities) this is considered first.

The effect of motherhood on wages

A number of studies have looked at what has been called the ‘career costs of children’ or wage penalty effect. A rough estimate of this cost is the gender wage gap, the difference in wages for full-time workers based on gender, which in Australia is around 17 per cent. Empirical work by Cobb-Clarke and Barron (2010) suggested that for lower skilled workers, the gap can be largely explained by education and work experience, while for higher skilled workers this is not the case.

¹²⁴ The family-friendly policies of Scandinavian countries are often credited for their higher fertility rate than the rest of Europe.

Hence, both the lower levels of work experience, and other factors, such as working part time, or choosing less challenging jobs, can be at play.

A study of Australian women, who in 1996-97 were working full time and whose work history was known, by Chalmers and Hill (2007, p. 160) found that:

... earnings increase with each year of fulltime experience, although the annual increment falls with each year of experience. In contrast earnings decrease with each year of part-time experience, although at a decreasing rate. The estimated relationship between years not working and earnings remains negative and linear.

Chalmers and Hill (2007) estimated that part-time women workers in Australia lost around 6 per cent per year in earnings growth compared with those who had worked fulltime. This loss accumulated to 49 per cent after 10 years, a result that was similar to those found in studies in the United Kingdom. For example, Olsen and Walby (2004) found that part-time workers annual earnings growth was lower by 4 per cent, cumulating to 34 per cent over 10 years.

There are three broad theories that explain these results (Cassells et al. 2009):

- slower human capital accumulation, either because part-time workers have worked fewer hours, and/or part-time workers have less access to training or to more challenging work that would build their skills
- labour market segmentation, if part-time jobs inherently require less skill (are lower level), or where there is gender bias in jobs and in the perception of the market value of these jobs, even if there is no formal gender-based wage difference
- selection effects, where women choose more flexible and less challenging work due to the constraints of the gender division of household work; or where employers assume that women will be less productive due to their family duties and pay accordingly, or there are real or perceived costs associated with meeting more flexible work requirements.

There is probably some validity in all these explanations, and, in each, there can be aspects of discrimination. For example, Abhayaratna et al. (2008) reported ABS data that suggested part-time workers had lower access to training. The same study also found that there was labour market segmentation between full-time and part-time jobs, with a high rate of two-way transition between full and part time for low skilled jobs, but few transitions from high quality full-time to part-time jobs. However, there is Australian evidence to suggest that part-time workers are more rather than less productive, receiving a wage premium rather than discount (Day and Rogers 2013). And a recent survey by Ernst & Young (2013) found that workers

with ‘flexible’ work arrangements (largely part time, and mostly women), wasted less time while at work than their less flexible counterparts.

The reasons for women and part-time workers receiving lower wages is only important here to the extent that changes in ECEC policy will change the ‘career cost’ of having children. Given the very high rate of part-time employment for Australian mothers, the impact of childcare on part-time employment and its duration is relevant to understanding the ‘productivity’ consequences of changes in ECEC policy.

A wage penalty is also found for women who return to work after maternity leave, with a number of studies finding that the penalty depended on the length of the leave. Using HILDA data, Baker (2011) estimated that, on average, wages growth for women was 7 per cent lower in the first year back, increasing to 12 per cent in the following year, and is sustained for a decade or longer. However, in contrast to other findings on part-time employment, the slow-down in wages growth in the first year back was greater for women who returned to the same or more hours of work than those returning to fewer hours. Livermore, Rodgers and Siminski (2011), also using HILDA, estimated that the unexplained motherhood penalty was around 5 per cent for one child and 9 per cent for two or more children, and that this arose from slower wages growth.

Thompson and Ben-Galim (2014) report the findings from a number of international studies of the wage penalty for mothers. They estimate that mothers earn around 11 per cent less than women without children. They also report on the impact of availability and affordability of childcare on workforce participation, concluding that at least 30 hours a week of subsidised childcare is required to support high levels of maternal employment.

The long-term impact of changes in the ECEC policy on wages growth can be made by projecting out the workforce participation of women in, say, ten years-time, and applying an estimate of wages growth as a function of the higher immediate participation rates. This is the approach taken by Pricewaterhouse Coopers in their study of the costs and benefits of early education and care in the United Kingdom (Pricewaterhouse Coopers 2004). They assumed that there would be a lifetime increase in the earnings of mothers of 3 per cent for those enabled to work full time, and 1 per cent for those enabled to work part time while their children are aged 1 to 7 years. Multiplying this by the estimated increase in workforce participation resulting from their proposed ECEC investment resulted in a 0.2 per cent increase in the United Kingdom’s GDP in 2020.

