

Growing Together

A future universal early childhood education and care system for Australia



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The Centre for Policy Development (CPD) is an independent, values-driven, and evidence-based policy institute. Our motivation is an Australia that embraces the long term now. CPD exists to solve the biggest policy challenges facing Australia and the region, and to take people on the journey solving them. Our policy development seeks to advance the wellbeing of current and future generations.

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Scope of the paper

This paper focuses on the centre-based ECEC system for children before they start school. The current child care subsidy system also supports outside school hours care (OSHC), family day care (FDC), and in home care (IHC) and changes to the current system for centre-based services would need to consider these.



A young girl with her hands behind her head, looking up and smiling, with a woman in the background.

Executive summary

**Making access to high-quality,
equitable and affordable
early childhood education
and care universal**

The momentum to realise a universal early childhood education and care (ECEC) system in Australia is significant. With a number of expert reviews into ECEC and preschool reforms being rolled out across jurisdictions, the vision of universal ECEC is being shaped up and advanced. Consistent with the Prime Minister's commitment, a high-quality universal system is both desirable and possible. There is currently a historic opportunity for reform to ECEC and the creation of a high-quality truly universal ECEC system in Australia.

While Australia's ECEC system has many strengths, there are numerous challenges with the current system that prevent Australia from delivering an affordable, low-cost, high-quality universal system. The Australian Competition and Consumer Commission's (ACCC) final report from its childcare inquiry shows that the current approach does not - and will never - fully meet governments' objectives for the system.

ECEC is an essential social good that delivers benefits to children, families, government and society. However, many families face affordability and accessibility challenges and the children who need it the most are missing out. In this paper, CPD offers a long-term vision for what a reformed ECEC system could look like that:

- ensures that all children and families, regardless of background or financial status, can utilise high-quality ECEC services;
- ensures an equitable start for all children by increasing attendance and addressing needs early, especially for those experiencing vulnerability and disadvantage;
- alleviates the cost of living for families by significantly reducing out-of-pocket expenses for ECEC, contributing to household financial stability;
- advances gender equality and improves workforce participation, by facilitating work-family balance for women and improving wages in the female-dominated early childhood sector;
- boosts economic growth and tax revenue, through increases in workforce participation and reduced government spending on welfare, health, justice and other social service systems.

These reforms were developed with the Commonwealth Government's stated objective in mind - "making access to high-quality, equitable and affordable early childhood education and care universal"¹. They reposition the system to be like schooling or Medicare where all children have access and those who need greater support receive it. The vision is made up of 10 key reform elements:

1 | Two clear legislated goals for the ECEC system - to support all children's education, development and wellbeing and to support families to balance work and family life

- The system can and should be able to support both objectives, with both objectives ultimately supporting children, families and Australian society to thrive.

2 | A national entitlement for all young children to access a minimum of three days of ECEC per week free or at a low set fee

- Every child is entitled to at least three days per week of ECEC free or at a low set fee, with further ECEC available for a slightly higher set fee.
- Families experiencing disadvantage receive a higher entitlement, with three days per week free. For highly vulnerable children, up to five days per week is free.
- The three day entitlement would include two days of free preschool per week for three- and four-year-old children, with preschool integrated into the national ECEC system.
- The Activity Test is abolished.
- A set fee per child amount, such as \$10 a day for all children and free for low-income families is introduced, but potential alternatives that remain aligned with the core aim of affordability are available.

3 | Embedded equity and inclusion

- Funding is based on a child's need, ensuring more support is provided to those who need it.
- Families of children who have higher needs receive wrap around services that support the child's overall development and family wellbeing.
- Greater investment in the Aboriginal Community Controlled Sector, including a funding model that better reflects its needs.
- Services are inclusive and culturally responsive environments. They offer services where all children and families feel welcomed and comfortable.

4 | All actors in the system, especially governments, have clear roles and responsibilities and are active system stewards

- The different roles and responsibilities between levels of government are agreed, with a nationally collaborative approach reducing confusion and complexity. System objectives are aligned and consistently cascaded through the national system.
- The Commonwealth takes responsibility for the national entitlement, and states and territories take on the role of system managers - working directly with services on issues such as quality, access and inclusion, and connecting services with other service systems (such as schools and health).
- Both levels of government are stewards, ensuring joint responsibility for the health and performance of the system and the outcomes it achieves.
- Providers partner in the delivery of the system's objectives of high-quality, affordable and inclusive ECEC and have clarity on their roles and responsibilities in the system.
- A new Ministerial Council and national early childhood agreement is established. A statutory authority or commission to oversee the system and drive reform could be created by legislation.

5 | A child-centred funding model

- The Child Care Subsidy ceases and a child-centred supply side funding model is established for all children.
- Funding for services is determined on the reasonable cost of quality provision taking into account the needs of children and service-specific costs.
- Conditions are placed on services to be eligible for funding including that they meet minimum quality standards, provide their staff a specified and fair wage and conditions (if this has not already occurred through industrial agreements or other processes), and agree to implement a system of priority of access for enrolments.

6 | Investment to fill current service gaps, to establish new services in unserved and underserved communities so supply meets demand

- Minimum funding levels are guaranteed to services serving small communities, where no alternative services are reasonably available.
- Governments undertake provision planning to better inform and support the supply of services.
- Government plays a greater role in the establishment of new services, including identifying opportunities within existing public infrastructure such as school locations and other public buildings, utilising planning incentives and bringing capital to markets for providers who can't attract it.

7 | Support for a sustainable and quality workforce

- New people are attracted and incentivised to the sector, and new and existing staff and leadership are supported so they stay in the system and grow their careers.
- There are specific efforts to support workforce attraction and retention in underserved and unserved communities, particularly in rural and remote areas. This includes building local workforces.

8 | Active government support for quality improvements

- Consistent with a stewardship approach, governments are more active in seeking and supporting agreed outcomes, including planning for the future and improving quality and practice.
- The regulatory system is properly invested in and maintained.
- Government works with all services to support the delivery of high-quality provision including supporting underperforming services to improve their quality.

9 | Better information and support to families

- Families receive clear and more timely information about their options, their service's performance, and their child's progress.
- Families benefit from a streamlined and coordinated enrolment processes in each state/territory, so they don't have to join multiple waitlists to find a place.

10 | Improved data and information sharing

- New data architecture and sharing protocols are developed and implemented to inform government stewardship and others' roles in the system.
- Greater investments are made in longitudinal data to enhance understanding of ECEC and its role in children's education and in supporting workforce participation.

Universal ECEC is fundamental to improving the wellbeing and quality of life of children and families and can deliver major long-term social and economic benefits for Australian society. Improved early learning and better care means children grow up healthier and happier and lead more productive and fulfilling lives, particularly those from families experiencing disadvantage. When children thrive, the community benefits from greater productivity and workforce participation, while governments avoid the costs of crisis services, now and in the future.

The economic benefits of workforce participation under a universal ECEC system are significant. CPD's *Starting Better* report modelled \$2.9 billion to \$3.2 billion in additional annual tax revenue and \$6.2 billion to \$6.9 billion in annual GDP increase from parents working more hours thanks to universal, free or low-cost ECEC.² The Women's Economic Equality Taskforce estimated that \$128 billion

can be added to the economy by removing the barriers to women's full and equal participation in economic activity.³ Access to universal, high-quality and affordable early childhood education and care is one of these barriers.

ECEC plays a major preventative function over the course of a child's life. *Starting Better* outlined critical long-term social and economic benefits of intervening early through preventative policies like high-quality universal ECEC, including higher post-school qualifications, improved health, higher career earnings, and lower likelihood of interacting with the justice system.⁴

In addition, early intervention can save up to \$15.2 billion annually that Australian governments currently spend on late intervention, such as child protection, youth unemployment and youth crime.⁵ *Starting Better* modelling showed that the long-term economic benefits of ECEC and other early childhood development supports include up to \$18.8 billion in annual tax revenue and savings benefits, and an annual boost to GDP of up to \$10 billion.


This system will take time to build and transition to, and will require significant commitment and investment from government. The setting and monitoring of reasonable cost is critical, as is ensuring adequate supply of high-quality places to deliver on the entitlement. However, as outlined above, the return is considerable.

Governments are not starting from scratch as they build out this new system. They have many assets including:

- significant investment across Commonwealth and state and territory governments;
- cooperative work between governments on universal access to preschool which has shown strong results;
- a strong national regulatory framework; and
- many high-quality services providing education and care to children.

The design of a future system will require careful consideration of the implications of reform, and how changes can be transitioned over time.

Introduction

A close-up photograph of a man with a beard and a young child reading a book together. The man is on the left, leaning in and looking at the book. The child is on the right, holding the book and looking down at it. The man is wearing a dark grey sweater, and the child is wearing a yellow sweater with a white graphic. The background is softly blurred, showing what appears to be a window or a bright indoor space.

**The backbone of an integrated early
childhood development system**

The future ECEC vision outlined in this paper is designed to form an integral part of a new, better connected early childhood development system, fully realising the promise of the *Starting Better* guarantee proposed by CPD in 2021. Based on extensive research, consultation and evidence, and the guidance and expert advice of the Early Childhood Development Council,⁶ the guarantee outlines an entitlement for all children and families to a set of high-quality, affordable and connected services in the early years on which they can rely, with additional targeted support for those who need it most. It is based on evidence that a strong, well-connected early childhood development (ECD) system will lift educational outcomes, tackle entrenched disadvantage, improve gender equality, boost productivity, and grow our national economic competitiveness. The core elements of the guarantee are:

- more paid parental leave (up to 52 weeks per family), shared between partners;
- universal access to maternal and child health (MCH) care, consistent across all states and territories, with additional support for families who need it;
- universal access to at least 30 hours or three days of free or low-cost quality education and care before children start school, including two years of preschool education;
- extra support for families to navigate the system; and
- more effective transitions from early learning to primary school.

Following this, in July 2022 CPD published *Starting Now*,⁷ which set out a roadmap to a universal, accessible and affordable early childhood system, building on the commitments of Australian governments.

