

Navigating the path to universal ECEC

The role of Family Day Care



Family
Day Care
Queensland

March 2025

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Executive Summary

The Australian Government is currently developing reforms for the Early Childhood Education and Care sector, including Family Day Care and In Home Care, informed by recent inquiries by the Australian Competition and Consumer Commission (ACCC) and the Productivity Commission (PC). Family Day Care Queensland (FDCQ) welcomes the recommendations made by these inquiries and looks forward to working with governments and stakeholders to respond to the reform opportunities for the benefit of children and families.

The purpose of this document, *Navigating the Path to Universal ECEC – the role of Family Day Care*, is to ensure that the reforms are informed by the issues that matter to Family Day Care Queensland members, services, educators, and the families and children they serve, and advocate for reforms that support a growing, thriving and responsive family day care sector in Queensland.

This paper uses the evidence available from recent reports and submissions, along with the lived experience of Queensland family day care services and educators, organised around five priority areas to document the issues that matter, specifically in the Queensland context.

Responding to the reforms presents a critical opportunity to expand the reach of family day care in Queensland to support children to access high quality education and care. For this to happen, family day care needs to be recognised for the essential contribution it makes through equitable funding and policy settings and a regulatory regime that encourages quality, innovation, flexibility and simplifies the administrative burden of compliance.

Family day care plays an essential role in the lives of children and families every day in Queensland. It ensures that children from all backgrounds thrive by experiencing quality education and care and that parents can undertake paid work and other commitments confident in the knowledge that their children are safe, happy and learning.

It is a vital choice for parents who prefer home-based education and care, including those needing more flexible hours of care outside of normal business hours, such as health and emergency service workers, teachers and other essential workers.

In Queensland, around 15,500 children and around 10,500 families rely on a workforce of around 2,700 family day care educators and support staff to access early education and care. This represents around 5 per cent of the total number of children accessing early childhood education and care in Queensland. There are also many other families on wait lists to get access to family day care services.

There are a range of challenges facing the early childhood education and care sector in Australia. These have been documented in recent reports by the ACCC and the PC in some detail. Broadly the issues centre around accessibility, affordability, viability, and critical workforce shortages.

At the heart of reforms is responding to the PC's recommendation that by 2036, all Australian children aged between 0 and 5 should have access to 30 hours or three days per week of high-quality education and care. A significant expansion of early childhood education and care services will be required to meet this outcome.

Queensland faces several specific demographic challenges in delivering early childhood education and care (ECEC) services, in particular the decentralisation of Queensland's population with only 49 per cent living in the city compared with 68 per cent in other states.

For many of these families in regional and remote areas, family day care services can be their only access to ECEC.

The family day care sector also caters to a high number of children with culturally and linguistically diverse backgrounds. These families prefer family day care because it supports their children to remain connected to their culture and language.

The evidence shows that the family day care model prioritises the unique and individual needs of children and is responsive to the circumstances of families by offering more flexible hours and the bulk of care outside of standard hours.

The greater flexibility of the family day care model makes it more affordable for families and more efficient for taxpayers by ensuring the hours of subsidised care more closely mirror families' needs. Family day care delivers high quality education and care for families unable to access other forms of ECEC ensuring parents can participate in paid work and helping these communities to retain essential workers.

Despite the strengths of the family day model, family day care educators earn, on average, less than educators in long daycare centres despite having on average, higher qualifications and working longer hours. Queensland family day care educators are mostly sole trader small businesses who shoulder added compliance and administrative burdens. They also need to manage the requirement to provide the facility, usually their home, which requires considerable set up costs and ongoing maintenance and insurance.

The education and care of children attending family day care services attracts less funding than other services and governments are trading upon the dedication of family day care educators to ensure these children can access services.

The family day care sector has faced an inhospitable policy, regulatory and funding environment for many years, and this has eroded the viability of services making their quality assurance and support roles more difficult and the recruitment of educators challenging.

The current arrangements can foster contrary outcomes for quality as family day care providers compete for educators by reducing levies. Ongoing viability stress can lead to educators shifting to family day care services with lower levies and less stringent quality assurance requirements, making it challenging for quality family day care services to survive.

Many government strategies and initiatives do not accommodate the family day care model resulting in important benefits not reaching services and educators. It can be challenging for family day care advocacy bodies to engage with government agencies as they lack the resources to quickly marshal the evidence and influence funding, policy and regulatory design.

It is time to reset this relationship and responding to the recommendations presents an opportunity to support the sector to meaningfully engage in a genuine co-design process.

This paper has been prepared by FDCQ to document the issues from a Queensland perspective, give voice to our members' needs and showcase the important contribution made by the sector. It is a critical time for the sector and urgent action is needed if it is to survive and play a role in delivering the reform objectives.

FDCQ strongly supports the advocacy work of Family Day Care Australia (FDCA) in relation to issues of national significance, including repeated calls for immediate action to be taken in relation to the funding disparity between family day care and centre-based care to arrest the alarming decline in viability of the family day care sector. In addition to supporting the recommendations put forward by the FDCA in its submission to government, this paper

highlights the issues that disproportionately affect Queensland and makes additional recommendations for reform.

In recognition of the significance of the reforms, both the PC and the ACCC recognise that appropriate sequencing of the reforms will be critical to their success and suggest that the reforms be staged. FDCQ supports this approach and strongly recommends that:

- immediate action is taken to improve the funding to the family day care sector, services and educators to address the critical viability issues confronting the sector
- a dedicated advisory body comprising sector and provider representatives from the family day care and in home care sectors is established to co-design future reforms.

This paper puts forward five priority areas and 16 recommendations for the consideration of the Australian Government in shaping its response to the recommendations for reform. For each area, this paper documents the evidence, including Queensland data where available, of the strengths and challenges faced by the family day care sector and makes recommendations.

Queensland case studies have been used to showcase innovation and provide a first-hand account of the family day care sector, highlighting the critical role it plays in early childhood education and care.

FDCQ'S Five Priority Areas for Reform

Viability and workforce

FDCQ position

Families should not be penalised for exercising their right to choose family day care for their children. A thriving family day care sector ensures parents and caregivers have the opportunity to exercise this choice.

The viability of the family day care sector must be urgently addressed if the sector is to survive. The Child Care Subsidy (CCS) daily cap should recognise the true cost of family day care provision, including a fair return to educators.

New ways of supporting the development and growth of the family day care workforce must occur including supporting traineeships to be completed in family day care settings.

Immediate action is required to arrest this decline in the number of family day care educators and support the Australian Government's goal to expand access for children and their families to early childhood education and care. FDCQ strongly supports the advocacy of the FDCA in calling for urgent funding reforms to address the disparity between family day care and centre-based care services and its support for new training pathways that enable the family day care workforce to develop and grow.

FDCQ recommendations

Recommendation 1.1

The Australian Government should:

- immediately raise the hourly Child Care Subsidy cap rate for family day care (to be at a minimum) in line with the calculation afforded to centre-based care services to arrest the alarming decline in the viability of the family day care sector, and
- establish a mechanism to boost remuneration for family day care educators and approved service staff by an equivalent amount to the "Worker Retention Payment" wage increase for centre based day care (CBDC) and outside school hours care (OSHC) services.

Recommendation 1.2

The Australian Government should review the current CCS cap rate formulae for family day care so that it more accurately reflects the cost of providing family day care and the formulae should be made transparent.

Recommendation 1.3

The Australian Government should commit to reviewing the CCS cap rate every three years and the cap rate should be indexed each year between the reviews so that it retains its real value.

Recommendation 1.4

The Australian Government should establish a cross-agency project to develop a model for traineeships to be undertaken in family day care settings and develop other strategies to grow the sector workforce.

Affordability and accessibility

FDCQ position

Many children, particularly those from low-income, regional and remote and Culturally and Linguistically Diverse (CALD) families, do not have access to education and care.

Family day care services should be encouraged to expand so that families on waiting lists can access education and care for their children. FDCQ strongly supports the FDCA position that direct funding support is provided for new family day care educators and that new ways of incentivising delivery of family day care services in thin markets are trialled.

FDCQ recommendations

Recommendation 2.1

The Australian Government should introduce a direct funding support program (an “Educator Start-up Grant”) for new family day care educators to assist in overcoming some of the financial barriers to entry into the sector in establishing their micro-business.

Recommendation 2.2

The Australian Government should work with the family day care sector to trial projects to incentivise family day care service growth in unserved and under-served markets, including through targeted supply-side funding.

Choice and inclusion

FDCQ position

Parents and caregivers have the primary responsibility for the upbringing and development of the child. Fundamental to this responsibility is the right to choose the type of education and care their child receives. Family day care educators struggle to access support to include children with additional needs.

Family day care services and educators need better support to include children with additional needs. FDCQ strongly supports the FDCA position that more effective support measures be developed for the family day care sector to improve its inclusion of children with additional needs.

FDCQ recommendation

Recommendation 3.1

The Australian Government should remove barriers for family day care services and educators to access Inclusion Support Program and Inclusion Support Fund.

Flexibility and innovation

FDCQ position

Family day care educators should be supported and appropriately remunerated for offering education and care outside of standard hours.

Government agencies should support the sector's expansion through innovative delivery approaches, given the flexible service model's economic efficiency and the critical role this

flexibility plays in supporting workforce participation and the viability of regional and remote communities. FDCQ strongly supports the FDCA call for additional funding to be provided for nonstandard hours of care and the development of a pilot program of two-family day care services being run in a single venue.

FDCQ recommendations

Recommendation 4.1

The Australian Government should apply an additional loading of 20 per cent to the recalculated CCS fee cap for nonstandard hours care to adequately reflect the cost of this type of care.

Recommendation 4.2

The Australian Government should work with the family day care sector to pilot a program of two-family day care services to be run in a single venue.

Quality and equity

FDCQ position

A strengths-based approach should be applied to working with the family day care sector to expand provision by co-designing future funding, policy and regulatory settings.

The remarkable improvement in the quality of family day care should be acknowledged and the capability and skills of educators rewarded. The funding, policy and regulatory settings should be refocused to current and emerging risk and services adequately funded to undertake their quality assurance and support roles.

Governments should ensure they are applying best practice principles to their regulatory task by ensuring regulatory activities are evidence-based, proportionate, even-handed and informed by current risk. Stronger consideration should be given to practical supports to improve service quality and safeguard the integrity of the payment system.

The family day care sector should be promoted for its excellence in service provision and as a rewarding career option, especially for those educators seeking to move from centre-based care settings.

FDCQ strongly supports the FDCA calls for the introduction of a direct funding support program for approved family day care services to attract and train new educators, the promotion of family day care to assist in the recruitment of educators, the improvement of the information available to families about family day care on the StartingBlocks website, and better support for technological solutions to reduce the administrative burden on educators.