An outer envelope estimate of the long-term effects from higher workforce participation by women can be made by estimating the contribution to the economy that would arise if women had the same workforce participation, and labour productivity (wages) as men. Cassells et al. (2009) estimated that the cost to the economy of the gender wage gap in 2009 was \$93.4 billion. Of this 7 per cent was due to labour force history, 5 per cent to vocational qualification, 25 per cent to industry segregation, 3 per cent to firm size and 60 per cent to being female. This suggests that the additional long term impact on GDP through ECEC enabling greater workforce participation for mothers (and hence adjusting labour force history) is around \$6.5 billion in 2009 dollars.

Longer-term labour market effects of child development impacts

There can be long-term benefits from ECEC for children that play out over their lifetime in terms of higher educational attainment and workforce attachment. These can be a result of the direct effect of receiving ECEC and flow-on from a reduction in poverty for those families where ECEC services enable the family to earn a higher income. Most studies of the long-term labour market gains for programs that target disadvantaged children have focused on the employment impact of reducing child poverty (for a summary, see McLachlan, Gilfillan and Gordon 2013).

There are a few studies that have looked at the long-term labour market (and other) impacts of child development. The best known of these studies are cost-benefit analyses of specific ECEC interventions for target groups of children. They have been discussed in chapter 5, and some caution about the portability of these findings to Australia was raised. Nevertheless, it is still worth looking at the methodology applied to estimating the long term result of child development outcomes.

The most well-known of the studies are on the Perry Preschool Program in the 1960s. As described in chapter 5, the now adult children who participated in the program had higher rates of completing school, gaining a college education, being employed, and lower rates of incarceration. It is the estimation of impacts from this type of analysis that provides the parameters for modelling the expected impacts of similar programs. However, the relevance of these and similar results to Australia and to the policy changes proposed is highly questionable (the Perry Preschool program was an intensive intervention involving both home-based and preschool interventions in a poor African-American community). They are most likely to be relevant for highly disadvantaged urban communities, but the ECEC policy changes will not provide as comprehensive a program of assistance as the Perry Preschool Program. Hence, extrapolating parameters from this study for Australia is likely to

greatly overstate the impact of the proposed reforms. Gains are likely to be more modest and contingent on subsequent educational and employment opportunities.

Continued access to quality education services and later to employment opportunities are very important for maintaining the advantages of a good start through high quality ECEC services. Moving families out of poverty can enable families to provide these types of opportunities for their children. However, for families that remain highly disadvantaged, multiple interventions may be required to ensure good life outcomes. A current research program at The Brookings Institute is examining the factors affecting children's life chances in the United States. A recent paper by Sawhill and Karpilow (2014) highlights the importance of good early childhood education and care for disadvantaged children, but it also demonstrates that to maintain the impact of this required multiple interventions over the whole childhood period. The study findings suggest that extrapolation of improvements in child development from the ECEC investment alone to life time outcomes cannot be done without assessing the likely access to ongoing assistance (and its cost).

Pricewaterhouse Coopers (2004) estimated for the United Kingdom that the average impact on the lifetime income for children as a result of a proposed increase in investment in ECEC was 0.4 per cent of GDP in 2020 for an investment made in 2004. This estimate came from the assumption that children who receive a preschool education increase their earnings by an average of 3 per cent. These benefits are calculated for a 65 year period with benefits starting from the age of 20 years. They only apply to children who would not otherwise have attended preschool (from the age of 3 years). The study points out that the gains are likely to be greater for children from disadvantaged families (citing estimates from US studies of lifetime earning being higher by 5 to 10 per cent), and less for others. They did not assume an effect on employment, rather they assumed that only 78 per cent would be employed (reflecting the projected workforce participation rates).

Other longer-term impacts

Better education and labour market outcomes for children to whom ECEC made a difference have a number of flow-on effects. One of the most important, for social and economic reasons, is on health.

High quality ECEC can have direct effects on health for highly disadvantaged children through providing the child with better nutrition and greater access to other human services, including health services. While this raises costs to government in the short term, it can mean a healthier life and lower longer term costs. This is

because the flow-on effect of better health to better educational and employment outcomes also has a longer term impact on health. For example, it has been estimated for the United States that every year of education lowers mortality risk by 0.3 percentage points (Cutler and Lleras-Muney 2010). So, to the extent that ECEC promotes healthier children, there are ‘spillovers’ over time. This includes spillovers from a more productive workforce and from lower demand for (government funded) health services.

The other longer-term impact that has been noted in various studies is the effect on criminal and anti-social activity. This is only associated with interventions in communities where high rates of disadvantage means there is a higher probability of children growing up to engage in or be exposed to these behaviours. Hence, any longer-term benefits in terms of reductions in criminal and anti-social activity will be due more to the ECEC and other complementary investment in more disadvantaged communities than ECEC more generally.