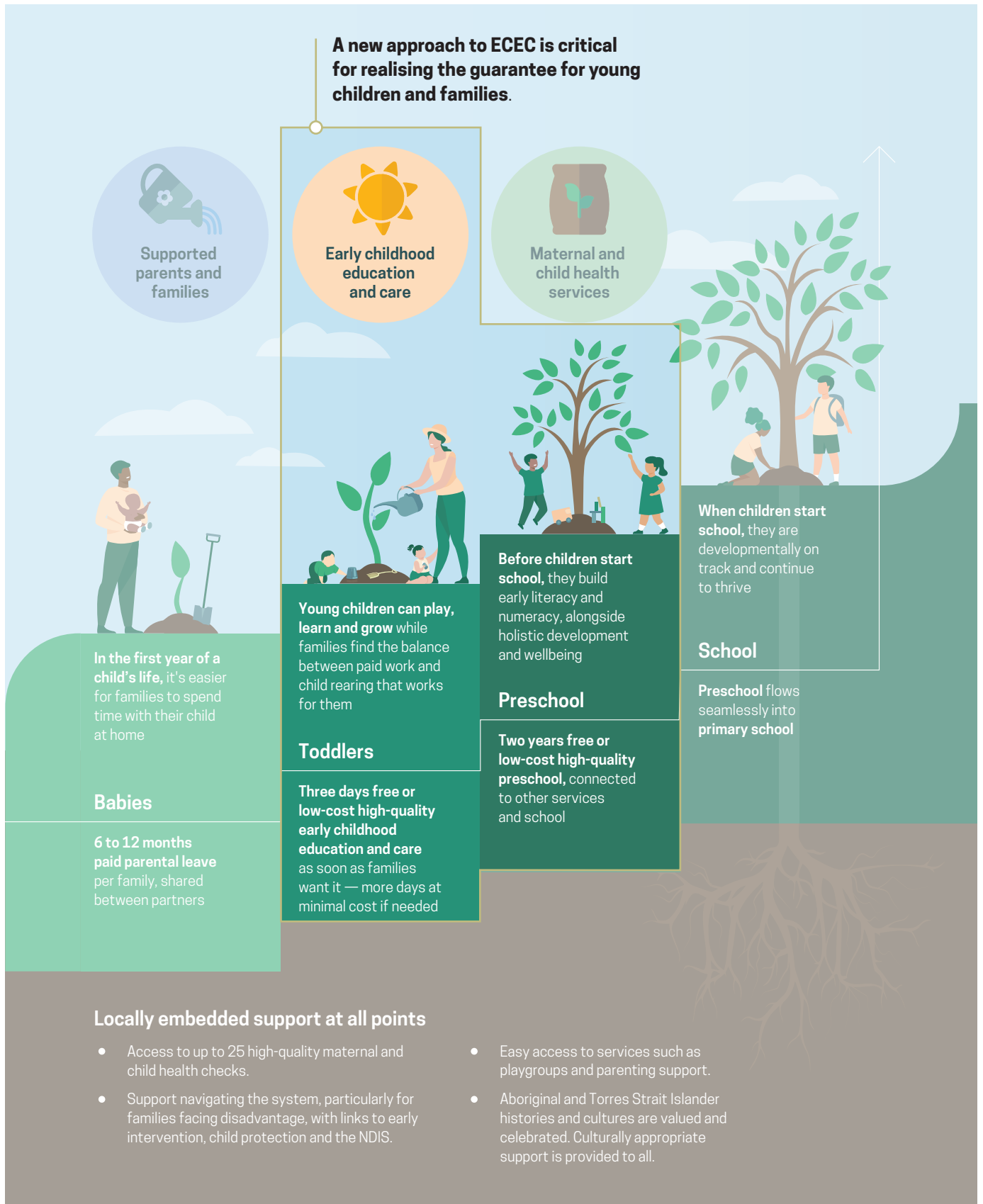


All components of the early childhood guarantee are critical to supporting thriving children, and each component of the well-connected system supports the other.

While this paper focuses on the guarantee's commitment to universal access to ECEC, this should not be designed and implemented in isolation. It should be considered as a key part of a reformed early childhood development system. The importance of integration and coordination across the different parts of the ECD system has been highlighted in the recently released *Early Years Strategy*.⁸ All components of the early childhood guarantee are critical to supporting thriving children, and each component of the well-connected system supports the other.

Universal high-quality ECEC is central to delivering the guarantee and should provide a backbone of an integrated early childhood development system. ECEC services are often valued and trusted places in their communities, and children and families spend significant time in these services and build trusting relationships with ECEC educators. This puts ECEC services in a strong position to connect children and families with other services and supports, to identify potential vulnerabilities and reduce the stress and confusion for families in navigating the fragmented ECD system.

FIGURE 1 | Early childhood education and care as a backbone of an integrated early childhood system



Australia needs a new approach

The ECEC system in Australia has a range of strengths - the National Quality Framework provides a strong foundation for quality and quality improvement, cooperative work between governments on universal access to preschool has shown strong results, there has been increased government investment over many years and there are many high-quality services providing education and care to children. Yet overall, the current system is not fit for purpose. There are many critical issues that must be addressed to move Australia to a universal system and fulfil the ambitious vision set forth by the Prime Minister and the government:⁹

- Affordability challenges:** Two-thirds of surveyed parents either find ECEC a financial burden, or don't use it because it's too expensive.¹⁰ Affordability challenges are greatest in households with the lowest incomes.¹¹
- Lack of price regulation:** The Productivity Commission's draft report into early childhood education and care noted that "out of pocket expenses are a key determinant of whether families can afford early childhood education and care."¹² The unique characteristics of childcare markets mean that the Child Care Subsidy (CCS) and the price cap are having limited effectiveness as a price signal and constraint on prices, meaning that retaining the subsidy-based CCS system is unlikely to be able to ensure affordability for households.¹³
- Limited access and equity:** Access to the CCS, and therefore ECEC, is significantly restricted by the activity test, that generally sets a family's entitlement to a subsidy according to how much work (or related activity such as study) both parents are undertaking. It has been estimated that the activity test is contributing to at least 126,000 children missing out on ECEC.¹⁴
- A market based system does not encourage adequate or equitable supply to all communities:** Providers' supply decisions are highly influenced by expectations of profitability within a particular area. This encourages supply of services to areas of high demand, where there is a capacity to pay higher prices and the opportunity for profit is greater.¹⁵ For-profit providers make up 70% of all long day care services, and for-profit provision is decreasing in low-socioeconomic areas.¹⁶
- Inequitable quality:** Quality is generally higher in high socioeconomic (SES) areas and lower in low SES areas. This suggests children who are most likely to need high-quality ECEC are the least likely to be able to access it.¹⁷
- Workforce challenges:** The current educator shortages are having a material impact on the supply and cost of childcare.¹⁸ The sector is low paid, including in comparison to school teachers and to some retail, office-based and care occupations.¹⁹
- Limits of a market-based system:** In the current ECEC system with the CCS, there are limits on markets' ability to deliver broader government objectives, which requires governments to take on a stronger stewardship role "closely overseeing, monitoring and taking responsibility for overall system functioning and coordination."²⁰
- Complexity of the current system:** The CCS is complex and difficult to navigate.²¹ Parents find the subsidy system opaque and difficult to understand what they are entitled to.²² Surveys have found that 50% of families find the application process challenging.²³
- Lack of inclusion embedded in the current system:** The review of the Inclusion Support Program (ISP) has found that "the ISP in its current form is a programmatic response, however, the aspiration of inclusive early childhood provision requires a systemic response which is incorporated into the very structure of ECEC."²⁴

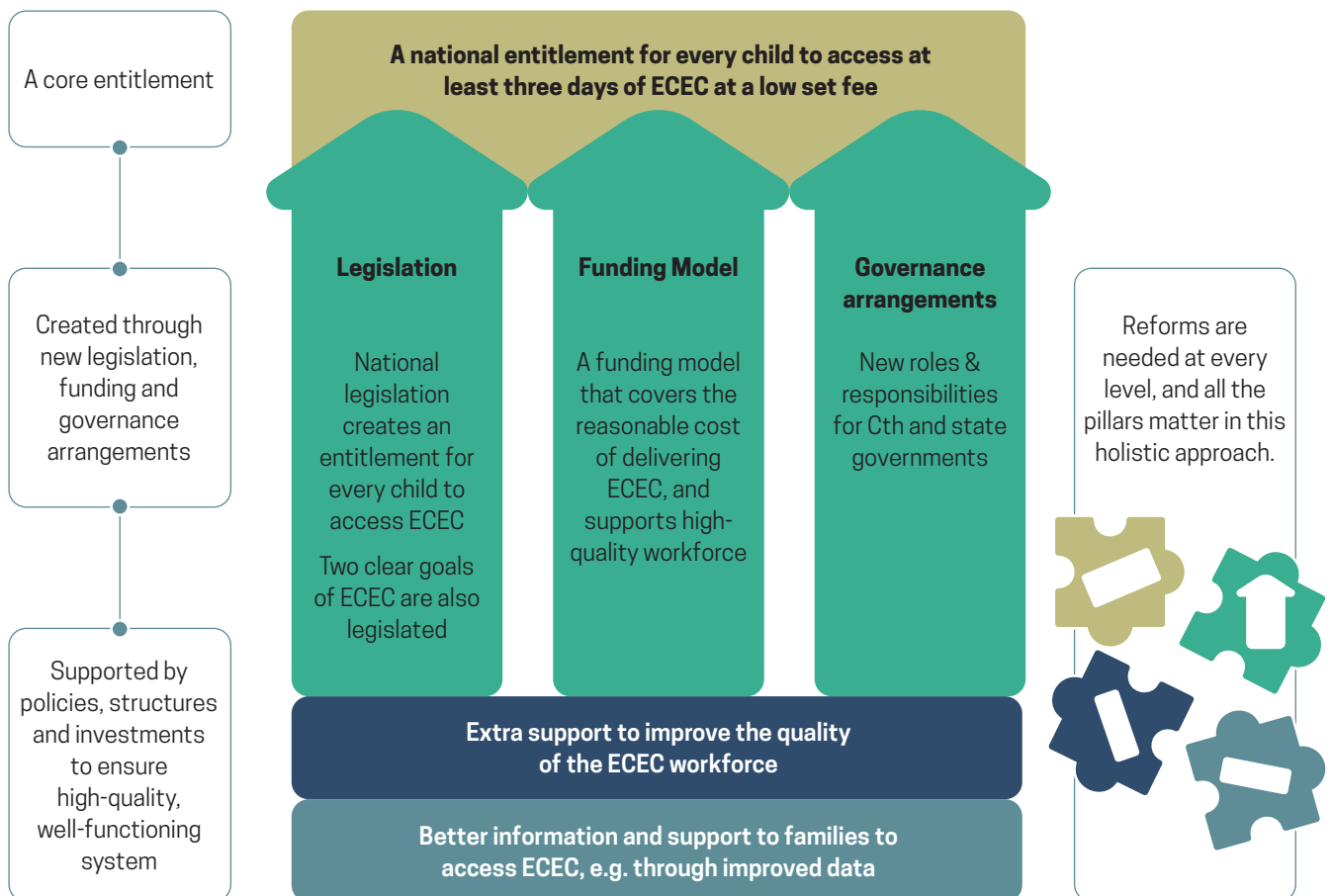
The scale of the system challenges outlined requires bold reform solutions.

Minor adjustments are insufficient for addressing the broader challenges faced by children and their families. Comprehensive reforms are essential for realising the full and extensive benefits of a universal system.

CPD offers a future vision for what a truly universal ECEC system could look like. In designing this new system, we have built on and maximised the strengths of the current system. Many of the existing elements - such as strong quality regulation and a focus on improving access - are retained. It is a holistic system reform approach to ECEC governance, funding and delivery and ongoing investment in system health, that addresses issues and leverages opportunities. Cherry-picking elements, for example implementing funding reform but without building system management capability, will not have the desired effect. Reform is needed at every level of the system, and all the pieces matter for the benefits to be realised.

The proposed system repositions ECEC, consistent with the government’s objectives, as a universal service system like schooling and Medicare, where all children have access and those who need greater support receive it. It shifts from being a complex means-tested system to a universal guarantee. It makes clear, both explicitly and implicitly, that the government has greater responsibility for the ECEC system than has historically been acknowledged and creates higher expectations of governments to ensure the smooth and effective operation of the system. This builds on the growing engagement by Australian governments in greater responsibility for stewardship of ECEC.²⁵ A successful universal ECEC system will require strong partnerships between governments and the sector, ensuring that all parties share the responsibility of providing all children with access to quality early childhood education and care.

FIGURE 2 | Proposed universal system for early childhood education and care





Key system reform elements



Detailing the vision for a universal early education and care system

1 | Two clear legislated objectives for the ECEC system

Realising the potential of the ECEC system requires two clear objectives that are pursued by all governments:

- 1) Support children’s education, development and wellbeing; and
- 2) Support families to balance work and family life.

These are consistent with the National Cabinet’s draft national vision for ECEC, which outlined a vision that ECEC is essential to supporting children’s learning, development, and care, as well as supporting parents’ participation in the workforce. Building on the Draft National Vision, clearly and explicitly enshrining the dual objectives of ECEC in legislation would elevate their prominence, provide clarity to all actors and guide system development and implementation. Importantly, they should be clearly positioned as the dual objectives that all governments are working towards, removing the historical split between the Commonwealth’s primary focus on workforce participation and state and territories’ primary focus on learning and development.

2 | A universal national entitlement

The system moves from one where a parent’s income and activity determines their access to a subsidy, to one where all young **children have a universal national entitlement to access ECEC**. The entitlement will begin at birth and continue until the child starts school.

The entitlement will be straightforward - every child will be entitled to at least three days per week of ECEC free or at a low set fee, with more available at minimal cost for those who need it.²⁷

For families experiencing disadvantage, three days per week would be free. For highly vulnerable children, up to 5 days per week could be free²⁸.