FDCQ recommendations

Recommendation 5.1

The Australian Government should immediately establish the Home Based Care Advisory Group comprising peak associations and providers of family day care and in home care services to support genuine engagement, improved communication and facilitate the co-design of future reforms.

Recommendation 5.2

The Australian Government, in conjunction with state and territory regulatory agencies, should review the regulatory settings to ensure they comply with its Regulatory Policy, Practice & Performance Framework¹, with particular attention to the following principles.

- Regulation must be targeted, risk-based and proportionate.
- Regulation should put people and business at the centre through user-centred design and delivery.
- Regulation is most effective when it is data-driven and based on available evidence, and when its effectiveness and impact on business and the community is well understood.
- Regulation should reflect the realities of the digital era and take full advantage of digital and technology capabilities and practices, while also ensuring equitable access to regulatory systems, including for those with low digital connectivity and literacy.

Recommendation 5.3

The Australian Government should develop a direct funding support program (an “Approved Service Engagement Payment”) for family day care approved services to assist in the recruitment, induction and training of new family day care educators.

Recommendation 5.4

The proposed Early Childhood Education and Care Commission should have a dedicated work stream headed by a Senior Executive focussed on the family day care and in home care sectors with the responsibility to ensure funding, policy and regulatory settings are informed by evidence and an understanding of the family day care, in home care and small business sectors.

Recommendation 5.5

The Australian Government should review StartingBlocks.gov.au to improve the level of information about the availability of family day care educators in local communities and the benefits of family day care services in terms of affordability, flexibility and inclusion.

Recommendation 5.6

The Australian Government should promote the value of early childhood education and care including the family day care sector to attract new educators and improve the retention of existing educators in the sector by promoting the benefits of working as a small business owner providing high quality services to children.

¹ [Regulatory Policy, Practice & Performance Framework \(regulatoryreform.gov.au\)](https://www.regulatoryreform.gov.au/), page 7

Recommendation 5.7

The Australian Government should make additional funding available for IT infrastructure to reduce the administrative burden of compliance and support improved training and professional development.

Family Day Care Queensland

FDCQ is the peak body representing and supporting the family day care and in home care sectors in Queensland.

Our purpose is to lead, promote and grow home-based quality family day care and in home care services.

We are a nonprofit, for-purpose organisation, registered charity, member-based association, and a company by limited guarantee governed by a skills-based Board.

Founded in Queensland 40 years ago, we operate statewide services in multiple jurisdictions and provide services nationally via our online platforms supported by a team of 250 early childhood professionals and support staff.



Queensland's peak body advocating for and representing Family Day Care. Provision of information, advice, support, advice, events and networking opportunities for Family Day Care service, educators and families.



Provides FDC specific training and professional development for FDC & IHC educators and services through a range of online learning modules (some mandatory) and face-to-face training. Online learning is hosted through the online community of practice platform



Providing children & families access to exceptional family day care across metropolitan, regional and rural Queensland. We are one of Australia's largest non-profit family day care services.



Providing flexible early childhood education and care in the family's own home. For eligible families who are unable to access other approved early education and care. Historically, provided in regional, rural and remote locations in Central Queensland, the service now caters for families across any location in Queensland.



The In Home Care Support Agency supports families to access in home (IHC) care by assessing their eligibility, connecting them with In Home Care services and providing referrals to other ECEC and support services. We operate the Support Agencies in Queensland and Victoria.



FDCQ is a member of Family Day Care Australia (FDCA) and Early Childhood Australia (ECA) and works collaboratively with these organisations, government agencies and other stakeholders to advocate for the sector.

Introduction

In Australia, families can access early childhood education and care (ECEC) in a range of settings. In the September 2024 quarter, over 1.5 million children attended approved ECEC services, including:

- **Long Daycare Centres (LDCs)** – which cater for children aged between 0 and 5 years of age and account for 58 per cent of children in approved ECEC services
- **Outside School Hours Care (OSHC)** – which caters for school aged children and accounts for 39 per cent of children in approved ECEC services
- **Family Day Care (FDC)** – which caters for children aged between 0 – 5 years of age and school aged children (who attend for OSHC) and accounts for 4.9 per cent of children in ECEC services
- **In Home Care (IHC)** – which caters to a small number of children who are unable to access mainstream ECEC services due to the need for non-standard hours of care, geographic isolation and/or complex and challenging needs.

Some children aged between 3 – 6 years of age may also be attending sessional pre-school programs (for example, Kindy in Queensland) usually in conjunction with other forms of ECEC. In August 2022, the 550,000 children in pre-school programs accessed the program in a range of settings:

- 60 per cent of children accessed programs offered by LDCs
- 30 percent of children only accessed programs offered by dedicated pre-schools
- 10 percent of children accessed programs offered by dedicated pre-schools and attended LDCs outside of these programs.

To help parents meet childcare fees, the Australian Government pays the Child Care Subsidy (CCS) generally through providers who pass it on to families as a reduction in fees. Providers must be approved to receive CCS (and are known as approved providers) on behalf of families and must comply with the Family Assistance Law (FAL), which is the legislation that underpins the CCS. Where the fees charged by approved providers is greater than the CCS, the difference is known as gap fees or 'out of pocket' expenses.

In Australia, ECEC is regulated under the National Quality Framework (NQF) which includes laws and regulations, quality standards and approved learning frameworks. The NQF provides a national approach to regulation, assessment and quality improvement.

The Australian Children's Education and Care Quality Authority (ACECQA) is an independent national authority that helps administer the NQF and support the ECEC sector to improve quality outcomes for children.

The National Quality Standard (NQS) sets the operational requirements that approved providers must meet and includes seven quality areas that are important to outcomes for children.

State and territory regulatory authorities are responsible for administering the NQF and assessing approved providers against the NQS. In Queensland, this role is undertaken by the Early Childhood Regulatory Authority which is part of the Queensland Department of Education.

Services are assessed and rated by their regulatory authority against the NQS and given a rating for each of the seven quality areas and an overall rating based on these results.

ACECQA hosts a dedicated website, StartingBlocks, to assist families and provide parents with information about early childhood education and care that helps them make the best choice for their child and family. StartingBlocks provides information on ECEC services available in local areas so that parents can find a service that suits them and their children's needs.

Recently, the ECEC sector has been the subject of two extensive inquiries undertaken by the Australian Competition and Consumer Commission (ACCC) and the Productivity Commission (PC). The Australian Government is currently formulating its response to the recommendations of these inquiries.

These inquiries have laid bare the complexities families have in navigating services to find affordable, high-quality ECEC that suits their children and family circumstances, and have exposed the unequal playing field that different types of services face. The findings and recommendations of the two reports are complementary and responding to these challenges will require significant reform which will have far-reaching consequences for the ECEC sector.

Unfortunately, experience has shown that the issues affecting the family day care sector are often not well-understood by government policymakers and this can lead to the needs of the sector being overlooked when reforms are developed. The most recent example of this was the draft PC inquiry report which omitted the family day care sector. It was only after this was pointed out by the sector that a section on family day care was included in the final report.

The purpose of this paper is to outline the strengths of the FDC sector, the vital role it plays in the lives of families and the challenges that services and educators face. It seeks to constructively engage in the development of reforms by recommending changes that will help improve access for families to high quality services by enhancing the viability, accessibility, and flexibility of FDC services and educators.

Family Day Care overview

Family day care is education and care provided by a family day care educator in their own home as part of a service. It is an essential part of the ECEC sector offering choice, flexibility, affordability, and accessibility. For some families, family day care is their first choice, and for others, such as those with additional needs, it's their only choice.

Family day care educators are registered with approved family day care services to educate and care for small groups of children within their own homes. Educators must be qualified and hold, at a minimum, a Certificate III in ECEC.

Family day care, like other forms of approved ECEC, operates under the NQF, including the National Law and Regulations, the NQS, Approved Early Years Learning Frameworks and a robust assessment and ratings process.

Unlike other forms of ECEC, family day care educators run their own businesses, giving them the freedom to offer standard hours care, before and after school care, weekend and even overnight care, from their own home.

Family day care is delivered in educators' own homes to small groups of children up to a maximum of:

- four children under the age of four
- an additional three school-aged children for OSHC.

If the educator's own children (under 13 years old) are present, then they are counted in the total. However, one educator can be approved to care for more than seven children (or more than four children preschool age or under) where:

- all the children being cared for are siblings in the same family
- a child needs protection under child protection law and the family day care educator is the best person to educate and care for the child
- the family day care residence or approved family day care venue is in a rural or remote location and no alternative care is available.

Family day care services are the approved provider under the Family Assistance Law for the ECEC offered in one or more of its services and receive and pass on CCS payments to eligible families to reduce the cost of education and care. Educators are unable to claim CCS for caring for their own children or the children of close relatives. Services are unable to offer incentives to employees to offset childcare costs like they do in centre-based services.

Family day care services contract educators to deliver ECEC, conduct regular home visits with educators and provide them with ongoing support including help meeting the initial requirements, induction and training and policies and procedures to guide programming and practice.

Family day care services employ family day care coordinators who manage the standard of education and care by monitoring, supporting and developing educators. They assist educators to design, plan, implement and evaluate their educational programs. All family day care coordinators must hold an approved diploma level qualification.

Family day care services are required to meet co-ordinator to educator ratios.

- In their first 12 months of operation, the service is required to have a minimum of one full time equivalent family day care co-ordinator for every 15 family day care educators or part thereof.
- After the first 12 months of operation, the service is required to have a minimum one full time equivalent family day care co-ordinator for a maximum of 25 FDC educators.
- A pro-rata allowance for second and subsequent co-ordinators applies, and services are required to engage an additional 0.2 full time equivalent co-ordinator, at a minimum, for every one to five educators the service engages over the first 25 educators.

Family day care co-ordinators are required to visit family day care educators at least once a year and more often where other safety requirements apply, for example, once a month where educators have swimming pools.

Family day care educators pay a levy to their service to cover the costs of these activities.