While studies of the impacts of child poverty often include the short-term fiscal savings (for example, Bramley and Watkins 2008), it is difficult to attribute longer term effects on health and criminal activity to an ECEC investment alone. Given the policy changes proposed, while aiming to improve ECEC services for children in highly disadvantaged communities, are relatively modest and only focused on the ECEC component, it would be a long bow to include these longer term impacts in any cost-benefit analysis.

K.5 Bringing it all together

Table K.4 summarises the data that would be needed to undertake a comprehensive cost-benefit analysis. Although the core data for the short-term impact are as in table K.1, this table also includes the offsetting or additional social service expenditure needed to estimate the total fiscal impact. The modelling for the draft report focuses on the immediate impacts of the change in out-of-pocket costs on use of ECEC services and workforce participation. As discussed, even this is a complex modelling task to undertake. The intermediate effects of these first round changes on the government’s fiscal balance are also estimated, as is a rough estimate of the number of families living below the poverty line.

The modelling does not take into account the effect on the supply response, which is implicitly assumed to change to meet demand at existing prices. This is reasonable where supply is highly responsive to changes in demand. Nor does the modelling take account of second and subsequent round effects, notably the adjustment in the labour market, which depends on the responsiveness of labour demand to the

change in labour supply and shifts in demand for ECEC workers and other services over time. These are expected to be relatively small, given that Australia is a small open and fairly flexible economy. Nevertheless, the GDP estimates should only be considered indicative, as in reality the effects will be complex and even if included in the models the parameters are subject to ongoing change so results are inherently uncertain.

The modelling also does not consider the longer-term implications of the change in workforce participation on the future wages of mothers, nor of the longer term outcomes for children who otherwise might have performed less well in school and eventual employment. The first of these impacts are likely to be a more substantial omission than the latter, which is highly contingent on ongoing access to quality educational opportunities. Finally, the modelling does not include longer-term social or health impacts that could arise if the change in ECEC policy does effectively target children from disadvantaged communities with services that make a difference to their future. Much more information on the current extent of unmet need, on the costs of meeting needs, and on complementary policies, is needed before any such assessment can be made.

Table K.4 Data required for a full cost-benefit analysis of ECEC policy changes

<i>Impacts on:</i>	<i>Components</i>	<i>Short-term considerations</i>	<i>Long term considerations</i>
Fiscal cost	<ul style="list-style-type: none"> • Childcare program cost • Welfare payments • Income tax expenditure and concessions • Income tax revenue 	<ul style="list-style-type: none"> • Quality standards and impact on costs and prices • Supply of ECEC workers, wages and prices • Any offsetting savings or additional costs from changes in the use of social services • Income taxes on additional income and reductions in welfare payments associated with higher participation 	<ul style="list-style-type: none"> • Effect on GDP and, hence, tax revenues • Superannuation balances and pension costs • Health costs • Social program costs associated with childhood deprivation – future health and education costs, criminal activity
Household net income	<ul style="list-style-type: none"> • Gross income • Transfer payments • Income tax • Out-of-pocket childcare costs • Other employment-related expenses 	<ul style="list-style-type: none"> • Effective marginal tax rate facing additional income arising from loss of transfers and work-related costs (including childcare) • Labour responsiveness to hourly net wage • Productivity level of labour and hourly wage that can be achieved 	<ul style="list-style-type: none"> • Effect of higher participation during 'prime age' on worker's lifetime productivity • Effect on labour force attachment and hours of work preference over time
GDP	<ul style="list-style-type: none"> • Total hours worked in the economy • Wages per hour worked 	<ul style="list-style-type: none"> • Additional labour supply • Additional demand for labour – in childcare, transport-related services, household work replacement services • Deadweight losses of raising tax revenue opportunity cost of alternative government expenditure 	<ul style="list-style-type: none"> • Net effect on human capital supply • Hours of labour supply • Productivity of labour that had higher participation rates • Productivity gains from child development outcomes (very long term)
Non-market production	<ul style="list-style-type: none"> • Childcare services • Household services 	<ul style="list-style-type: none"> • Substitution with informal childcare (grandparents, friends) • Changes in non-childcare household activities associated with additional hours of work 	<ul style="list-style-type: none"> • Child development effects • Health effects
Community wellbeing	<ul style="list-style-type: none"> • GDP • Non-market production • Leisure 	<ul style="list-style-type: none"> • As above • Changes in leisure associated with additional hours of work 	<ul style="list-style-type: none"> • Social attitudes • empowerment of women • changes in workplace practices

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