The three day entitlement would include two days of free preschool per week for three- and four-year-old children, with preschool integrated into the national ECEC system.

There are a number of ways for determining a low set fee. CPD’s vision includes a set fee per child amount, such as \$10 a day for all children, and free for low-income families, but potential alternatives that remain aligned with the core aim of affordability are available.

CPD has used \$10 per day, as it is in line with the government’s stated objective of a universal 90% subsidy²⁶.

TABLE 1 | An outline of a set fee entitlement, based on \$10 a day

	Day 1	Day 2	Day 3	Day 4	Day 5
ECEC - Children 0-3 years	\$10	\$10	\$10	\$15	\$15
ECEC and preschool - Children 3 and 4 years	Free preschool	Free preschool	\$10	\$15	\$15
ECEC - Children experiencing disadvantage (e.g. healthcare card-holders) all ages	Free	Free	Free	\$15	\$15
ECEC - Highly vulnerable children all ages	Free	Free	Free	Free	Free
Second and subsequent children	\$5	\$5	\$5	\$7.50	\$7.50

Why have a set per child fee?

- A set per child fee ensures affordability and enhances financial predictability, allowing parents to plan with greater certainty.
- It significantly reduces the complexity and conditionality that parents currently navigate. Parents wouldn't have to regularly report their work or activity to Centrelink or update their income levels to access low-cost ECEC.
- It reduces the likelihood of unintended consequences through complex interactions with the tax and transfer system that can discourage workforce participation, due to the cost of childcare and other aspects of the system making working additional days financially unviable.
- Charging the same price to all families helps avoid the stigma associated with means-tested fees. It promotes a sense of community and shared commitment to early childhood development, reinforcing social cohesion.
- A set per child fee promotes more equitable market distribution, discouraging providers from concentrating high-quality services in affluent areas. This helps ensure that all families, regardless of location or income level, have access to quality ECEC.
- It places limits on the ability of providers to take advantage of their pricing power and make excessive profits.

CURRENT CCS SYSTEM

One parent works **1.0 FTE** as an electrician

One parent works **0.4 FTE** as a community support worker

Household income is **\$120,000 per year**

Two children (aged 1 and 3) attend LDC for **3 days per week**.

CCS rate is **82%** for 1st child and **95%** for 2nd child

For \$128.5 service fee (Dec 2023 avg) → **Family pays \$89 per week**

For \$150 service fee (Projected average fee 2027) → **Family pays \$104 per week**

← VS →

FIXED FEE SYSTEM



Two children attend LDC for 3 days per week.
Family pays \$45 per week

The parent working part time can choose to work extra days as the family can better plan and understand what they will pay for ECEC.

ALTERNATE OPTION

An alternate option for determining a set fee is to base it on parental income. This approach is used in a number of countries such as Norway, Sweden and Denmark. Some examples include:

- The fee is a small percentage (e.g. 3%) of parental income, up to a maximum weekly limit.
- A simple fee structure that changes depending on current tax brackets (and could adjust as tax brackets change). For example:
 - up to \$80,000 - free;
 - up to \$120,000 - \$10 per day;
 - up to \$180,000 - \$15 per day;
 - up to \$250,000 - \$20 per day;
 - more than \$250,000 - \$25 per day.²⁹

Through this approach, parents with higher incomes pay more, thereby reducing the public's financial burden. Keeping the fees low helps to ensure that no family faces a steep increase in costs just beyond a certain income threshold.

The different set fee options have different trade-offs. A flat fee is simple for families, and ensures that all families pay the same rate regardless of income.

An income-based fee on the other hand, reflects capacity to pay by tailoring charges to a family's income. However, this approach would maintain some complexity in the funding system for families if their income changes. This could have a particular impact on parents or carers who are engaged in casual employment and find it more difficult to predict their income. It would also require a system to assess parent's financial status.

A summary comparison of how the different models deliver on key goals of the future system is outlined below.

PRESCHOOL ENTITLEMENT

A universal, free preschool entitlement is included in the national entitlement, to encourage participation in teacher-led preschool programs, recognising the strong evidence of their universal benefit for children aged three and older, and that most jurisdictions currently offer a free preschool program.

TABLE 2 | Comparison of how different funding models would deliver on key goals

	Subsidy based models - CCS and hybrid CCS and supply side loadings model	Set child fee	Income based tiered pricing
Affordability	When providers charge above the price cap without price regulation, the system can become unaffordable for many families	Enables affordable ECEC for all children	Enables affordable ECEC for all children. Those with higher incomes pay more
Simplicity	Complex interactions with the tax and transfer system can discourage workforce participation or engagement with ECEC	One price for families is easy and simple to navigate	Pricing tiers make the system simpler for families to understand. The parent fee is set for each income tier
Predictability	Income changes impact the rate of CCS and providers can increase fees. Both limit financial predictability for families. The complexity of the system also makes it hard for parents to determine what they will be paying	Parents can plan and budget with certainty as they know the price they will pay per day	Parents can plan based on the amount they will be charged for each income tier
Equity and inclusion	High fees result in some children missing out on ECEC. Those with the highest capacity to pay are provided with higher quality services	All children supported to engage in ECEC	All children supported to engage in ECEC

This single national entitlement will improve access to preschool and remove complexity and confusion for families created by different funding systems and entitlements. With both long daycare and preschool integrated into the National Quality Framework (NQF), this is a strong platform from which to build. It will also mean that children no longer need to attend multiple different services each week.

The South Australian Royal Commission in its Final Report, made a similar recommendation that “the State Government should be proactive in the national policy discussions around early education and care and strive to get a national settlement of roles and responsibilities which has affordability issues, including for preschool, as the preserve of the Commonwealth.”³⁰

While it may take some time to transition to a nationally integrated approach to preschool, jurisdictions such as New South Wales, Victoria and Queensland’s preschool systems already draw heavily on the long day care sector.³¹ Bespoke funding arrangements may be required in other states and territories if they wish to continue the dominance of school-based delivery models.

IMPLEMENTATION CONSIDERATIONS

It will take sustained effort to build the capacity of the sector, including building the workforce, to fully meet the entitlement. It will also involve continuing to build on the mindset shift of no longer separating education and care, for example seen in the NQF. It is critical that a clear implementation plan accompanies the roll out of a national entitlement. Without a carefully planned and staged approach, there is a risk that quality service delivery will be compromised.

To support implementation, the universal entitlement could be enshrined in legislation to ensure that it is something that children and families can rely upon. It is important that this entitlement is for the child.

Many OECD countries have legislated entitlements. Countries such as Denmark, Germany, Sweden and Norway have legislated extensive entitlements to ECEC, beginning from six months (Denmark) or age one (Germany, Sweden, Norway). In countries that provide an entitlement to free or low-cost universal early childhood services, attendance is generally high, even for quite young children. For example, in Denmark, the legal entitlement starts early and is full-time 40 hrs/week. Eighty-nine percent of children aged one or two and 98 percent of children aged from three to five years are enrolled in ECEC.³⁵

CURRENT CCS SYSTEM

One parent works **1.0 FTE** as an assembly line worker

One parent works **0.8 FTE** as an aged care worker

Household income is **\$100,000 per year**

4 year old child attends LDC **2 days a week** and goes to a sessional preschool for **2 days a week**.

CCS rate is **86%**

For \$128.5 service fee (Dec 2023 avg) → **Family pays \$36 per week**

For \$150 service fee (Projected average fee 2027) → **Family pays \$42 per week**

FIXED FEE SYSTEM



Family pays \$25 per week for 2 days of preschool, and 2 days of LDC.

Family can send their child to one service removing complexity and confusion of two funding systems, and the child does not need to attend two services each week.

← VS →

There are several benefits to legislating a national entitlement. These include providing the government with a mandate, propelling them to deliver the entitlement; and the value of embedding an entitlement in legislation rather than, for example, program guidelines or policy

settings. Legislation can strengthen the reform effort as a government priority and help set community norms - entrenching the entitlement, making it difficult to remove with a change of government - and it can help to drive operational change.

Why universal?

Australia has several major universal service systems that are long-standing pillars of our social compact, notably universal healthcare and universal schooling. ECEC should also be one of these pillars.

It is in everyone's interest for all children to be educated and safely cared for, and doing so has major social and economic benefits, both in the short and long term.

A paradigm shift to a universal system entails a fundamental reimagining of how ECEC services are delivered and funded in Australia. A truly universal system is one where high-quality ECEC is guaranteed to all children and families, regardless of their family's income, location, or specific needs. This means that the government, not market forces, decide to whom and where ECEC services are provided, based on community need.

Vulnerability, while more concentrated in disadvantaged areas, can impact children in all communities. Universally affordable ECEC means that potential vulnerabilities are more likely to be identified for all children and addressed.

Universal ECEC also shapes community norms to foster widespread participation. It better reflects what is known about the value of early childhood education, sending a clear message to parents and the community about its importance in a child's learning and development. This has been seen through the introduction of universal 4-year-old preschool in Australia which has fundamentally built community consensus

around the role and importance of early education and normalised preschool attendance in the year before school.³²

Evidence also suggests that children experiencing disadvantage obtain greater benefits from preschool if they are in a mixed cohort with children from diverse backgrounds.³³

The benefits of universal ECEC on children experiencing disadvantage have led academics to conclude that subsidising ECEC for all children is a worthwhile investment, even if the gains are greatest for children and families experiencing disadvantage³⁴.

A universal system does not mean uniformity, or that everyone accesses or experiences a service in the same way. A well-designed and well-functioning universal system should provide people with the services they want or need, and this will be different for different people. For example, our health system ensures that everyone who turns up to the emergency department of a hospital is seen by a health professional, but only provides overnight care for people who need it.

As such, it is not an either/or choice between a universally affordable service system and targeted and tailored services. These two approaches must work together, with universal services providing a platform upon which targeted and tailored services and supports can be 'stacked', or a backbone to which they can be connected.

3 | Embedded equity and inclusion

ECEC must be available to everyone, but where children have higher needs, they should receive more support. This is known as ‘progressive universalism’ whereby universal services are available to everyone but delivered with an intensity and scale proportionate to the level of need.³⁶ This is an important part of realising the benefits of a universal platform, in that it allows the platform to be used to identify children needing additional support and get that support to them.

System improvements for greater equity include:

- an entitlement to free days of ECEC for children experiencing vulnerability or disadvantage (see entitlement above);
- additional need-based funding provided to services based on level and concentration of disadvantage (see funding model below);
- additional educators or tailored support for children with higher needs to ensure they receive the resources necessary for their development;
- access to additional services to support children, such as health services, or speech therapists.

ECEC services must also be available to, and welcoming of, all members of the community, and provide culturally appropriate support. This is important to encourage full participation by all children in the ECEC system. Failing to do so risks creating a system that exacerbates rather than closes gaps in early childhood outcomes and undermines the ability of the system to support workforce participation if some parents do not feel confident or comfortable entrusting their children to the system’s care. This includes First Nations communities, culturally and linguistically diverse communities, children with a disability or developmental delay, and children experiencing vulnerability or disadvantage.