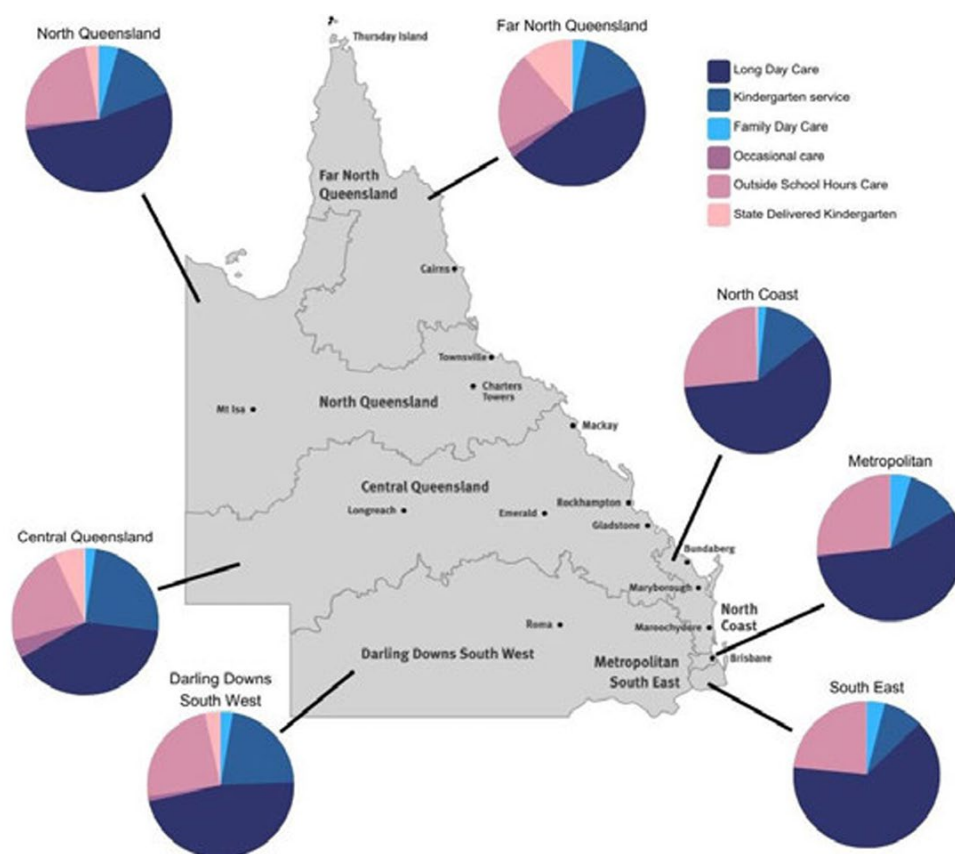
Queensland Family Day Care sector

In Queensland, 15,490 children access FDC²

- 1 in 20 of all children in approved ECEC access family day care
 - 5% (790) are First Nations children
- 10,630 families rely on family day care
 - 5.5% (590) are First Nations families
- 27.6 hrs/week average per child
- 76 approved providers/services
- 2,783 employed in the Queensland family day care workforce.³

Family day care services operate statewide in Queensland and are a small but essential component of each region's ECEC provision, see Figure 1.

Figure 1: Proportion of ECEC service types by region, 2022



Source: Qld Department of Education submission to PC Inquiry, September 2023, page 8

² Australian Government Department of Education, *Child Care Subsidy Data Report September 2024 Quarter (some rounding)*

³ [Workforce Snapshot](#), ACECQA, March 2023

Children's voices

FDCQ asked children *What does family day care mean to you?*

Common themes in the children's answers: play (85 per cent of comments); friends (80 per cent) – children of different ages and making new friends; fun; home environment (animals, gardening, cooking, picking fruit, chickens); loved or love; family; helping; safe.

The following is a selection of the children's responses in their own words.

Playing with friends. Lots of art works, drawing. Love to see the rubbish truck. Love to play back yard, see the sun, clouds, making things with play dough. Meekael 5 years.

Friends. Balls. Singing. Reading. Backyard – lemon, mango. Tayyib 2 years.

Playing with my friends and having fun and letting me make magic appear. She lets us bake eggs, lollies and treats. Xavier 7 years.

I love coming here because I love you Kat and I love playing with your toys like with the cars and the ice cream shop. Wade 5 years.

Hugs! (giving me a hug). Daisy 2 years.

Cars, my friends, mainly music, running around, jumping on the tramp. I like catching balls and counting, dress ups and the dogs. I like the chooks and getting the eggs. Elijah 3 years old.

Playing, singing, doing puzzle, friends. Lots of artwork, picking fruit from the back yard. Run on the grass. Rumaysa 5 years.

In Home Care

While this paper does not canvass issues related to the in home care sector, it faces many of the challenges faced by the family day care sector. The in home care sector has been the subject of two recent reports commissioned by the Australian Government and the solutions recommended to improve the sector are similar to what is needed for the family day care sector, for example, improved operational funding, increased educator remuneration and more flexible approaches to the model of delivery. To meet the unique circumstances of many families, consideration should be given to innovative operational models that combine aspects of both family day care and in home care.

Drivers of change

Family day care advocacy

FDCQ has been a strong advocate for ECEC reform in its own right and through its collaboration with other peak associations, for example, FDCA and ECA.

Through its advocacy, FDCQ has consistently presented the case that the family day care sector is at risk of extinction without changes to the funding, policy and regulatory settings of government agencies. This is evidenced in the decline in family day care service numbers in Queensland and the recent closures of large service providers in areas where they are no other ECEC services.

There has been a lack of recognition, respect and understanding for the sector from government and regulatory agencies. This is driving family day care educators out of caring for children – a role that they are passionate about – and is reducing the choice of parents.

The family day care sector has long advocated for reform to address years of inadequate funding to family day care services and educators by raising the CCS daily cap for family day care and addressing the impact of inequitable policies and regulatory burden.

While it is acknowledged that action was needed to stamp out unscrupulous practices that affected some parts of the family day care sector in the past, it is important to acknowledge that the quality of the sector has markedly improved. It is now time to revisit these settings.

Reform principles

The following principles shape FDCQ's approach to its advocacy work and underpin the recommendations for reform in this paper:

1. All children have the right to **access quality ECEC services** that are safe, support their physical, social, emotional, cultural and educational development needs.
2. Parents and caregivers have the **right to choose** the type of ECEC that best suits their child's needs and family circumstances.
3. ECEC services should be **funded equitably using a transparent formula** that reflects the true cost of service provision, and this formula should be reviewed regularly.
4. **Regulatory settings should be fit-for-purpose and proportionate**, use a variety of strategies to promote compliance, be responsive to current regulatory risk and foster flexibility and innovation. Regulatory activities should be conducted in a manner that is fair and imposes the minimum disruption on compliant providers.
5. Government and regulatory agencies should ensure their legislative, policy and funding roles and **settings are joined-up**.
6. Government agencies should ensure they have the requisite expertise to develop **evidence-based policy** that treats all ECEC sectors equitably and with respect.

FDCQ takes a strengths-based approach to representing the sector, seeking to work collaboratively with the Australian and Queensland Governments and their agencies to foster the potential of the sector.

Productivity Commission Inquiry

The Productivity Commission final report – A path to universal early childhood education and care was released on 18 September 2024. This inquiry examined the ECEC sector, including centre-based day care, preschools, family day care, outside school hours care and in home care. The PC considered cost and availability barriers that affect access to ECEC services, and ways to support better outcomes for children and families.

At the heart of the PC's inquiry is the recommendation that **universal access to up to 30 hours or three days a week of quality ECEC** should be available to all children aged 0–5 years whose families choose to use ECEC.

To support this outcome, the PC recommends that the Australian Government should modify the CCS to:

- remove the activity test for parents
- raise the subsidy rate for families with annual adjusted taxable income at or below \$80,000 to 100 per cent of the fee, up to and including the hourly rate cap

- taper down the CCS rate from 100 per cent by one percentage point for every \$5,000 above an adjusted taxable income of \$80,000
- increase the Higher Child Care Subsidy rate to 100 per cent for families with an annual adjusted taxable income at or below \$140,000 and taper down from 100 per cent by one percentage point for every \$5,000 above an adjusted taxable income of \$140,000, with families with an adjusted taxable income of \$580,000 and above being ineligible.

The PC made 56 recommendations that are designed to support universal provision of high-quality ECEC services. In summary, it recommended the following actions:

- **improve ECEC research** and evidence
- **foster inclusivity of services for children with additional needs** through additional needs-based funding and extending disability standards to cover ECEC
- **increase the qualified workforce** through improved workforce planning, education support, qualification design, pathways, professional development and registration, and targeted measures to support participation by Aboriginal and Torres Strait Islander people and services
- **support the expansion of services** through additional funding, advisory services and specific arrangements for Aboriginal community-controlled organisations to encourage the supply of ECEC services in areas of thin markets
- **improve affordability** by changing the approach taken to indexing the hourly rate cap and reviewing levels of the hourly rate cap for some types of service, simplifying payments and income reconciliation, providing additional subsidies for disadvantaged children, improving the StartingBlocks.gov.au website, maintaining the integrity of the CCS program and regularly reviewing fees and out of pocket expenses
- **respond to the needs of families** by funding services to address practical barriers to access, trialling a 'system navigator' role, providing greater wraparound and integrated services, and improving flexibility and access to care outside standard hours
- **improve ECEC regulation** by reviewing performance reporting and the NQF, ensuring regulatory agencies are adequately resourced, and improving communication of quality ratings, regulatory and compliance action and support for services to improve quality, and rewarding high quality providers
- **improve ECEC funding models** by adopting a principle-based approach to funding, addressing pre-school funding, and evaluating funding reforms
- **enhance the governance of the ECEC system** by improving policy coordination, role clarity and accountability, and establishing an ECEC Commission to support system stewardship.

While all of the recommendations made by the PC have implications for the family day care sector, there are a number of recommendations that specifically address issues affecting the family day care sector. These include:

Recommendation 3.4

Develop bespoke traineeship pathways for family day care settings

HumanAbility, in consultation with governments, the Australian Children's Education and Care Quality Authority, training providers and family day care providers, should develop tailored pathways that encourage traineeships to be undertaken in family day care settings.

Finding 5.5

Family day care can be an effective solution to improving access to ECEC in thin markets

Family day care can be part of the solution to ensuring that families have access to ECEC in markets where there might be low and/or variable demand. Expansion of family day care in recent years has been limited. The Commission notes the Australian Government Department of Education is working to support the use of family day care while satisfying probity and integrity expectations.

Recommendation 5.3

Allow two family day care services to be run in a single venue in regional and remote Australia

The National Quality Framework should be amended to allow two educators to provide education and care to up to 14 children at any one time at an approved family day care venue. No more than eight children can be preschool age or under.

This amendment should only apply to approved family day care venues in Inner Regional Australia, Outer Regional Australia, Remote Australia and Very Remote Australia as defined in the Australian Statistical Geography Standard.

Recommendation 6.3

Change the approach taken to indexing the hourly rate cap and review levels of the hourly rate cap for some types of service

The Australian Government should also review the hourly rate caps for family day care and in home care to determine the levels they should be set at to better reflect operating costs and support affordability, while maintaining integrity. The review should also consider the need for an hourly rate cap for non-standard hours.

Recommendation 7.3

Review barriers to providing ECEC during non-standard hours

The Australian Government should review barriers to providing ECEC during non-standard hours and consider appropriate policy responses, including:

- alongside reviewing the hourly rate caps for family day care and in home care (recommendation 6.3), consider if a non-standard hours ECEC rate cap is required
- review the extent to which planning regulations restrict ECEC services from operating in non-standard hours.

FDCQ welcomes the work of the PC in documenting these important issues and supports the intent of the recommendations.

The complete findings and recommendations of the PC's final report is at Appendix 1 and the full report is available at [Inquiry Report - A path to universal early childhood education and care - Productivity Commission \(pc.gov.au\)](https://www.pc.gov.au/inquiry-report).

ACCC Childcare Inquiry

On 28 October 2022, the Treasurer directed the ACCC to conduct an inquiry into the market for the supply of childcare⁴ services. The scope of the inquiry included: costs and availability of labour; finance and administrative costs; regulatory compliance costs; the costs of consumables; the prices charged since 2018 and how these have changed following changes in childcare policy.

In undertaking the inquiry, the ACCC documented how costs and prices differ by type of provider and size; type of childcare service; age and characteristics of the child in care; geographic location; level of competition; the quality rating of the childcare services provided. How these factors impact childcare provider viability, quality and profits was also examined. The final report of the ACCC's Childcare Inquiry (ACCC Report) was released 29 January 2024.⁵

The ACCC found that many childcare markets are operating reasonably well but **market forces are not always meeting the needs** of many families and children. It found that childcare markets in Australia can broadly be described as **adequately served, under-served and unserved**.

In relation to the family day care and in home care sectors, the ACCC found:

1. The numbers of family day care services and in home care services have **reduced** significantly across Australia since 2018.
2. Reductions in the number of family day care services has a **disproportionate impact** on culturally and linguistically diverse households and on households in less advantaged areas.
3. There is **little financial incentive** for family day care and in home care educators to enter or remain in the sector, as effective wages are below comparable award rates for other forms of childcare.
4. The level of funding under the hourly rate cap for in home care is **inadequate**. The family day care hourly rate cap is also unlikely to be sufficient to adequately cover costs and recompense educators.
5. The in home care sector is **unlikely to appropriately serve** all the children and households it is intended to.

The ACCC made eight recommendations to address its findings which are summarised below.

- The Australian Government should **reconsider and restate the key objectives and priorities** of its early childhood education and care policies and supporting measures, including the price regulation mechanism.
- Further consideration and consultation on **changes to the Child Care Subsidy and hourly rate cap** should occur to simplify their operation and address unintended consequences, including on incentives and outcomes; and this should include removing, relaxing or substantially reconfiguring the **current activity test** or alternatively, replacing it with a specific entitlement, such as a certain number of days of care.
- The information gathered for and reported on **StartingBlocks.gov.au** should be reconsidered so that it is better focused on meeting parents' and guardians' information needs – balanced against the costs of collecting and publishing information.

⁴ The ACCC uses the term 'childcare' in its report rather than 'early childhood education and care'.

⁵ [December 2023 final report | ACCC](#)

- Governments should further consider how the existing **regulatory frameworks** support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.
- The Australian Government should design policy options to better meet the needs of children and households for whom **in home care services** are intended to serve.
- The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for **First Nations children, parents and guardians**.
- A **market stewardship role** should be considered for government, by both Australian and state and territory governments, to monitor, regulate and shape childcare markets to ensure they deliver government objectives.
- Further consideration should be given to the benefits and challenges of **supply-side subsidies** (particularly as a longer-term consideration) coupled with other more direct forms of market intervention, as appropriate.

The complete findings and recommendations of the ACCC's report is at **Appendix 2** and the full report is available at [December 2023 final report | ACCC](#).

The ACCC's findings and recommendations are consistent with those made by the PC and the Australian Government has advised that the recommendations from the ACCC report will be considered in developing its response to the PC Inquiry.

FDCQ commends the work of the ACCC and PC and looks forward to working with the Australian Government as a partner in reform to address the recommendations for the benefit of children.

Early Years Strategy

The Australian Government has developed an Early Years Strategy (the Strategy), which sets out the Government's vision to best support Australia's children and their families across all areas of service delivery from health and allied health services, to parenting support and early childhood education and care.

Recognising how critical the early years (antenatal period through to five years of age) are for children's development and continued success over their lifetime, the Strategy articulates how the Australian Government will prioritise and support child-centred policy development, and target investment in early years supports and services over the next 10 years.

The Strategy notes that the *"Australian Government is committed to moving towards universal access to early childhood education and care that is high quality, equitable, affordable and accessible. While expanding access to early childhood education and care is complex, and there are challenges related to workforce shortages and thin markets in some areas of Australia, there is a clear need to improve access so that all children and families can benefit."*⁶

⁶ [AG early-years-strategy-2024-2034.pdf](#), page 38

FDCQ reform priorities

This section documents five priority areas for the consideration of the Australian Government to continue the ECEC reform agenda with particular attention to supporting the family day care sector to contribute to the outcomes sought by the Government.

For each area, this report documents the evidence, examples of what is happening in the family day care sector, and recommendations for change. Queensland case studies have been used to showcase innovation and provide a first-hand account of the family day care sector, highlighting the critical role it plays in early childhood education and care.

Priority 1 – Viability and workforce

The viability of the family day care sector and the workforce challenges are inextricably linked. The ECEC sector has been facing persistent workforce challenges for many years. This general workforce challenge is further exacerbated for the family day care sector by several factors including lower educator earnings, differing qualification requirements and additional administrative workloads.

Attracting and retaining a skilled workforce is a challenge for the family day care sector which has an aging workforce with many educators experiencing burnout. The family day care sector faces additional workforce and recruitment challenges with the removal of the “working towards Certificate III” provision in the National Regulations. There is a critical need to build a pipeline for future workers to enter the family day care sector.

It is difficult for services to attract and retain educators to the sector when the financial returns are lower than the wages that can be earned in other ECEC services, care sectors and industries more generally.

As small business owners, family day care educators are responsible for their operational costs and their income is the profit that they retain after defraying these costs. Their earnings per hour are further eroded by the additional administrative burden they have running a small business and managing their compliance.

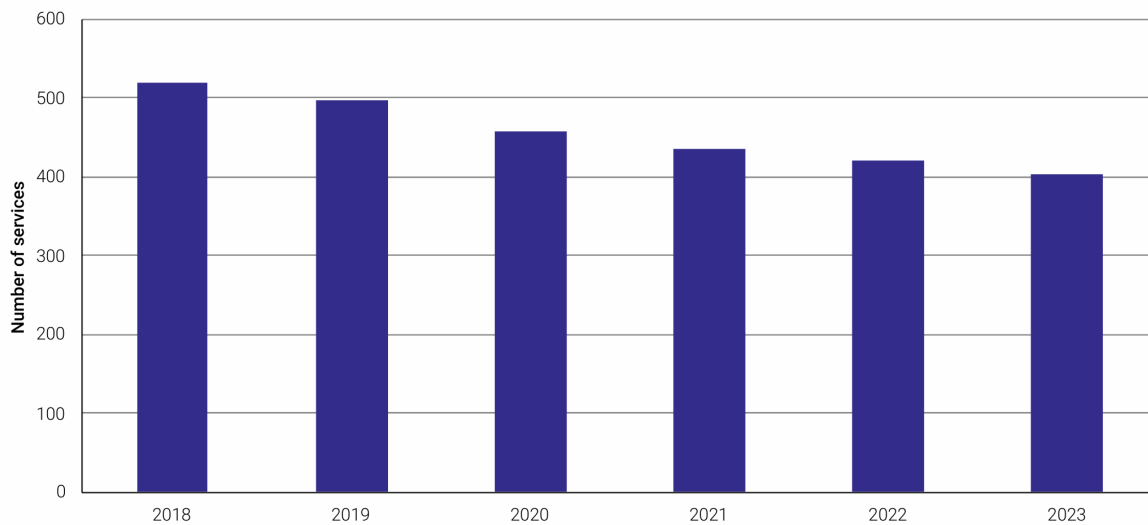
Set up costs are high, and even higher in rural and remote areas, and form a barrier to entry to new family day care educators. Other barriers to entry include securing appropriate housing and the need for local government approvals.

The evidence

The evidence showing the crisis in the viability of the sector is indisputable.

The ACCC found that the numbers of family day care services have reduced significantly across Australia since 2018. Figure 1 shows the decline over the period 2018 to 2023.

Figure 1: Number of family day care services by calendar year, 2018 to 2023



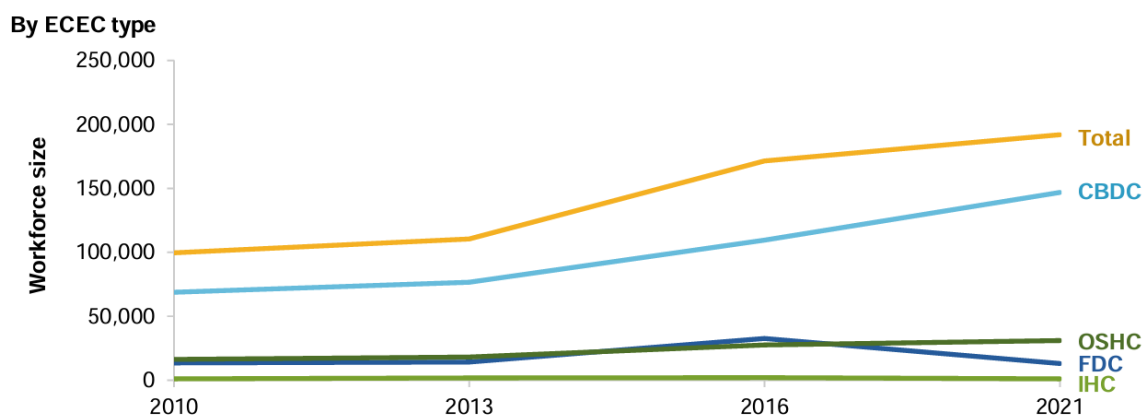
Source: [December 2023 final report | ACCC](#), page 182

This decline has been evident since 2016 when numbers in Australia reached a high of 1,100⁷ and then declined significantly to 518 services in 2018 and further to 423 services Australia wide in 2024 – a decline of almost 62 per cent.

Across the same period, there were 145 family day care services operating in Queensland in 2016 which fell to 116 services in 2018 and to 102 services in 2024 – a decline of around 30 per cent.

The reduction in the number of family day care services has been accompanied by a decline in educator numbers. While the size of the total ECEC workforce has been increasing, the family day care workforce has been in decline since 2016, as illustrated by Figure 2.