The need for a systemic response to inclusion has been recommended in the final report of the Review of the Inclusion Support Program. Over the long term they highlight that, “to truly realise the Australian Government’s longer-term vision of universal access to ECEC as anticipated in the Early Years Strategy and the draft National Vision for ECEC, it will be necessary to consider structural, systemic reforms to ECEC policy beyond the Inclusion Support Program. Inclusion is simply too important and too broad of a goal to be associated with a single program.”³⁷ The importance of inclusion in early

CURRENT CCS SYSTEM

Single parent works as a nurse **2 days per week** and studies **1 day per week**
Household income is **\$45,000 per year**

The family has a Health Care Card
2 year old child attends LDC for **3 days per week**
CCS rate is **90%**

For \$128.5 service fee → **Family pays \$39 per week**
(Dec 2023 avg)

For \$150 service fee → **Family pays \$45 per week**
(Projected average fee Dec 2027)

FIXED FEE SYSTEM



3 days per week = free

Child benefits from additional support at ECEC due to additional needs based funding

← VS →

childhood education and care has also been highlighted in the recent NDIS review.³⁸ The report observed that “failing to include children in the early years can set them on what Inclusion Australia described as the ‘polished pathway’ to lifelong segregation”.³⁹ It also referenced that in Australia one-in-five children have disability or developmental concerns, emphasising the necessity for inclusivity in mainstream settings such as early childhood education and care. There is an opportunity for these children to be supported within natural settings that they live, play and learn, through a family centred and capacity building approach, with a collaborative team working together.⁴⁰

The funding system needs to appropriately resource services to meet all children’s needs and welcome all families into services and also allow services to further invest in building inclusion capability. Further ways to improve inclusiveness include communities’ representation in the workforce, service operations and governance, and ensuring staff have appropriate training and support to welcome all children and families. The South Australian Royal Commission suggested a number of ‘no regrets’ moves to improve inclusion in ECEC settings. These include services and staff to share and learn about evidence-based approaches to successful inclusion, and opportunities for sharing knowledge about emerging developmental trends between maternal and child health services and ECEC services.⁴¹

In Aboriginal and Torres Strait Islander communities, Aboriginal Community Controlled Organisations can provide high-quality and culturally appropriate ECEC that members of the community feel comfortable engaging with. Greater investment is required for these services, including a funding model that meets their needs. In some cases, these may require additional government support to establish and operate, and consideration should also be given to integration with other services and funding streams (from various levels of government) to minimise duplication and confusion, so it is easy for families to access services. Although Aboriginal Community Controlled Organisations are best placed to deliver culturally safe ECEC services, it is essential that mainstream services also commit to providing culturally responsive ECEC to ensure the full participation and safety of First Nations children within these settings.



4 | All actors in the system, especially governments, have clear roles and responsibilities and are active system stewards

Agreeing the different roles and responsibilities between levels of government, and actors in the system, is a vital early step to developing a new ECEC system. Government and the sector all have critical roles and responsibilities in delivering a high-quality, inclusive and affordable ECEC system for all children and families, as system stewards.

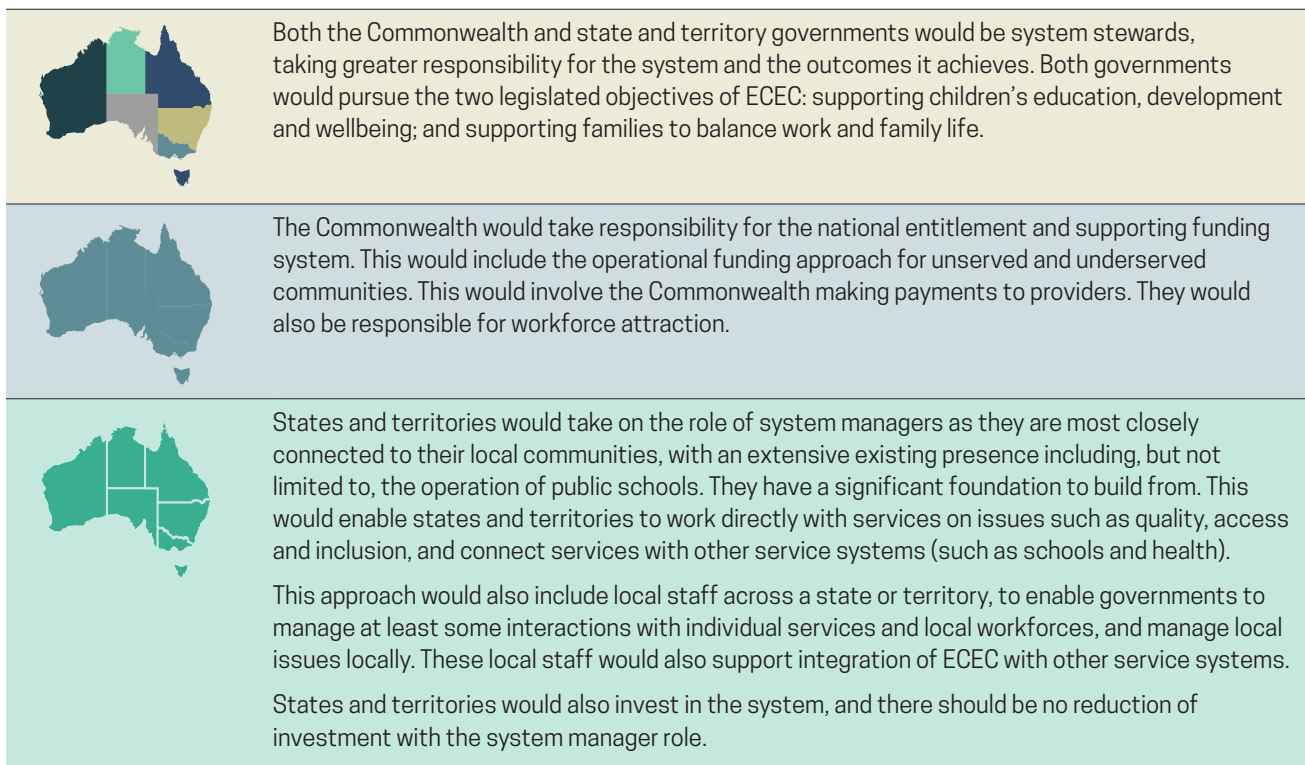
GOVERNMENT

To enable the future vision, the different roles and responsibilities between levels of government should be agreed, with a nationally collaborative approach reducing confusion and complexity, system objectives aligned and consistently cascaded through the national system. With this, governments need to take greater responsibility for the system and the outcomes it achieves - as system stewards.

Stewardship needs to be carried out at all system levels, involving both Commonwealth and state and territory governments, ensuring joint responsibility for the health and performance of the system. Importantly, stewardship doesn't mean governments need to do everything in a system, but they more actively and coherently use their levers so the system better delivers on its objectives and prevents adverse or perverse outcomes.

As part of system stewardship, governments need to provide greater oversight, facilitation and system management in the ECEC market. This means taking a role that goes beyond funding and regulating, to include other more intentional steps such as provision planning, better informing families, monitoring the market for inequities, filling service gaps, and actively setting and adjusting the 'rules of the game' (such as funding rules).

FIGURE 3 | Outline of Commonwealth and state and territory responsibilities



To support system stewardship, CPD's vision sees both a movement of current responsibilities, and greater responsibilities being introduced. The **Commonwealth take responsibility for the national entitlement**, and **states and territories take on the role of system managers**.³⁶ Both would be stewards of the system.

The Commonwealth could be responsible for the national entitlement and supporting funding system as it receives most of the financial benefits of a well-functioning ECEC system, through increased income and company tax, and would see a reduction in welfare spending if families can engage in work. In addition, having one level of government fund the system provides national consistency. This role would involve the Commonwealth making payments to providers. They would also be responsible for workforce attraction.

The states and territories could be the system managers as they are most closely connected to their local communities, with an extensive existing presence including but not limited to the operation of public schools. They have a significant foundation to build from. States and territories would work directly with services on issues such as quality, access and inclusion, and connect services with other service systems (such as schools and health). They could support transition to the new system and expansion, accessing workforce supports and identifying areas of supply or demand challenges. States and territories would also invest in the system, and there should be no reduction of investment with the transition to the system manager role.

Grouping most of the 'system management' functions with the one level of government is also important as it provides role clarity and a clear point of accountability for the community. This removes or reduces the number of points where levels of government may have overlapping or conflicting responsibilities, and reduces the need for complex coordination arrangements or governance. It allows for consistency and coherence across different policy domains (for example, connection between early childhood and schools or health), while also allowing for local priorities to be accommodated.

This approach could also include employing local staff across a state or territory, to enable governments to manage at least some interactions with individual services and local workforces and manage local issues locally. These local staff could also support integration of ECEC with other service systems, for example working with the broader ECD system and health services. This approach is like the South Australian Royal Commission's design of the Office for the Early Years' local implementation teams or other jurisdictions' regional approaches.

By strengthening existing and building new relationships with individual services and communities, states and territories will improve their understanding of local needs. This knowledge is crucial for shaping informed policies that align with community needs. Enhanced governmental agility will also ensure swift and effective responses to unpredictable and/or sudden circumstances, for example, during natural disasters, unexpected policy effects, a change in community needs or preferences, or a closure of a service.

States as system managers:

- Create communities of practice in local areas
- Identify supply challenges and work to resolve them
- Work with underperforming services to improve quality
- Identify local workforce challenges
- Provide governance and administrative support, and/or provide or facilitate a shared services approach to common services (for example payroll processing services), particularly for small services
- Connect services to other systems/ supports

Implementing a system management approach should have multiple benefits for government and the system - helping improve service quality (and therefore child outcomes); helping to coordinate activity or aggregate purchasing power to achieve economies of scale; improving governments' understanding of local needs and circumstances; and smoothing the operation and experience of the system for parents. This is an important way in which governments' stewardship of the ECEC system is given effect.

Responsibility for provider/contract management would likely be best coordinated between the Commonwealth and the states and territories. The Commonwealth would require data and information to inform the funding system design and would be best placed to identify risks or possible fraud (for example, services claiming an anomalously high level of children experiencing disadvantage in a highly advantaged area), and states and territories may be best placed to investigate given their local presence, relationship with services and ongoing regulatory functions. These responsibilities could be detailed as part of the proposed National Agreement.

This approach moves us from a system where the government makes a subsidy available, to one where a range of resources and supports are available for families, services and providers to draw on as needed, making the system higher quality, stronger and more robust.

Funding for the states and territories' system management role would need to be negotiated as part of a National Agreement and Bilateral Agreements. This would need to ensure that there is no cost shifting. States and territories would be relieved of much of their current preschool expenditure, but would incur costs, including in system management, infrastructure contributions, quality investment and workforce support. This may result in states and territories making an ongoing contribution to the national funding system (although as discussed above, the Commonwealth is best placed to fund entitlement, demand and price growth in the funding system over time). It will be important that the states and territories are provided with sufficient funding to perform their role, particularly regarding quality uplift and the service integration/ 'glue' work. This is consistent with the findings of the South Australian Royal Commission.⁴³

The allocation of responsibilities between levels of government, and the choice between national consistency and local flexibility, ultimately involves judgements and tradeoffs.

However, having both levels of government involved can provide for positive reform momentum, for example where one level can push another for further reform and improvement, or hold the other accountable for commitments.

ALTERNATE OPTIONS

States retain preschool funding responsibility

A minimum level of preschool entitlement should be nationally agreed, with states and territories able to provide more than this, but no less. This could still be administered through the national funding system, with the states making payments via the national system to services in their jurisdiction. In this scenario, the other changes could be retained (e.g. bringing preschools into the national system and base funding and other additional funding being provided by the Commonwealth discussed further below).

A national funding pool

Another option is for a national funding pool to be created where the Commonwealth and states pool their funding. It would be managed jointly and the funding allocated through the single national approach outlined above. This could be broadly similar to the approach for the National Health Funding Pool. This approach would enable the model outlined above to be implemented with all jurisdictions continuing to provide funding for ECEC based on the current funding division. To enable a consistent national entitlement for all children, states and territories would need to ensure funding for preschool at an agreed level. A single payment to providers would be enabled through this funding pool to all services providing ECEC and/or preschool. Creating a funding pool does add administrative complexity and cost to administer.

NEW COMMONWEALTH-STATE GOVERNMENT GOVERNANCE ARRANGEMENTS

To enable the proposed new system, new governance arrangements would be needed.