Figure 2: Size of ECEC workforce by service type and jurisdiction, 2010–2021



Source: [Volume 2: Supporting papers - A path to universal early childhood education and care \(pc.gov.au\)](#), page 124

This decline has continued in recent years with FDCA observing that family day care educator numbers fell from 10,878 in June 2021 to 9,618 in June 2022.

⁷ [Volume 2: Supporting papers - A path to universal early childhood education and care \(pc.gov.au\)](#), page 287

The ACCC found that the ability to attract and retain staff is a key determinant of perceived quality, which affects the profitability and viability of a service.

The ACCC found that there is little financial incentive for family day care educators to enter or remain in the sector, because effective wages are below comparable award rates for other forms of childcare.

The ACCC also found that the level of funding under the hourly rate cap for family day care is unlikely to be sufficient to adequately cover costs and recompense educators.

As outlined by FDCA⁸, the Department of Education's data shows that since the commencement of the Child Care Package there has been a 26.2 per cent decrease in the number of approved services and a 38.1 per cent decrease in the number of educators. The Child Care Package included a revised cap rate for services which saw the rates for family day care increase by 5.75 per cent while the rates for other service types increased by 17 per cent.

There is no definitive answer that explains the decline. There are several structural changes that go part way to explain it, including:

- the impact of past regulatory action taken against unscrupulous family day care services
- family day care services exiting the sector due to the perceived high-risk nature of the sector and increased regulatory compliance requirements
- State Governments, for example NSW, Victoria and Queensland, moving into the provision of pre-school education for children aged between three to six years of age reducing the demand for family day care services which are not able to offer this program currently.

While these structural factors are likely to explain some of the decline, many other services and educators are likely to have exited the family day care sector due to the unsustainably low level of financial return, increasing operational costs exacerbated by a growing administrative burden that is difficult for small business operators to manage.

Research, including a survey of its members, by FDCA⁹ showed the impact of this disparity on the earnings of educators, with family day care educators working longer hours for less money, as shown in Table 1. The National Workforce Census in 2021 showed that 39.5 per cent of family day care educators working in Queensland were working longer than 41 hours per week compared to 1.5 per cent of educators in LDC and 1.1 per cent of educators in OSHC services.

Table 1: Earnings comparison of centre-based care employees and FDC educators

Hours worked / Income	Centre-based Care Employee	FDC Educator
Average hours (2022-23 Financial Year)	40 hours per week	44.1 hours per week
Net income per annum	\$51,981.4	\$49,167.65
Net income per week	\$999.64	\$945.53
Net income per hour	\$24.99	\$21.44

Source: [FDCA Pre-Budget Submission Jan2024 \(familydaycare.com.au\)](https://www.familydaycare.com.au)

⁸ [FDCA Pre-Budget Submission Jan2024 \(familydaycare.com.au\)](https://www.familydaycare.com.au), page 6

⁹ Based on a survey conducted in October 2022 with 451 qualified responses – outliers removed.

The low returns for FDC educators were also confirmed by the ACCC which noted that the family day care educators who provided information to its inquiry reported earning a very low annual wage, despite 50 per cent of educators holding a qualification that is higher than required.¹⁰

A Queensland FDC service provider noted:

“Why should childcare centres be paid more subsidy than family day care? There is no valid reason for it. Why are the guidelines different? It’s inequitable for sure. Equity for families would be to give them an equal choice for where they want to go for ECEC services”

Since then, further wage increases have been made available for centre-based employees:

- a 3.75 per cent increase to award wages started on 1 July 2024 following the 2024-25 annual wage review
- a new worker retention payment designed to support a 10 per cent pay increase on top of the current national award rate in the first year from December 2024
- 15 per cent above the current national award rate in the second year.

These recent wage increases will further exacerbate the family day care earnings differential with centre-based providers being subsidised by government to meet the wage increases.

In addition to low wages, family day care educators face unique barriers to entry in the form of high start-up costs. As small business operators, family day care educators are responsible for the costs associated with ensuring their premises meet the requirements to operate a service.

The ACCC noted that although set up costs for family are much lower compared with centre-based day care, many educators reported incurring significant costs when setting up their family day care business. These costs varied by educator but could include costs for modifications to their home to meet requirements, undertaking required checks such as working with children checks and police checks, obtaining insurance, and purchasing consumables such as toys, educational equipment, safety equipment, first aid supplies, cots and other bedding, change tables, IT equipment and software.

The ACCC also noted that these upfront costs incurred by educators may deter entry to the family day care sector, especially since costs of this nature are not incurred by an educator in other childcare sectors such as centre based day care.¹¹

Workforce - Queensland case study

A service that has been operating for 15 years has retained much of its workforce for at least a decade. *“We have a range of educators, some started while they were young with no children, continuing with us as they had their own children, some stay until they retire. Our coordinators are 50 years of age or older, it’s very hard to recruit experienced people, it’s a very complex role.”*

A lot of people with English as a Second Language work for the service. *“It’s not an issue, it’s all about communication and relationships. We work with every educator to help them understand, it’s a close-knit team.”*

¹⁰ [December 2023 final report | ACCC](#)

¹¹ [December 2023 final report | ACCC](#), page 186

Another service said it was imperative to work out ways of making family day care more attractive to educators. *“It’s tough. There is a grass roots desire to work in family day care, but they need help. We need some funding to support new educators. There used to be a startup grant years ago for about \$2500 to help with fencing and other structural changes and equipment. The funding also helped with first aid certificates, first aid kits, blue cards and some compliance costs.”*

Recommendations – Viability and workforce

Without the continuing operation of a family day care sector, the Government will not be able to expand access to ECEC services and families will lose access to services. There is a pressing need to address the funding disparity faced by the family day care sector, ensure funding is reflective of the true cost of provision and support the growth and development of the workforce.

As identified by FDCA addressing the inadequacy of the funding under the hourly rate cap for family day care is the most urgent priority for the sector.

Recommendation 1.1

The Australian Government should:

- immediately raise the hourly Child Care Subsidy cap rate for family day care (to be at a minimum) in line with the calculation afforded to centre-based care services to arrest the alarming decline in the viability of the family day care sector, and
- establish a mechanism to boost remuneration for family day care educators and approved service staff by an equivalent amount to the “Worker Retention Payment” wage increase for CBDC and OSHC services.

Recommendation 1.2

The Australian Government should review the current Child Care Subsidy cap rate formulae for family day care so that it more accurately reflects the cost of providing family day care and the formulae should be made transparent.

Recommendation 1.3

The Australian Government should commit to reviewing the Child Care Subsidy cap rate every three years and the cap rate should be indexed each year between the reviews so that it retains its real value.

Recommendation 1.4

The Australian Government should establish a cross-agency project to develop a model for traineeships to be undertaken in family day care settings and develop other strategies to grow the sector workforce.

Priority 2 – Affordability and accessibility

Supporting parents’ right to choose the best care for their children and family circumstances means making all options affordable. Affordability is a major factor in giving parents and caregivers the opportunity to choose family day care. Cost should not be a barrier to access.

Given the low level of the funding cap imposed by the CCS, many family day care educators are forced to charge families a gap fee to remain viable. This impact on families especially considering broader cost of living pressures will be putting further strain on family budgets.

Participants in the PC inquiry noted that family day care demand remains strong. For example, the NSW Family Day Care Association submitted that “demand for family day care from families has not contracted” and that their “members report extensive waiting lists”.

Similarly in Queensland the demand for family day care is strong with services advising that there are extensive waiting lists across the State.

For many working parents, access to ECEC is a prerequisite for undertaking paid work. For parents who work irregular hours or who live in regional and remote locations, family day care can be the only service available to them.

Many families using family day care have lower incomes and family day care educators tend to charge those earning under \$150,000 lower fees.

If the Australian Government is to reach its objective of moving towards universal access to ECEC, an expansion of family day care services will be essential, especially in markets characterised by the ACCC as under-served.

The evidence

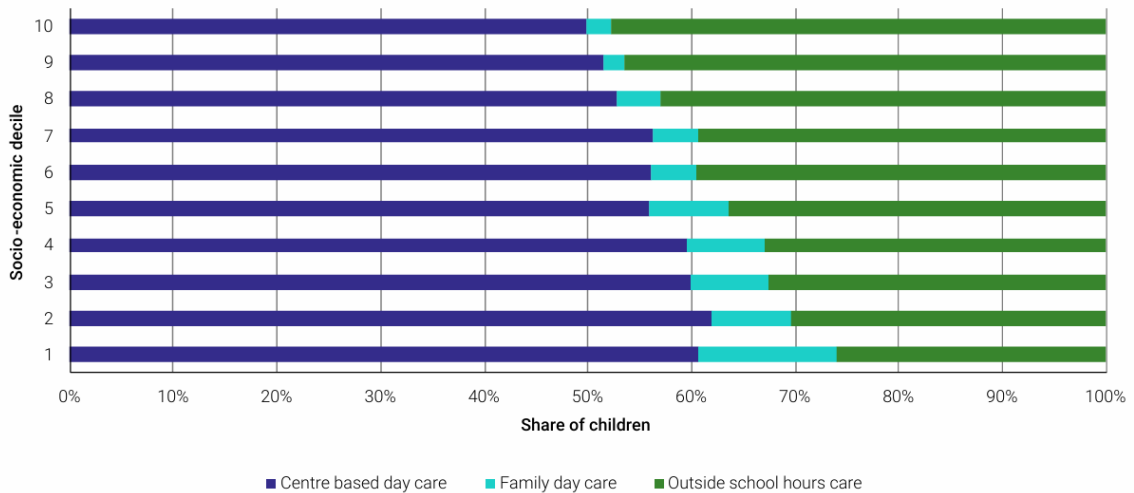
The evidence is clear that FDC services are a major driver in improving the accessibility of low-income families and families in regional and remote locations to ECEC. The level of accessibility has been impacted by the withdrawal of services due to viability issues associated with the low funding cap. To remain viable, services have increased their fees in line with the indexation arrangements and several educators are forced to charge gap fees.

The ACCC estimated around 60 per cent of households using family day care services had incomes below \$150,000 in the September quarter 2023 and found that family day care services are slightly more concentrated in areas of less advantage, with around 19 per cent of services located in the most disadvantaged areas, compared with around 4 per cent in the most advantaged areas.¹²

Figure 3 shows that the family day care sector provides care for a significant proportion of households in areas of less advantage, with approximately 72% of children who attended family day care services in 2023 located in areas that are ranked in the five deciles of least advantage.

Figure 3: Share of children, by service type and area socio-economic decile, 2023

¹² [December 2023 final report | ACCC](#), page 98

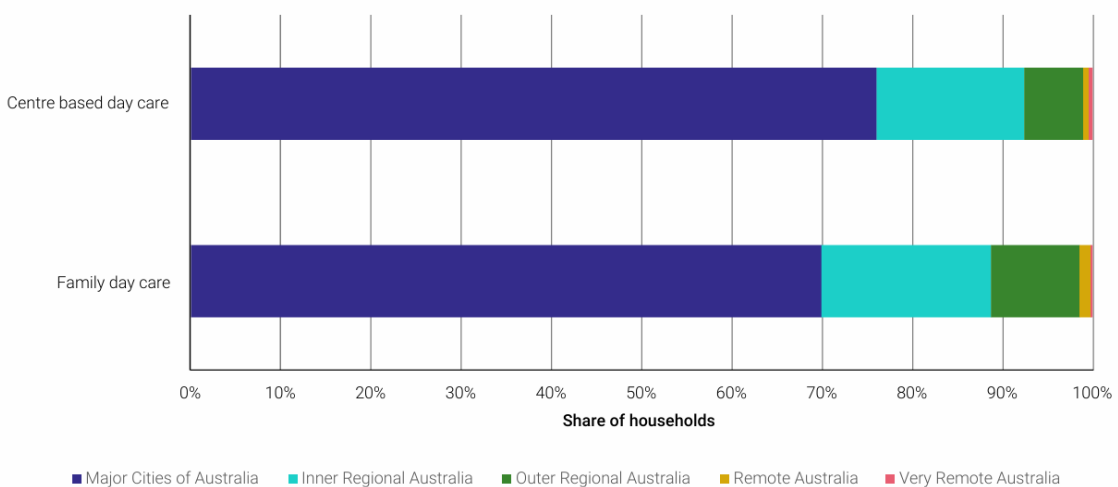


Note: Statistical Area Level 2, Socio-Economic Indexes For Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: [December 2023 final report | ACCC](#), page 185

Family day care is also used by a higher proportion of households in remote and regional Australia. Figure 4 shows that a higher percentage of households who use family day care services are in regional and remote Australia, compared to households who use centre-based day care services.

Figure 4: Share of households by service type and remoteness, 2022



Source: [December 2023 final report | ACCC](#), page 185

The sector, however, is clearly under pressure. For family day care, the average daily fee per child was \$95.45 in the September quarter 2023. This is an increase of 7.9 per cent from the September quarter 2022 and is the largest fee increase for family day care, year-on-year, since the CCS was introduced in 2018. This increase is in line with the indexation of the hourly rate cap implemented from July 2023 which was 7.8 per cent for 2023–24.

The ACCC found that for family day care, there is a high share of services charging above the hourly rate cap, which likely reflects the costs of providing these services exceeds the hourly rate cap.

Despite the 2023 indexation of the hourly rate cap, in March 2024, 44 per cent of family day care educators were charging above the fee gap (compared to 27.7 per cent of LDCs and 12.8 per cent of OSHC providers)¹³. This likely reflects that the costs of providing family day care more often exceeds the hourly rate cap.

Both the ACCC and the PC have recognised the important role that family day care plays in solving the challenges posed by ‘thin markets’ where the low demand for ECEC services can make establishing LDCs untenable.

Recommendations – affordability and accessibility

The flexibility of FDC services in offering shorter sessions makes it affordable for families and efficient for taxpayers; and sessions outside of normal hours makes it highly responsive to the realities of working lives. Expanding access by growing educator numbers will be essential if governments are to address the economic challenges of thin markets.

FDCQ strongly supports the FDCA call to provide supply side support through start-up grants to help family day care educators defray the initial start-up costs would help overcome barriers to entry. Trialling innovative approaches to incentivising provision of family day care in thin markets is likely to prove a cost-effective method to overcoming the challenges these communities face.

Recommendation 2.1

The Australian Government should introduce a direct funding support program (an “Educator Start-up Grant”) for new family day care educators to assist in overcoming some of the financial barriers to entry into the sector in establishing their micro-business.

Recommendation 2.2

The Australian Government should work with the family day care sector to trial projects to incentivise family day care service growth in unserved and under-served markets, including through targeted supply-side funding.

Priority 3 – Choice and inclusion

Many parents and caregivers choose the type of care offered by family day care for their children preferring its homebased setting and the smaller numbers of children in attendance. It provides an opportunity for a more personalised learning program and the development of strong connections with children and families.

These attributes are particularly important for families who want their children to attend culturally appropriate ECEC services to maintain their cultural and/or language connections. family day care is an important alternative for culturally and linguistically diverse households, but the availability of these services is reducing.

Family day care educators can struggle to offer services to children with a disability or additional needs.

Family day care services play an important role in matching educators with families seeking family day care.

¹³ [March quarter 2024 data tables - Department of Education, Australian Government](#)

The evidence

The ACCC found that for family day care, a preference for this type of care is based on its specific service characteristics – including a home-like environment, small number of children cared for and consistency of a single educator.

The ACCC found that reductions in the number of family day care services have a disproportionate impact on culturally and linguistically diverse households and on households in less advantaged areas.

The family day care workforce is characterised by a high level of cultural and linguistic diversity. Research conducted by FDCA on behalf of the Australian Government Department of Education showed that almost half of family day care educators were born overseas.¹⁴ The top five countries of birth for those born overseas included India, Sri Lanka, UK, Bangladesh and Pakistan.

This research also found that most educators (57.9 per cent) identified English as their primary and sole language spoken. After English and Arabic, the next five most identified languages spoken were: Hindi, Bengali, Sinhala and Punjabi.

Family day care also plays a crucial role in care for children from refugee or special humanitarian program background. The 2021 ECEC National Workforce Census revealed that around half of the total number of children attending ECEC services during the reference week from (or had parents/guardians from) a refugee or special humanitarian program background (4,590 children), attended family day care services. This compared to 3,343 in centre-based day care services, a sector over 10 times the size of FDC.¹⁵

Choice and cultural inclusion - Queensland case study

Parents with a Korean background are seeking out one metropolitan family day care service which has around 20 educators with a Korean cultural background.

“We have a lot of Korean educators and employed a Korean coordinator to work with those educators from a cultural point of view, so identity and inclusion is great. Our heart is to build relationships,” the service co-owner said.

The coordinator said the educators want cultural support to help them and parents bridge any gaps in understanding. *“Educators go above and beyond to teach these children the culture of their parents in addition to Australian culture. It’s very important to the parents to keep their culture. In Australia, one in five are born overseas so there are lots of people from different backgrounds. If they don’t understand the Australian system, I’m there to help them understand and to keep the language and skills of their culture. This way the children can understand their parent’s culture as well.”*

“It is time consuming for dual culture educators. A few do weekend care as a lot of families work and some send their children to family day care to a play-based Korean culture class they run on a Saturday. The family works on a Saturday, and they see that class as maintaining culture as well. The children bow and say hello politely in Korean. They learn English and Korean. The educators try to embed this in their routine, singing songs and books in both languages.”

¹⁴ [FDCA submission to the Jobs and Skills Australia ECEC Capacity Study FINAL.pdf \(familydaycare.com.au\)](#)

¹⁵ [FDCA submission to ACCC interim Report FINAL.pdf \(familydaycare.com.au\)](#)

In Queensland, First Nations children represent around 5 per cent of the children attending family day care services.

While some family day care educators regularly include children with additional needs, regardless of their ability to access formal support, others find it challenging to adequately cater to these children for a range of reasons including lack of places, lack of skills and experience and concern about the impact on the other children attending the service.

Family day care educators operate independently, which presents a hurdle to inclusion. Integrating a child with additional needs often demands extra skills, training, and strategies, posing challenges for educators, regardless of a service's dedication to inclusivity.

Research by UNSW Social Policy Research Centre found that the Inclusion Support Program is not being accessed by family day care educators who are working with children with additional needs. Services report that they have stopped applying for inclusion support funding to change staff to child ratios because their applications have never been successful.

They feel that it is not possible to successfully demonstrate a need for Inclusion Support Program funding under current criteria. This is despite family day care being a service of preference for some children with disability whose families feel the consistency of a single educator and a small group is better suited to their children.¹⁶

Recommendations – Choice and inclusion

Family day care is the first choice of many families for many reasons, even where they can access other forms of ECEC.

Improving the sector's ability to educate and care for children with additional needs would help provide these services for families, especially for those that feel other forms of care and education do not suit their child's needs.

Recommendation 3.1

The Australian Government should ensure that family day care services and educators are able to access the Inclusion Support Program and Inclusion Support Fund.

Priority 4 – Flexibility and innovation

Family day care offers flexible and non-standard hours of ECEC to families who need it. Family day care offers shorter sessions making it more affordable for parents who don't have to pay for hours that they don't use and more efficient for taxpayers who are not subsidising unused hours.

Family day care educators are also more likely to allow parents to swap their days of attendance at short notice and collect their children later than scheduled without financial penalties. Some family day care educators will also transport children as part of their service, for example, pick up and/or drop off from school or other venues.

Family day care educators are also more likely to offer services outside of normal hours, including overnight and on the weekend. This flexibility is crucial for many working families

¹⁶ Blaxland, M., Skattebol, J., Adamson, E., Jones, A., Katz, I., Cortis, N., Newton, B. (2023) *Submission to the Productivity Commission Inquiry into Early Childhood Education and Care*, Sydney: Social Policy Research Centre, UNSW Australia.

with irregular hours, including doctors, nurses, teachers, police and emergency workers, mining and transport workers and hospitality workers. In many smaller towns, the ability of essential workers to access this type of flexible care can be vital in retaining critical services.

FDCQ welcomes the recommendation by the PC that the CCS hourly cap rates for non-standard hours of care should be reviewed.

Flexibility and inclusion - Queensland case study

One South East Queensland educator cared for three foster children at the same time, all of whom had special needs. A six-month-old, a toddler, and a school-age child all had developmental needs. The service that supports the educator a lot of intervention was needed from the educator. *“She did a great deal of professional development work. She had to learn about what their problems were to help the families. There was a lot of pressure put on her and there was a lot of work settling the children.”* The service contacted an inclusion support officer to assist. *“Speech therapists would come to the house and the educator worked with them as well. The educator did an amazing job.”*

The service operator said there are many instances of educators going ‘over and above’ because they have a caring nature, and the small number of children in a home environment is fantastic for children with special needs. *“An educator looking after children in care under the Kinship program would sometimes be faced with the children arriving without appropriate clothing. There were a lot of problems that the educator worked through with that family for years. Those children are now at school, and they come back in school holidays to be with the educator. She worked with the family as well and built a strong bond.”*

Family day care also plays a crucial role in providing care for vulnerable children at risk by making care available for children in emergency situations, for example in circumstances of domestic violence or situations where children require foster care.