Commonwealth and state and territory governments could enter into a new National Agreement on Early Childhood Reform. This agreement could agree new government roles and responsibilities, funding arrangements, information sharing arrangements and performance targets for the new ECEC system and its implementation.⁴⁴

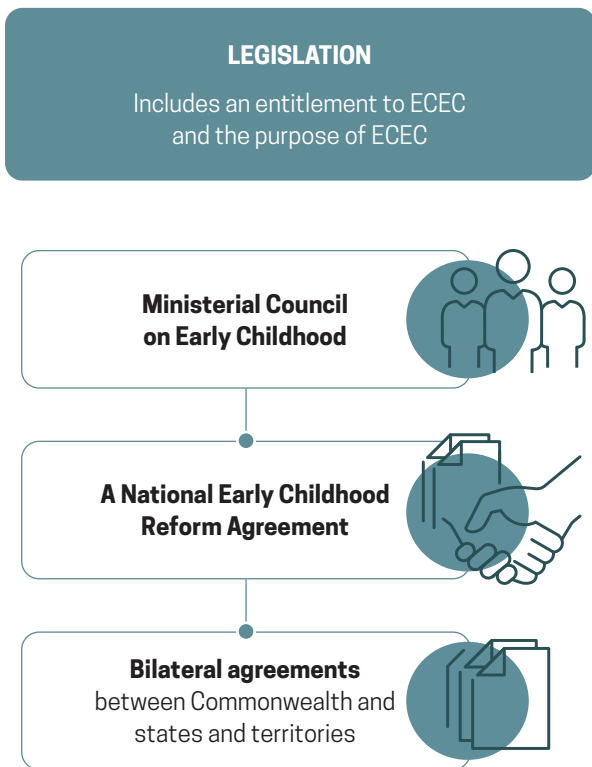
The National Agreement should encompass Early Childhood Development Reform broadly. This would enable other critical early childhood development system reforms to be integrated and coordinated with ECEC reform, such as maternal and child health. While we suggest consideration of a broader agreement, ECEC reform would be the first priority area to be addressed.

As system reform will take time, we suggest that the agreement be a long-term agreement that incorporates the 10-year vision. This may require a series of shorter-term agreements that advance achievement of the long-term vision. This could provide the benefits of certainty and stability. It could be supported by jurisdiction-specific action plans or bilateral agreements, for example covering three- or four-year periods. These agreements could include commitments to a minimum level of spending, funding arrangements and specific system performance targets.

To support the implementation of reform, there needs to be consideration of governance arrangements. A dedicated Council of Early Childhood Ministers could be established as part of the existing National Cabinet architecture. This could provide a specific forum for relevant ministers to meet, oversee progress and resolve issues related to ECEC reform, but also include broader ECD reforms. Another option for consideration could be regular joint meetings of the Education and Human Services Ministerial Councils.

Updates could be regularly provided to National Cabinet as a Key Priority reform.⁴⁵ As with other Ministerial Councils, parallel arrangements among officials could be adopted as well. As the reforms roll out, working groups could be established to focus on agreed priority areas.

FIGURE 4 | Proposed new governance arrangements





Alternate options

Separate Statutory Authority

One governance option is a Commonwealth statutory authority or commission to oversee the system and drive reform, potentially explicitly identified as being a system steward. Lessons from the establishment and implementation of the Australian National Training Authority may be useful in the design of the commission.

Legislate an Office of the Early Years

Consideration could be given to the approach being taken in South Australia with an Office for Early Childhood Development being established in legislation, clearly setting out its role and functions, embedding governments' stewardship of the ECD system.⁴⁶ This would be particularly relevant for other states and territories and their roles as system managers.

PROVIDERS ROLES AND RESPONSIBILITIES

The draft National Vision for ECEC outlines governments as stewards in partnership with the sector. Providers have a key role in achieving a high- quality, affordable and inclusive system. Working with government, providers support all children to succeed through the provision of high- quality and inclusive services. They are a partner and share accountability for the achievement of the system's objectives.

Significant government investment is made in ECEC. System actors must be accountable for the high level of public spending and ensure that the investment delivers the best value for the community. Providers have important responsibilities in:

- High- quality service provision - Services have a role in retaining educators through creating good organisational cultures, enabling professional development and fostering supportive organisational conditions.
- Contributing to the provision of data and information to support system stewardship, planning and support for families.
- Creating inclusive and welcoming services - providers create the environments within their services that make children and families feel welcome and safe. They should also support any child to enrol in their service, regardless of their level of need or family income. Services should meet the needs of their communities.

5 | Move to a child-centred funding model

To support a national entitlement, the system could transition from a subsidy-based funding model to a child-centred funding model that supports reasonable cost of quality provision.

A child-centred funding model enables government funding to drive policy objectives such as quality standards, wages and conditions and support for priority cohorts.

With the proposed entitlement, a subsidy-based model does not work as provider and child costs vary however the fees that families pay would not. If a subsidy-based model was kept with an entitlement model, the current issues with parents who can pay more having greater access will be amplified.

A new funding model could be introduced that covers the reasonable cost of provision for all children. This model funds a high-quality, equitable and inclusive ECEC system. As part of this, services would receive:

- 1) **Base funding** to cover the core costs of providing high-quality ECEC, based on the age of children and the number of days of ECEC provided. The base cost could reflect all the ordinary, reasonable costs⁴⁸ of ECEC delivery, including staff costs, occupancy, consumables, administration, regulatory compliance, building maintenance, etc. It should function as an average over the year based on a reasonable expectation of occupancy. It should also include funding for the costs incurred by a service as being an active part of a service system, for example in supporting families to access allied health or other services, and outreach and engagement to local families; or to support innovation.

- 2) **Additional funding** that accounts for:

*Child-based differences*⁴⁹

- The educational need or disadvantage experienced by the children enrolled in a service. This could be done relatively simply by collecting demographic information as part of the enrolment process, with higher per-child additional funding for a higher level of disadvantage. This is already used as the basis for calculating the School Resourcing Standard.

- Whether a child is Aboriginal or Torres Strait Islander - this reflects the multiple and concurrent challenges faced by many Aboriginal and Torres Strait Islander children (including socioeconomic disadvantage, geographic challenges and the current poor outcomes), and the need to dedicate additional resources and efforts to 'close the gap'.
- Whether a child requires additional inclusion funding for disability or additional needs - consistent with the findings of the Review of the Inclusion Support Program, additional funding needed to support children should be built into the overall funding model. Different funding levels (tiers) could be established based on the level of need. Government could also help support capability uplift by ensuring services have access to dedicated support and that they are funded to work with other inclusion support services to create a linked up system or 'wrap around approach'.

Cost driven differences

- Access to a preschool program for three- and four-year-old children. This could be paid for two days per week where a three- or four-year-old child was enrolled. This could take the form of an additional amount per child enrolled.
- Quality standard - a small amount of additional funding could be provided to services that exceed the National Quality Standards and services that improve their quality rating. This recognises the additional costs likely incurred in operating at a higher level, provides an incentive for services to improve and is a signal from the government that it wants and is willing to incentivise this.
- An additional loading based on certain service-specific costs. This would apply to higher costs than those factored into the base funding that are both material and generally outside the service's control, such as rent or, more broadly, the higher cost of operating in some geographies, for example higher workforce costs in some areas.⁵⁰

Principles for funding system design

In considering the design of a future funding system, it is important to be clear not just about the objectives of the overall ECEC system but also what the funding system is intending to achieve. CPD has developed six principles for funding system design.

1 | Adequacy

Total funding (from governments, and any parent or other revenue) must be adequate to meet the cost of sustainable delivery of high-quality ECEC. This includes the costs incurred by a service to operate within and connect to a broader ECD/ service system⁴⁷.

2 | Affordability

A funding model should deliver affordability for families - cost should not be a barrier to access. Financial barriers to accessing services should be minimised to ensure the participation of children and families from all socioeconomic backgrounds.

3 | Equity and inclusion

The funding system should address disadvantage for children and families. The funding system should recognise that children will have different needs, and this affects the cost of providing them a high-quality service (separate to how these elements affect children's ability to access a service due to cost to the family). This includes disability, developmental delay, educational or socioeconomic disadvantage, cultural or language diversity, Indigeneity, and geography (there will be some children who meet more than one of these factors).

4 | Accessibility

The funding system should support adequate supply of services (workforce supply is considered in 'workforce' below). As part of supporting supply, a funding system needs to provide sufficient incentive or funding for services to be established in areas where demand exceeds supply or provide some other form of intervention to establish these services.

5 | Simplicity

The system should be easy for parents and providers to understand, navigate and access. The system should be capable of efficient and effective administration by government(s), that still allows for individualisation to respond to the needs of children. It should provide stability and predictability to support long-term decision making by parents (to make life plans) and providers (to operate and invest in their services).

6 | Quality

The funding system should support and incentivise high-quality provision. In addition to funding at a level sufficient to provide a high-quality service (considered under 'adequacy'), the funding system should encourage high-quality delivery and quality improvement, and discourage low-quality provision.

7 | Workforce

The system should provide a level of pay and conditions that is fair and makes the role attractive so supply meets demand.

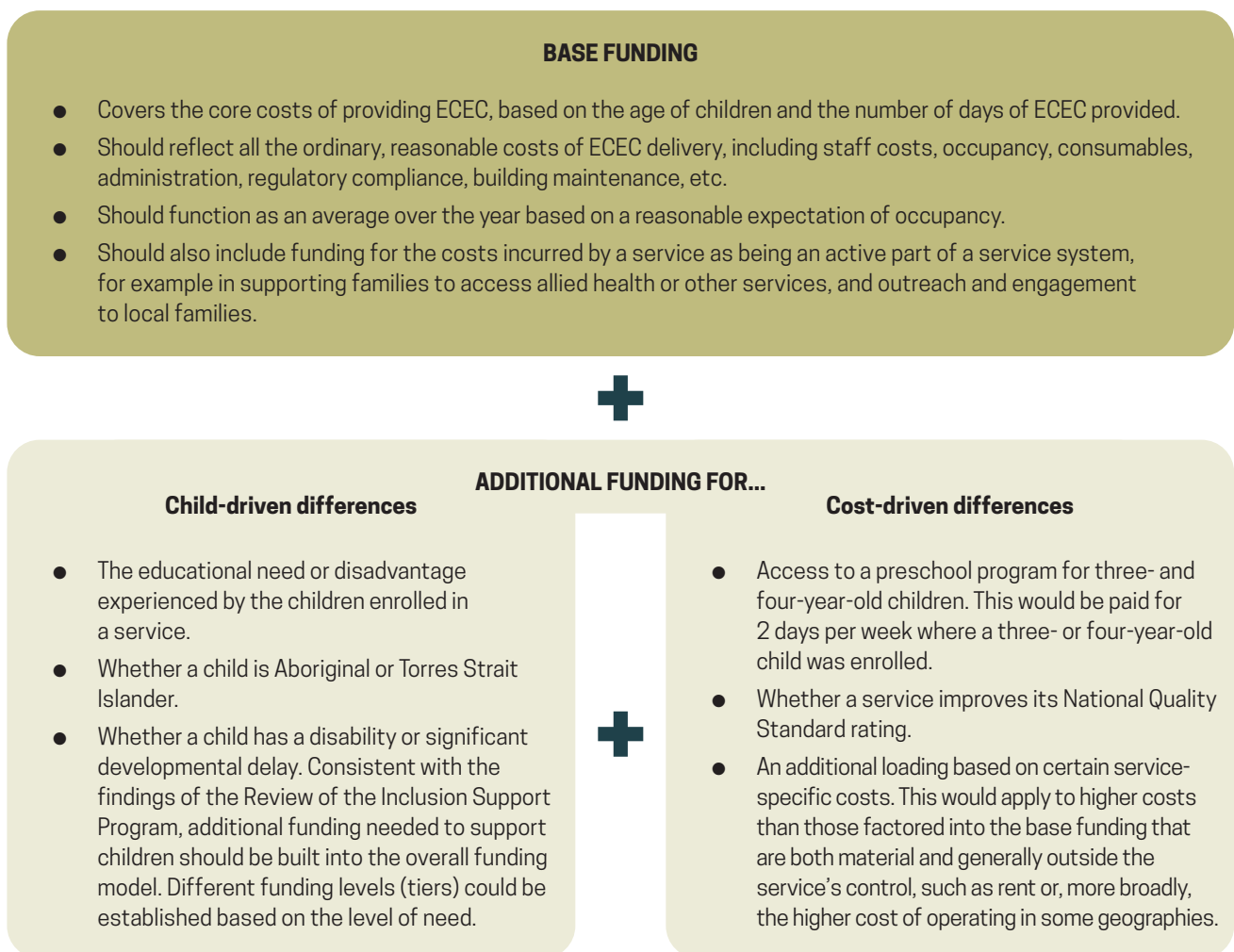
A strength of funding paid directly to providers, is that the government can make the payment conditional, and can use the payment to drive and deliver policy objectives. CPD suggests that government consider a range of conditions that could be attached to services eligible for funding. Some possible conditions could include:

- meet minimum quality standards;
- pay their staff a specified and fair wage (where this has not been resolved through other industrial or legal processes, government should use its funding lever to support and require improved pay and conditions across the system);
- agree to implement a system of priority of access for enrolments⁵¹;
- if a set fee model was introduced, do not charge parents more than the parent contribution set by the government.