Flexibility - Queensland case study

A single mum who works in the mines was in desperate need of five days childcare for her two-year-old daughter to keep her job. All she could access was weekends and she drives up to an hour to the one educator who could help. That educator has four children of her own including a pre-schooler. She takes the mine worker’s child from 4am to 4pm each Saturday and Sunday and must send her own two-year-old son away to meet the four children cap. *“We cannot claim CCS for him, and he cannot attend another family day care unless I pay full fees, I couldn’t afford it. Out here there is no centre, it is not suitable for parents at all.”*

The educator relies on a kind neighbour to look after her youngest child so she can help the single mum in her community and an on-call vet who often needs after hours and extra days.

“If I have my kids away, I do school pickup for other mums and I swap over children to keep to the ratio. A bit more flexibility with the school aged children would really help. They go straight into the house area after school to do homework not the family day care area. It would help with school pickup and school holidays. My kids have to go to their nana (who lives far away) in school holidays to make it work. If I didn’t do family day care myself, we would have no ECEC for my child as the other educators are all full. My parents and my husband’s parents work, and they don’t live near us, there is no support.”

Flexibility extends beyond operational hours to a whole approach to early learning with educators using their own space and the local community. Family day care also embraces

innovation, recognising the diversity of circumstances and needs among children and families.¹⁷

FDCQ supports innovative approaches to the provision of family day care services, including the provision of family day care in venues outside of the educator's home. The use of other facilities by family day care educators and allowing more than one family day care educator to operate from the same facility would be a welcome innovation.

FDCQ welcomes the recommendation made by the PC that *"the National Quality Framework should be amended to allow two educators to provide education and care to up to 14 children at any one time at an approved family day care venue. No more than eight children can be preschool age or under."*

Innovation - Queensland case study

A metropolitan service owner passionate about family day care invested in innovative technology to support her own business and now some 90 other services are using the software. She said she just wanted to help ease the compliance burden. *"The administrative workload is ridiculous. It's also very complex, our software helps them out. It makes notes of phone calls; all communication can be put through it too. It's adaptable to how each team wants to use it and can be modified to their practice."*

The software assists with all the administrative tasks that relate to compliance obligations. *"I visit a lot of services to talk to them about the software and how to use it better. My husband was in e-commerce and he and I codeveloped it. It's been 10 years in the making."* Further software to help educators with their calendars, reminders, daily safety checks and documentation all in the one spot is also in development. *"Educators are using it now, it's paperless and powerful."* A documentation app is also on the way which will connect everything together; the compliance software, educators support software, and a plug-in is coming for CCS. *"I believe in family day care and I want it to be around a lot longer."*

The evidence

Research conducted as part of the CCS evaluation¹⁸ found:

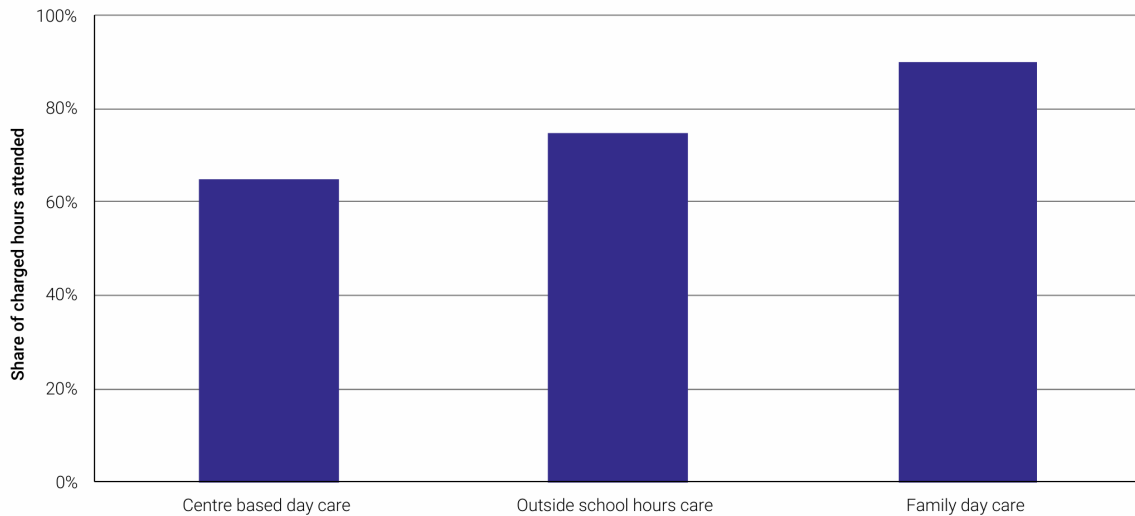
- 84.7 per cent of family day care services offer shorter sessions (up to 6 hours) compared to only 17.2 per cent of long day care services.
- 94 per cent of family day care services also offer longer sessions (7-12 hours).
- 65.3 per cent allow for the swapping of days/sessions or sessions to be added or changed at short notice, compared to 51 per cent and 50.2 per cent of long day care services respectively.

Figure 5 shows the share of charged hours that were attended by children, by care type, in the September quarter 2023. Family day care had a significantly higher number of charged hours attended by children compared to centre based day care and outside school hours care demonstrating the benefit of its flexibility in terms of responsiveness to need, affordability for parents and efficiency for taxpayers.

¹⁷ Blaxland, M., Adamson, E., & Cortis, N. (2016). *Perspectives on quality in Australian family day care* (SPRC Report 01/16). Sydney: Social Policy Research Centre, UNSW Australia.

¹⁸ Baxter, J., Budinski, M., Carroll, M., Hand, K., Rogers, C., Smart, J., Bray, J.R., Gray, M., Blaxland, M., Katz, I., & Skattebol J. (2019) *Child Care Package Evaluation: Early monitoring report*. (Research Report). Melbourne: Australian Institute of Family Studies.

Figure 5: Share of charged hours that were attended, by care type, September quarter 2023



Source: [December 2023 final report | ACCC](#), page 181

The PC found that across a year, children only attend about 60 per cent of the hours for which their families are charged. This inflexibility can lead to families being charged for unsubsidised hours. It may also create ‘air pockets’ in the system. Over 10 per cent of children who attended LDCs and OSHC in 2021-22 did so for an average of less than six hours a day in at least half of the weeks they attended. This suggests there is unused capacity in the system that may be able to be used by other families.

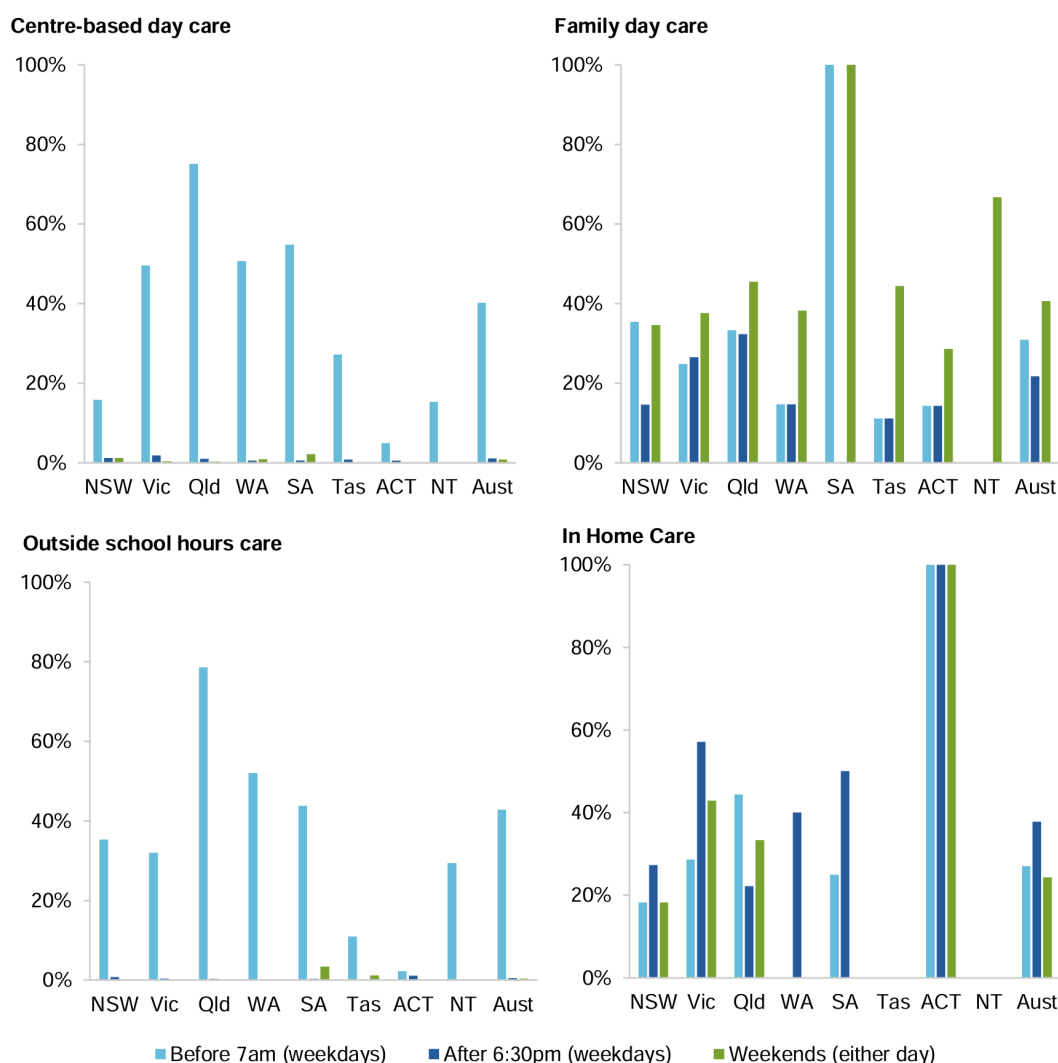
Family day care offers considerably higher levels of non-standard hours care, compared to LDCs:

- 88.2 per cent of family day care services offer sessions of care on weekdays before 7am or after 6pm, compared with 45.7 per cent of long day care services
- 85.5 per cent of family day care services offer care on weekends, compared with only 0.5 per cent of long day care services
- 47.5 per cent of family day care services offer overnight care, while no long day care centre offers this service.¹⁹

Figure 6 shows the proportion of CCS approved services available during non-standard hours, by service type in the March quarter of 2022. It demonstrates the important role played by family day care and in home care in providing education and care outside standard hours.

¹⁹ Baxter, J., Budinski, M., Carroll, M., Hand, K., Rogers, C., Smart, J., Bray, J.R., Gray, M., Blaxland, M., Katz, I., & Skattebol J. (2019) *Child Care Package Evaluation: Early monitoring report*. (Research Report). Melbourne: Australian Institute of Family Studies.