NATIONAL EARLY CHILDHOOD PRICING AUTHORITY

Given the importance of accurate and fair funding rates, and the need for regular oversight of the system, a new, Commonwealth specialist body would be established - a National Early Childhood Pricing Authority. The authority could set funding rates and monitor the funding system. Regular monitoring would be required including a combination of regular adjustments (e.g. annual changes to reflect cost inflation) and periodic reviews to ensure the funding levels are adequate for service viability. Services will be reliant on the adequacy of government funding levels to operate, so regular Consumer Price Index (CPI)-linked adjustments alone are unlikely to be adequate as input costs may rise faster than broader inflation.

FIGURE 5 | Outline of reasonable cost of delivery funding model



Retaining a subsidy based model

In developing CPD's preferred funding approach, consideration was given to the option of retaining the CCS in whole or in part, including a hybrid model with both subsidy and supply side components.

CPD supports variation in cost and need being addressed in a future funding system. Supply side loadings for cost differences such as equity and inclusion and preschool, or government priorities such as wage increases have been suggested as additions to the current CCS model to address some of its deficits. CPD's funding model includes these as key elements of the child centred funding model, rather than as separate loadings. This results in a single integrated funding model rather than a hybrid income based subsidy and supply side loadings model.

However, even with loadings added to the CCS, **major affordability and reliability of price issues remain.**

While the primary purpose of the CCS is to make ECEC affordable, it remains expensive for many families. Recent changes to the CCS have improved affordability in the short term, however, if retained, affordability challenges will remain and increase over time.⁵²

Major affordability and reliability of price issues remain in the system when there is no limit on the out of pocket fees that providers can charge.

The ACCC has shown that the unique characteristics of childcare markets mean that the CCS and the hourly rate cap are having limited effectiveness as a price signal and constraint on prices, and if CCS settings are increased, this will be even less effective.⁵³ As the ACCC has stated 'the nature of childcare markets and the role played by price, as well as the impact of the Child Care Subsidy, also mean it

is unlikely that market forces alone will act as an effective constraint on prices to ensure affordability for households (including households with low incomes and vulnerable cohorts) and to minimise the burden on taxpayers.'⁵⁴

The ACCC found that "direct price regulation is more likely to be required where countries expand public expenditure as this reduces the price sensitivity of households (any price increase has only a limited impact on out-of-pocket expenses)".⁵⁵

In addition, the CCS is **not tied to service quality or quality improvement**, and can **incentivise service supply to high-demand and high-willingness-to-pay areas**, potentially neglecting less profitable areas.⁵⁶

The CCS is also complex and difficult to navigate. The current subsidy based model maintains the current system complexity for parents. Parents find it difficult to understand what they are entitled to, and to accurately estimate and compare out of pocket costs, and the application process is challenging. In addition, the interaction of subsidy eligibility and the tax and transfer system is complex, making it difficult for families to understand and make decisions about their work and other arrangements, particularly for casual and contracted workers.

Fundamental reform of the ECEC system is essential **to support the realisation of the Starting Better guarantee.** To realise the guarantee, a funding model is needed that enables ECEC to be a backbone of a reformed ECD system. All components of the early childhood guarantee are critical to supporting thriving children, and each component of the well-connected system supports the other.

BENEFITS AND RISKS OF A CHILD-CENTRED FUNDING APPROACH

The proposed funding approach has a number of significant benefits over both the existing funding system, and some other alternatives.

Benefits

- **Funding based on a child’s need ensures more support is provided to those who need it.** This is a core element of Australia’s current school funding system, was included in the 2024-25 Commonwealth Budget measures in response to the Australian Universities Accord Final Report, and is consistent with a ‘progressively universal’ approach to universal service provision. As it is calculated not just on the number of children experiencing disadvantage but also the concentration of them, more funding is given to services supporting more children experiencing disadvantage. This would result in services operating in communities experiencing disadvantage, or Aboriginal Community Controlled Services receiving significantly more funding than under a subsidy or per-child funding system, and with the flexibility to use the funding in ways that best meet the needs of the children they support.
- **Needs-based funding also provides additional funding for services supporting any children with any additional needs.**⁵⁷ Disability and disadvantage can be found in different forms and right across the country, so an approach based on child characteristics rather than community averages will better identify and meet need. Importantly, this also provides an incentive for services to enrol higher-needs children. Previously, services would not usually have been resourced to provide the support these children need, so enrolling the children created an unfunded burden on the service. Anecdotally, this caused some services to turn these children away.⁵⁸ Introducing needs-based funding helps address this.
- Paying a different core funding level based on age **removes the cross subsidy and potential perverse incentives built into the system,**⁵⁹ and makes **clear the policy choices for the government.** If the reasonable cost of delivery is covered, it could significantly increase the availability of ECEC for younger children, as place availability would no longer be dependent on the services having a sufficient number of older children to cross-subsidise their operation.

- By aligning funding to cost (and differential funding to cost differences) it will lead to a **more efficient allocation of funding**, and may make some services or locations newly viable, as their cost levels were previously uneconomical in the old funding system.
- The proposed approach creates a **significantly simpler system for families** - their fees are set and easy to understand, their administrative burden is significantly reduced, and the complex interactions between ECEC fees, activity tests, and the tax and transfer system is removed. Integrating preschool into a single entitlement means families aren’t having to enrol their child in different services to maximise their entitlements, and the need for disruptive transition between services for children is removed.
- It also **uses the funding system to require and drive desired outcomes in the system**, including minimum quality levels and improved workforce conditions, by being deliberate about funding conditions and levels and sending clear signals to providers. Building in improved minimum workforce conditions means that the cost is shared deliberately between government and families and is protected from downward pressure from price competition. A small incentive for services that improve their quality rating sends a signal about desired behaviour. The model is flexible enough to also allow for the inclusion of additional funding for other government priorities as, and if, needed.

Risks and mitigations

As with any funding system, there are risks associated with it. This funding model is similar to a needs-based Gonski-style funding model for schools. We acknowledge that the ECEC sector is fundamentally different to the schooling sector and as such, there is inherent complexity in implementing a funding model such as this. However, fundamentally these costs should be knowable to the government and a functioning funding system able to be created. To enable this, a number of other preconditions are required such as detailed and accurate cost information and comprehensive data architecture for implementation to be successful.

Transitioning to a supply side model would require deliberate and careful planning, as if it is introduced too quickly, there is a risk to the overall quality and viability of the system. Careful monitoring of these risks should allow governments to address them if they emerge, as part of a responsive approach to monitoring and managing the system - active system stewardship.



The most significant risk is that the **effectiveness of the funding system relies on the base funding level (and, to a lesser extent, the additional funding) being set at the correct level.** This is a significant risk - if funding levels are set too low, the system will not be sustainable as providers will be reliant on adequate government funding to ensure their viability. If set too high, government risks wasting money. However, based on the ACCC's final report, cost variations are not large for the majority of services. They report that overall, "costs to supply services to different areas of remoteness and socioeconomic advantage do not differ greatly, except for the areas of most remoteness and greatest socio-economic advantage."⁶⁰

Coupled with this, it will be critical that prices are regularly adjusted to reflect the reasonable cost of quality provision. In the current system, the hourly fee cap is not linked to the actual cost of quality delivery. While it is indexed by the CPI, the cost of ECEC has been increasing considerably faster than the CPI for over a decade. As such, the funding model will need to be responsive to increasing costs for providers.

Determining cost would be a large undertaking but should not be ruled out as unachievable.⁶¹ Consideration could be given to ways in which providers could be supported during this process such as standard templates or additional funding to enable them to respond to information requests/collection.

This risk can be mitigated by:

- Improved system monitoring by government, including collecting data on service costs and expenditures.
- Managing funding at a provider level, rather than service level, would allow multi-service providers to, in the first instance, manage any 'overs and unders' within their broader operation. The new stream of needs-based funding could also provide some flexibility and contingency in the funding system.
- Government could provide some pricing flexibility in the initial years as a way of managing the risk of imprecisely set funding. For example, services could be permitted to set fees within a range (potentially still allowing some competition on price but also some provider pricing power) or be able to set higher fees by agreement from the Pricing Authority where they are able to demonstrate cause. The Authority could also establish a list of pre-approved additional services for which fees would be permitted (e.g. bilingual programs).

- Detailed co-design and consultation with the sector during development of the funding system (including providing indicative allocations based on current and historical data).
- Providing services with indicative funding levels well in advance of the commencement of the year, smoothing funding decreases over several years (for example, guaranteeing that funding [or some aspects of funding] will be no less than 90 percent of the previous years, so any significant decline can be managed over several years.⁶²
- In the initial years, government could factor in a contingency to the funding allocation (especially for small providers who will be less able to manage 'unders and overs' across multiple services) and/or an 'exceptional circumstances' fund established that services experiencing financial hardship could apply to.

There is also a risk that **funding provided will not all be spent in the way intended**, in particular that funding provided to meet the additional needs of some children may be retained by services, diverted to other services, or spent in ways that do not support those children.

This risk can be mitigated by:

- Government could more intensively work with or monitor services receiving a large amount of additional funding. For example, government could require all services or providers receiving over a set threshold of additional funding to submit in advance a plan to expend it, or to work with government through a planning process. This is likely to be of additional benefit, as the service or provider is serving the highest need communities.
- Connecting the respective regulatory and oversight responsibilities across Commonwealth and states/territories.
- Additional monitoring could be risk-based, taking into account both the provider's history and quality, and the quantum of funding involved.⁶³

There is a risk that as funding under the model is demand-driven, services will have difficulty forecasting and planning year to year. It is important to note that this describes the current subsidy approach. There may be a slightly greater level of variability under the proposed approach (for example, as resourcing is partially determined by the characteristics of individual children), but given the small local catchments that services operate in, and that most families in a service one year would be

expected to continue in a service the next year, this is unlikely to be significant. If needed, the Pricing Authority could implement a smoothing mechanism if services experience significant and problematic funding volatility year to year.

A demand-driven funding model continues a key strength of the current system – a demand driven system encourages supply and aligns incentives between government and provider to increase the number of children accessing ECEC.

The detailed design of the funding system and setting of funding levels would need to take the practical operation of services into account – services need to be viable under normal operating conditions, so, for example, funding should not be set at a level that assumes full occupancy, and funding should recognise that occupancy generally varies over the course of the year. This doesn't require funding rates to vary throughout the year – services can manage seasonality over the course of the year as they do now. But funding rates should be set at a level that accommodates this. The Pricing Authority would set rates at a level to ensure that services can plan, and there is an incentive for services to enter the market and supply places.

If a service is not viable due to low occupancy, consideration could be given to whether it is a service in an unserved or underserved market and requires a different funding approach, or whether the service needs to change an aspect of its approach to better attract families. Through the increased role of the states and territories in provision planning and service support, demand would be better understood and better matched to supply, mitigating this risk.

Where a provider operates more than one service, they could manage funding across all their services. This provides services and providers with additional funding flexibility. For some small services there may be less flexibility, and transitional arrangements could be made to reduce risk while the system is implemented, or a small service loading could be built into the model (although care would be needed to not incentivise inefficient operation or gaming of the system).



Ensuring compliance with funding conditions, and generally ensuring providers act consistently with **the integrity of the system**, will be important. Consideration should be given to appropriate monitoring and reporting arrangements, but this should be supported by service and provider audits (both targeted and random) and strict and severe enforcement of consequences for non-compliance, including where appropriate, criminal prosecution. There should be an active attempt by government to create a deterrent for dishonest provider behaviour.

Consideration would also need to be given to the importance of regular quality assessments being undertaken to enable the additional quality improvement funding. This would also include consideration of whether these assessments will become more contested with potential additional funding attached.

A CENTRALISED ENROLMENT SYSTEM

A supply-side funding model should coincide with a simplified administrative process for families. Implementing a **centralised enrolment system** can streamline access to ECEC services by eliminating the need for parents to navigate multiple waitlists. This could be done at the state or local level. Through this system families indicate their preferences, and children are matched to a service, honouring priority access rules and family preferences, such as sibling placement and service continuity.

To ensure that the system serves those most in need, the centralised enrolment system should prioritise allocations for children with higher needs, integrating this criterion seamlessly with family preferences and service requirements.

Services would need to share details about availability and fees in advance for this system to function effectively. A secondary advantage is that it gives both the government and providers a clearer picture of where demand is not being met, guiding where to invest in new services.

6 | Investment to fill current service gaps, to establish new services in unserved and underserved communities so supply meets demand

Separate funding approaches will need to be taken for unserved and underserved markets to support ongoing service sustainability, and the establishment of new services where the market doesn't meet need. The following could be considered:

- Services serving small communities, where there are no alternative services reasonably available, should be funded at a guaranteed minimum level to ensure viability so they are able to provide ECEC to the local community.
- Using public infrastructure for ECEC services, including local council infrastructure.
- Co-location of ECEC services with other community facilities such as schools.

CAPITAL INVESTMENT

To implement a universal three-day entitlement for all children, supply of ECEC places would need to increase through both new services being established and existing services expanding. However, to achieve this, capital investment will be required to ensure there are sufficient spaces available.

Capital needs have been identified as a particular issue in unserved and underserved markets, however capital investment will be required across Australia to ensure there is enough supply to deliver the entitlement. A sustained and coordinated effort will be required by government, including increased provision planning. Government will need to be creative and responsive, working with the sector to cultivate and grow the supply of ECEC places.

In unserved and underserved communities, government investment will be required and the return on this should be maximised for children's benefit. Public and not-for-profit provision have an important role in unserved and underserved communities ensuring a service is provided that reinvests government funding back into that service.

Governments should play a greater role in bringing capital to markets for providers who can't attract it, and better using existing infrastructure. This could be through:

- government grants;
- better use of public and community facilities;
- government property development and building support;
- innovation funds and impact investing;
- philanthropy;
- community investment; or
- opportunities for peppercorn rent in private facilities in communities experiencing disadvantage.

PLANNED SYSTEM PROVISION

Government forecasting of demand and consideration of adequate supply are needed to support the development of a universal system. Better planning and information sharing would enable new and existing providers to identify areas for investment. Government should also make available population projections and information about current service utilisation and unmet demand (see improved enrolment processes above) to inform the sector and provide the best possible information on which to make investment decisions. Government's stewardship role will involve shaping the ECEC system to meet the objective of universal access. It will be critical for governments to manage, monitor and intervene in the ECEC market to ensure adequate supply of places for all children, including that areas are not under or over supplied.

7 | Support for a sustainable and quality workforce

The ECEC workforce is the cornerstone of a quality service. Comprehensive Australian research has highlighted the importance of the quality of adult-child interactions to child development outcomes. A comprehensive literature review concluded that “[t]he most significant factor affecting quality appears to be caregiver education, qualifications and training”, and E4Kids confirmed “the association of higher-level educator/teacher qualifications with better process quality, and subsequently improved child cognitive outcomes.”⁶⁴

Most of Australia’s dedicated early childhood workforce are women. Conditions vary, but generally, they are among our lowest paid professionals.⁶⁵ Underinvestment in leadership support and skills development and limited options for career progression has led to high staff turnover. This workforce churn holds back the quality of education and care.

The CPD future vision prioritises and addresses these challenges to create a high-quality, sustainable ECEC workforce that takes a whole of career approach to develop a joined-up system of support across the career pathway, from attracting people into training to supporting upskilling and leadership development. This includes:

- 1) **Equitable remuneration:** ECEC professionals are compensated fairly for their work, recognising the critical role they play in early childhood development. The capacity of Australia’s ECEC system is currently constrained by workforce shortages, so the sooner a broad and material improvement in pay and conditions can be introduced, the sooner supply challenges will begin to be addressed. A quick and significant improvement in pay and conditions could provide a quick boost to supply, relieving some current pressures. Coupled with this, the government should also consider ways to ensure that the system is designed to continue paying educators fairly over the long term.
- 2) **Sustainable work conditions:** Work conditions support the wellbeing and sustainability of the workforce. This includes manageable workloads, adequate staffing levels, and access to resources and support.

- 3) **Professional development:** There are ongoing professional development opportunities for ECEC service/preschool leadership and educators to enhance their skills and knowledge.
- 4) **Career progression:** There are clear pathways of career progression within the ECEC sector to motivate and retain talent.

By focusing on these areas, an ECEC system would recognise and value the role this profession plays in ensuring not only better outcomes for children but a more equitable society.

To achieve this, governments need to invest urgently and significantly to improve attraction and retention. Communication campaigns could be used to target school leavers and other young people, and career changers to inform them of the opportunities and benefits in ECEC. In addition to fee free TAFE/VET for early childhood qualifications, they could be supported through study with scholarships or fee waivers and with financial support while studying, and government could work with tertiary education providers and services to facilitate student placements. The Universities Accord Final Report also provides an opportunity for a more seamless and integrated tertiary education system to support the early childhood workforce’s career development. Payments could be linked to entering and staying in the ECEC workforce, and additional incentives could also be made available to attract staff to hard to staff areas, to provide an incentive and help with moving costs.

Particular effort could be taken to reach out to some cohorts, including men and culturally diverse communities, to increase the diversity of the workforce and access currently underutilised sources of supply. This could take the form of tailored communications campaigns to reach prospective students and inform them about the potential of ECEC and ECEC-related careers. Related communication could be undertaken more broadly, including to address stigmatising community views about male educators.

Government could support dedicated efforts to upskill existing ECEC staff, in particular supporting Certificate or Diploma qualified educators to upskill to a Bachelor level teaching degree. These are educators who are familiar with working in the system and therefore, if they choose to upskill, more likely to stay in ECEC. However, they may need support to enrol in a university course. This is a vital step to addressing current shortages of early childhood teachers and provides educators with a path to higher skill and pay roles.

For unserved and underserved communities, particularly those in rural and remote areas, a key challenge is the recruitment and retention of workforce. Many of the challenges faced by these communities are different from those faced in metropolitan locations. For example, high recruitment costs, higher costs of living, access to housing, community acceptance or 'fitting in' to the new community, costs of travelling to access training and professional development. To address this, government can invest in the development of local workforces. Examples of support could be scholarships and traineeships, financial support (e.g. for travel and accommodation), access to mentors and networks, greater use of technology to support remote learning, and partnerships between ECEC providers and Registered Training Organisations to provide training on-site or locally.



8 | Active support for the sector and quality improvements

Quality is essential to delivering an effective ECEC system, and it is particularly important for children experiencing vulnerability or disadvantage to receive a high-quality service to fully benefit from participation in ECEC.

Consistent with a stewardship approach, governments can be more active in seeking and supporting agreed outcomes, including planning for the future and improving quality and practice. This will be a key part of the state and territories' system manager role.

Government can do several things to support and improve quality in the system:

- 1) Properly investing in and maintaining the regulatory system, including rating services at least every three years, and services rated Significant Improvement Required or Working Towards the NQS being re-rated within 12 months.
- 2) Identifying best practice supports and approaches and aggregating or curating certain services to enable educators to meet the needs of all children. For example, government could establish a panel of allied health specialists or disability inclusion advisers in a local area for services to draw on.⁶⁶
- 3) Services, especially those that do not meet the NQS, could receive targeted assistance to improve quality (for example, resources or mentoring).
- 4) Providing broader supports to services, particularly to small services. This could include governance and administrative support to strengthen leadership and allow services to focus on core educational service delivery. This could include providing or facilitating a shared services approach to common services (for example payroll processing services).
- 5) Supporting the workforce, services and providers through the development and implementation of the new system.

9 | Better information and support to families

Families need more help navigating the system, including better information about service quality to make choices. Parents would benefit from having better access to clear and timely information about service availability in a simple, easy to access place (such as a central website). Services could be required to provide and regularly update this information as a condition of funding. The information should be available in a way that is easy to understand, navigate and compare, and complemented by other relevant information for parents (for example, about maternal and child health supports, local playgroups, and ways to stimulate the home learning environment). It should be connected to relevant enrolment assistance and processes.

10 | Improved data and information sharing

A key enabler for any well-functioning system is information. There needs to be a significant improvement in the quality, quantity and timeliness of information about ECEC made available in Australia. This data must be available in a form that people can access and understand and should include both real time data and data that monitors long-term outcomes.

In addition to parent-facing aspects including better service information and a centralised enrolment process, an early childhood data system needs to be developed to systematically collect, collate, analyse and distribute this data. Existing systems, where they exist, are currently fragmented and closed - what little is collected is rarely shared or published, leaving many system actors trying to perform their roles based on old, incomplete information. As part of the establishment of a new system, new data architecture and sharing protocols can be developed and implemented to inform governments' stewardship and others' roles in the system.

Greater investment can also be made in longitudinal data, including new cohorts of the Longitudinal Study of Australian Children.

Improvements can be made in the monitoring of child outcomes and developmental progress and quality measurement in key areas of educational support. This would better inform parents of their child's progress and service's quality, and governments about service and system quality. It would also aid the identification of better practice, by identifying services achieving better outcomes. The Preschool Outcomes Measure pilot is an opportunity to work across all jurisdictions to support high-quality practice, through the development of an assessment tool to better understand a child's learning and development.

Government could establish a framework of, and regularly report on, outcomes and progress measures to monitor system performance. This is an important measure of transparency and accountability - the government should say, in advance, what it is trying to achieve and how it would judge success, and report regularly against it.



Moving to the new system



**The path to reform and
realising the vision**

Moving to this new, universal system will take sustained commitment and active support and engagement. Even when key building blocks are in place, such as a new funding model and revised roles and responsibilities for governments, it will take time to build out the system - to grow the workforce and open new services to expand capacity, and fully realise the entitlement for all children.

Just as with our enduring entitlements like Medicare, a staged approach to implementation is recommended over 10 years.

However, governments are not starting from scratch as they build out this new system. They have many assets including:

- the broad system architecture;
- significant current investment across the Commonwealth and state and territory governments;
- a national funding system operated by the Commonwealth;
- very high participation in 4-year-old preschool;
- state and territory infrastructure and expertise in working with local communities through preschool delivery and school provision; and
- a strong national regulatory framework.

Consistent with a stewardship approach, 'implementation' of the new system will need to adjust to priorities that may change over time. Governments will need to monitor the ECEC system, and where needed, refine policy settings or otherwise act to address gaps, unforeseen challenges or new developments. It will be a process of continuous improvement, not just delivery. Doing this will require data and networks, to understand the system from the perspective of children and families, providers, and other stakeholders.

Throughout the implementation journey, communication, monitoring, consultation and refinement will be essential. Some reforms may involve major changes to aspects of the current system, which will affect all stakeholders - children and families, the workforce, services and providers and governments. As such, it will be critical for governments to agree on a future vision, including a future funding model, stage system implementation, with required transitional arrangements, to build and ultimately deliver the national entitlement for all children.

An example of a phased approach to implementation of the reformed system is offered over three stages.

The first stage lays the foundations for the system.

It establishes core elements of an accessible, affordable and high-quality ECEC system. Building the workforce will be important, stimulating additional supply especially in areas not well served by the current system. These key elements are supported by legislated goals of the system, a reformed funding model, critical system infrastructure such as an independent Pricing Authority, sector support and quality improvement and improving data collection to guide effective and equitable decision-making.

The second stage extends the reformed system.

Child-centred funding and set fees are introduced with a single national entitlement. New governance arrangements including a new National Agreement and Ministerial Council are brought into effect. Governments progressively assume new responsibilities.

The final stage sees the reforms embedded as roles and responsibilities are fully assumed, the funding model is operational, and the system is monitored and refined as needed.

ENDNOTES

- 1 An annual return on investment of approximately \$15 billion by 2045, using a 3.5% discount rate, highlights the economic value of the guarantee. Even with a higher social discount rate of 10%, the returns are significant, estimated at least \$6 billion in 2045.
- 2 Commonwealth Government, Working Future, The Australian Government's White Paper on Jobs and Opportunities, September 2023, page 181.
- 3 These estimates were within the range of GDP increase per year estimated by The Parenthood, KPMG and Grattan Institute for similar policies. See The Parenthood (2021) [Making Australia the best place in the world to be a parent](#); KPMG, [The Child Care Subsidy: Options for increasing support for caregivers](#), 2020; Wood et al., [Cheaper Childcare](#), Grattan Institute, 2020.
- 4 Women's Equality Taskforce, A 10 year plan to unleash the full capacity and contribution of women to the Australian economy, 2023.
- 5 Centre for Policy Development, Starting Better. A guarantee for young children and families, November 2021, pps 22 and 52-54 <https://cpd.org.au/wpcontent/uploads/2021/11/CPD-Starting-BetterReport.pdf>
- 6 Teager et al., [How Australia can invest in children and return more: A new look at the \\$15b cost of late action](#), Early Intervention Foundation, The Front Project and CoLab at the Telethon Kids Institute, 2019.
- 7 [Early Childhood Development Council](#)
- 8 Centre for Policy Development (2022) [Starting Now: First steps to a universal early childhood system](#)
- 9 Commonwealth of Australia (Department of Social Services), The Early Years Strategy 2024-2034, 2024
- 10 Australian Government, Terms of Reference for Productivity Commission Inquiry, February 2023, available at <https://www.pc.gov.au/inquiries/current/childhood/terms-of-reference>
- 11 The Parenthood, Parent Survey: How childcare costs affect parent choices, October 2023.
- 12 ACCC, Childcare Inquiry - Final Report 2023, p 44.
- 13 Productivity Commission, A path to universal early childhood education and care, Draft supplementary paper, 2023, page 355.
- 14 ACCC, Childcare Inquiry - Final Report 2023, p 7, p 38 and p 44.
- 15 ACCC Childcare Inquiry - Final Report 2023, p 35.
- 16 Impact Economics and Policy, Child Care Subsidy Activity Test: Undermining Child Development And Parental Participation, 2022. Since this report was prepared, the Commonwealth has modified the activity test for First Nations children and families so they can access at least 36 hours of subsidised care per fortnight (from July 2023). See Australian Department of Education, Changes to the activity test for families with First Nations children attending child care (2022).
- 17 ACCC, Childcare Inquiry - Final Report 2023, p 25.
- 18 Centre for Policy Development, Submission to the Productivity Commission Inquiry into Early Childhood Education and Care, June 2023, page 22; ACCC, Childcare Inquiry - Final Report 2023, p 27.
- 19 ACCC, Childcare Inquiry - Final Report 2023, p 23.
- 20 Productivity Commission, A path to universal early childhood education and care, Draft Report, 2023, p 3.
- 21 ACCC, Childcare Inquiry - Final Report 2023, p 248.
- 22 The Parenthood, Parent Survey: How childcare costs affect parent choices, October 2023; Cortis et al., Challenges of work, family and care for Australia's retail, online retail, warehousing and fast food workers, Social Policy Research Centre, UNSW Sydney, 2021.
- 23 Productivity Commission, A path to universal early childhood education and care, Draft Report, 2023, p 45.
- 24 Deloitte Access Economics, Review of the Inclusion Support Program Final Report, September 2023, p 122.
For more detail on these challenges please refer to our submission to the Productivity Commission Inquiry - https://www.pc.gov.au/_data/assets/pdf_file/0008/362780/sub156-childhood.pdf
- 25 See, for example, Draft National Care and Support Economy Strategy (page 45) "The Australian Government will be a good steward of these markets. The role of market stewardship is to ensure the market is delivering policy objectives, including by addressing market deficiencies or failures and by creating incentives that shape market behaviour towards desired outcomes." or the Draft National Vision for ECEC "Governments take a holistic approach as stewards of the ECEC system in partnership with the sector, shaping a system that is nationally coherent and connected and responsive to community needs and outcomes for families, providers, and the workforce."
- 26 Labor's Plan for Cheaper Child Care, 2022, <https://www.alp.org.au/policies/cheaper-child-care>
- 27 The complex interaction between ECEC quality, attendance, dosage and degree of vulnerability makes it difficult to determine the 'optimum' amount of ECEC for a child. As Starting Better outlines, the early childhood development system needs to be considered holistically to achieve the outcomes we want for children. Government should not attempt to identify a single, 'optimal' amount of ECEC for every child (also known as 'dose') and build the entire ECEC system around that. Rather, the system should provide a broad entitlement to children and provide families the opportunity to use what best meets their needs and preferences. A three-day guarantee, with extra days at minimal cost for those that need it, is based on a balance between stability and continuity for children and parents and cost-effectiveness for governments, using a combination of evidence for vulnerable children and ECEC usage patterns for working parents.
- 28 Highly vulnerable children would include those children who currently receive the Additional Child Care Subsidy.
- 29 The income brackets are an example, and further work would need to be done to determine the pricing tiers under such a model.
- 30 South Australian Royal Commission into Early Childhood Education and Care, Report, 2023p17.
- 31 These three jurisdictions collectively represent approximately 77 percent of Australia's children aged 0-5, with only 7.8 percent of ECEC aged children being aged 4 or 5 in the other jurisdictions. (ROGS 3A.1).

- 32 Nous, UANP Review - Final Report, October 2020, p2 page 5, S Fox & M Geddes, Preschool – Two Years are Better Than One: Developing a Preschool Program for Australian 3 Year Olds – Evidence, Policy and Implementation, Mitchell Institute Policy Paper No. 03/2016, Mitchell Institute, Melbourne, 2016, p 64.
- 33 Bartik, From Preschool to Prosperity: The Economic Payoff to Early Childhood Education, Upjohn Institute for Employment Research, 2014; Fox and Geddes, Preschool – Two Years are Better than One, Mitchell Institute, 2016.
- 34 S Fox & M Geddes, Preschool – Two Years are Better Than One: Developing a Preschool Program for Australian 3 Year Olds – Evidence, Policy and Implementation, Mitchell Institute Policy Paper No. 03/2016, Mitchell Institute, Melbourne, 2016.
- 35 Janna van Belle, Early Childhood Education and Care (ECEC) and its long-term effects on educational and labour market outcomes, RAND Europe file:///C:/Users/dansa/Downloads/Policy%20Brief_Outcomes%20of%20ECEC.pdf
- 36 This is consistent with the proposal in the South Australian Royal Commission into Early Childhood Education and Care, see in particular recommendation 3 and 18, and page 33.
- 37 The South Australian Royal Commission into Early Childhood Education and Care - Report, August 2023, p 66.
- 38 This would subsume the Preschool Reform Agreement.
- 39 Under current National Cabinet arrangements, relevant Ministerial Councils report regularly to National Cabinet on Key Priorities; all Councils report annually on work plans. <https://federation.gov.au/sites/default/files/202211/federal-relations-architecture.pdf>
- 40 The South Australian Royal Commission into Early Childhood Education and Care - Report, August 2023, see in particular Recommendation 2.
- 41 'Reasonable cost' refers to all expenses necessary to deliver high-quality, including a margin for reasonable profit and unforeseen costs'.
- 42 Child level disadvantage is preferred over community level disadvantage as it is a more accurate targeting of need (important given the very small markets and communities that services support), and alignment of incentives and costs for services. Adjusting funding by concentration of disadvantage has the effect of capturing community and scale effects in services. Adding another loading for community level disadvantage adds complexity to the system and provides funding less likely to be accurately targeted to need.
- 43 Detail on when and how large this loading should be would be determined by the Pricing Authority, but preliminary advice includes
- It should not include costs generally within the discretion or control of the service - for example, operating over-ratio or offering a bilingual program.
 - It should also not include extra costs incurred (or economies of scale not realised) due to small service size or single service providers - this is more efficiently dealt with elsewhere in the system (for example, block funding for services serving small communities and additional support from government to services). Including such a loading also risks removing an incentive for services to expand operations or work with other providers.
- 44 In a system where demand will continue to exceed supply for some time, it is important that access is managed equitably and that the children who need access the most are able to get it. While having a needs based-funding approach will remove some of the disincentive for service to take children with higher needs, relying only on this may be insufficient. Care should be taken in preparing such rules to prevent perverse outcomes, and exceptions could be made for children already attending a service and children whose sibling(s) already attend a service. Some form of priority should also be given to ensure every child has access to a preschool program in the two years before they start school.
- 45 Allocation of additional funding on the basis of needs would, amongst other uses, allow services with children experiencing disadvantage to employ additional and/or higher qualified staff to better support their children, bring in specialist support (such as a speech therapist, or psychologists) or support staff to undertake specific training. It should complement and support, but not replace, other service systems such as health.
- 46 Productivity Commission into Early Childhood Education and Care, draft supplementary paper, p 148.
- 47 Providing ECEC to younger children (under 3) is significantly more expensive than old children (3 or older) because younger children require more intensive supervision in the form of staffing ratios. However the current system, with undifferentiated subsidy levels and hourly rate cap, does not recognise this, effectively requiring services to use older children to cross-subsidise younger children. Among other challenges, this inherently limits the number of places available for younger children.
- 48 ACCC, Childcare Inquiry - Final Report 2023, p 5.
- 49 Detailed design and modelling would be required to determine a reasonable approach to this that does not provide significant perverse incentives or inefficiency, but a broad mechanism is outlined as a way to manage predictability and variability.
- 50 Services receiving a significant amount of funding through loadings would be, by definition, serving more disadvantaged communities and are therefore likely to be not for profit, reducing the likelihood that a service would be seeking to retain the funding.
- 51 Leseman and Slot, Universal versus targeted approaches to prevent early education gaps - The Netherlands as case in point, Zeitschrift für Erziehungswissenschaft, vol. 23, 2020, pp. 485-507.
- 52 Australian Government Department of Education, Review of the Inclusion Support Program - Final Report, September 2023, p.ix
- 53 Working together to deliver the NDIS. NDIS Review: Final Report, 2023, p 69.
- 54 Working together to deliver the NDIS. NDIS Review: Final Report, 2023, p 69.
- 55 Working together to deliver the NDIS. NDIS Review: Final Report, 2023, p 116.
- 56 Huntsman, Determinants of quality in childcare: A review of the research evidence (NSW Department of Community Services), 2008, p. iii, Tayler, The E4Kids Study: Assessing the effectiveness of Australian early childhood education and care programs, 2016, p. 9.
- 57 Productivity Commission, A path to universal early childhood education and care, Draft Supplementary paper, 2023, pages 202-203.
- 58 In many cases, this could be on a cost recovery basis, noting the additional funding through loadings that is proposed to be provided to services for children with additional need - in this instance, it would not be that cost is the barrier to accessing these supports or resources, but being able to locate them reliably and with a high level of confidence as to their quality and efficacy.



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