Figure 6: Non-standard hours service offerings vary by service type



a. The opening hours of some services were unknown for the March 2022 quarter. Proportions are calculated as a percentage of the total services where opening hours were known.

Source: [Full draft report - A path to universal early childhood education and care \(pc.gov.au\)](https://www.pc.gov.au/research/indicators/early-childhood-education-and-care), page 437

The ACCC Final Report noted:

“In the family day care educator survey, one educator observed that evening, overnight and weekend care could be provided much more often by family day care educators if the Child Care Subsidy cap was higher, noting it is very hard to justify giving up your “free time” for one or 2 children at \$12 per hour each.”

Recommendations – Flexibility and innovation

While the family day care sector does offer greater access to non-standard hours of care, this would be expanded if the cost to family day care educators was better acknowledged, and the CCS cap made provision for the additional costs. FDCQ strongly supports the FDCA call for additional funding for provision of nonstandard hours of care.

The flexibility and innovation that characterise the family day care sector make it uniquely positioned to help the Australian Government meet its objective of universal access, especially

in thin markets. It is time for governments to allow innovation to flourish and support the trials of different approaches to the delivery of family day care.

Recommendation 4.1

The Australian Government should apply an additional loading of 20 per cent to the recalculated Child Care Subsidy fee cap for nonstandard hours care to adequately reflect the cost of this type of care.

Recommendation 4.2

The Australian Government should work with the family day care sector to pilot a program of two-family day care services to be run in a single venue.

Priority 5 – Quality and equity

Quality has greatly improved across the sector with the proportion of children’s education and care services rated Meeting National Quality Standards or above by state and territory regulatory authorities having increased every year since the National Quality Framework was introduced.

Previously, significant quality concerns had emerged when the CCS was introduced. Governments have increased the scrutiny and assessment of approval applications to prevent potentially unscrupulous providers entering the sector. Such measures were important given the need to ensure the safety of children, protect taxpayer funding and the reputation of the many high quality family day care service providers.

The stance of funding and regulatory agencies is yet to take account of the improved quality of the sector, and this is impacting on the viability of the remaining providers and, ironically, jeopardising the ability of services and educators delivering high quality education and care.

Quality – Queensland case study

A service with some 80 educators across South-East Queensland and the South Burnett region has an ACEQA rating of Exceeding, of which they are very proud. The manager says they have a reputation for being strict, and she doesn’t shy away from having high standards. *“We abide by the legislation and are very proactive and ensure that our educators are well versed, they have to be, these are other people’s children. We make no excuses for that and do not want to compromise.”*

She has a message for those that think being a family day care educator is easy. *“I’m very honest. I tell them you have to operate your own business and work with a service as an approved provider and with the government. We are here to help but it’s their business. If we identified something non-compliant and they don’t work with us to rectify it, then they are gone. One educator can let the whole service down and that impacts everyone.”*

Government agencies need to engage in more meaningful consultation with the family day care sector and providers to better understand the practical implications of their decisions. Family day care services are lean organisations supporting small business operators. This is a vastly different model of provision to centre-based care where educators are employees of medium to large organisations.

Too often the concerns of the family day care sector are not heard or understood and important opportunities to communicate and support the sector are not felt on the ground. FDCQ views

the reform process as a way to reset this relationship and is recommending the establishment of an advisory group dedicated to the family day care and in home care sectors. This would ensure that formulating the changes to the early childhood education and care system involve and empower the sector to take an equal seat at the table to foster the development of high quality, innovative, flexible, responsive and affordable services for the equal benefit of all children and their families.

Family day care services rely on fees from educators to resource their monitoring operations and support services. As the returns to educators are squeezed, they are likely to look for family day care services with lower fees that are likely to exercise less quality oversight and provide less support.

Equity - Queensland case study

Viability is a serious issue for a Far North Queensland service which is unable to recruit educators in four areas that it used to cover. *“The Co-ordination Unit charges a very modest access fee for educators to use the service. We are losing money every month, that’s unsustainable. We will have to put the fee up. We generate fees by the number of children in care. More educators are needed but we are unable to recruit. The mandate for the need to be qualified has put a real halt on recruitment. Before that we got the stay-at-home mums doing a Certificate III while working.”*

The service owner said office staff dropped a day each to reduce expenditure. *“We lost 10 educators after COVID, they didn’t come back. Centre-based ECEC can afford to offer more to an educator than us even though they are not local. They are doing all their risk assessments, excursions and administration for them, although how tight that process is I don’t know. It’s very competitive. Problems occur when services are not located where the educators are and don’t visit as much.”*

The level of information included in StartingBlocks.gov.au about family day care only relates to services and not educators which limits the information available to families.

The ACCC found that publishing family day care educator locations and fees on StartingBlocks.gov.au may enhance visibility of the family day care sector and assist households in identifying all childcare options available in their local area.

It is not clear that the regulatory framework for family day care is adhering to the Australian Government’s *Regulatory Policy, Practice & Performance Framework*. A key principle of this framework is that better regulation results from genuine consultation, including co-design of solutions where appropriate and that initiatives should be tested with regulated entities, stakeholders, and diverse groups to ensure regulation and its delivery is user-centred prior to implementation.

Improved approaches to co-design and working with FDCQ to develop educative resources in response to compliance trends and concerns would help FDCQ to work with the sector to inform, uplift and train. As a lean non-profit organisation, it can be difficult for FDCQ to find the resources to take on policy and program development initiatives but unless this is done, services and educators miss out on important opportunities.

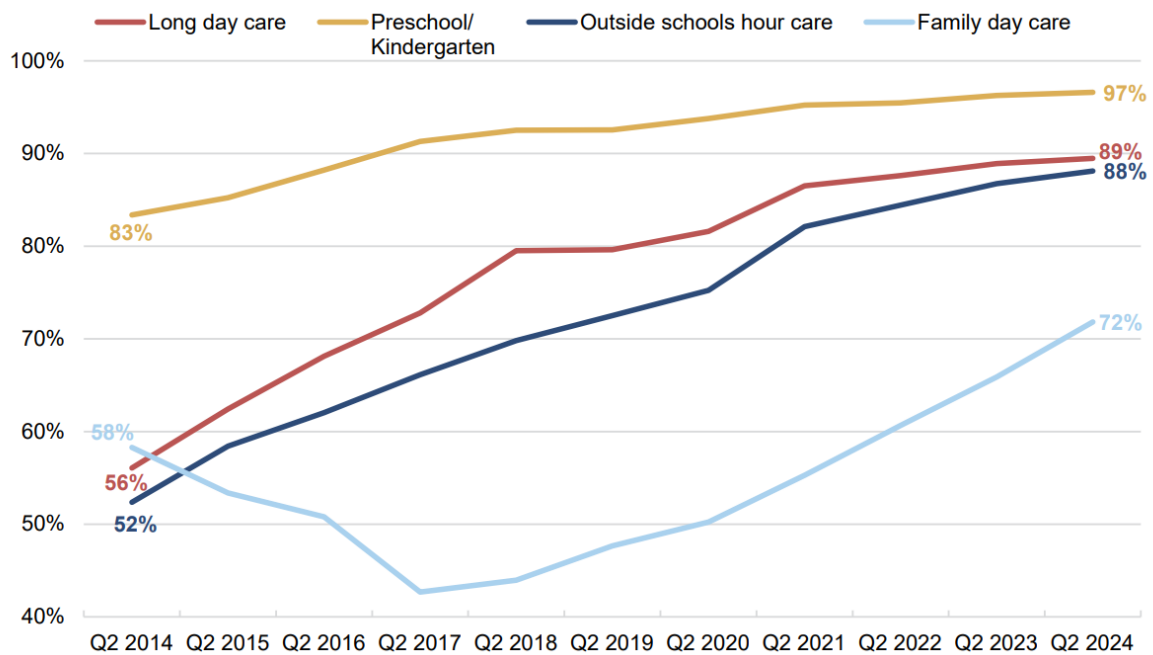
The regulatory, funding and policy settings applying to family day care do not reflect the quality of the current providers and treat the sector, services and educators inequitably. This appears to be due to both a lingering suspicion of the sector and a lack of understanding of how family day care and the small business sector operates. There is an urgent need to shift this outdated

thinking and invite the family day care sector representatives to participate in a co-design process that relies on a credible evidence base that is transparent.

The evidence

Quality in the family day care sector has been steadily improving as shown in Figure 7 below. The percentage of family day care services Meeting or above the NQF further increased from 72 per cent in June 2024 to 77 per cent in December 2024.

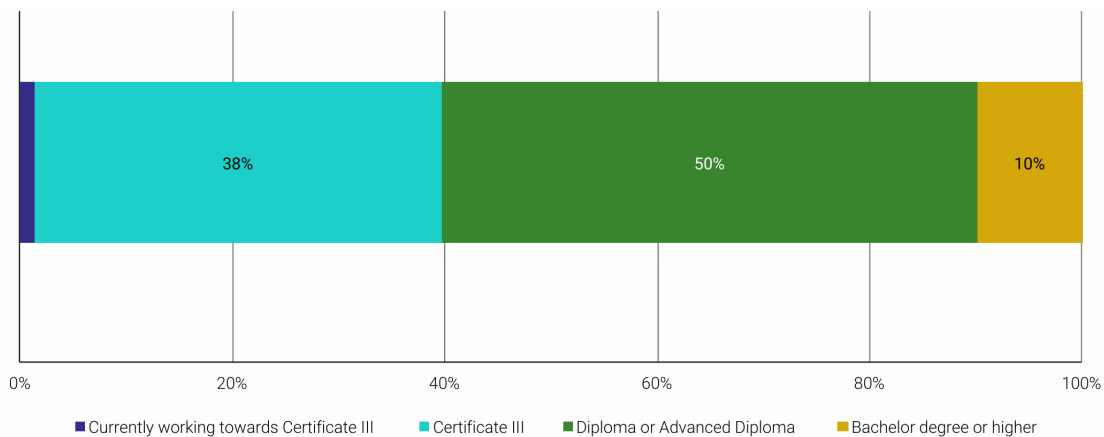
Figure 7: Proportion of services rated 'Meeting NQS or above' by service type



Source: [2024-NQF-Annual-Performance-Report.pdf](#), page 11

A strong contributing factor to the quality of the sector is the skill level of the family day care educators. The ACCC found that, in 2022, 50 per cent of family day care educators held a Diploma or Advanced Diploma qualification, even though the National Regulations only require Certificate III qualification. One in 10 family day care educators holds a Bachelor degree or higher. Figure 8 shows the qualifications held by family day care educators.

Figure 8: Share of family day care educators by qualification, 2022



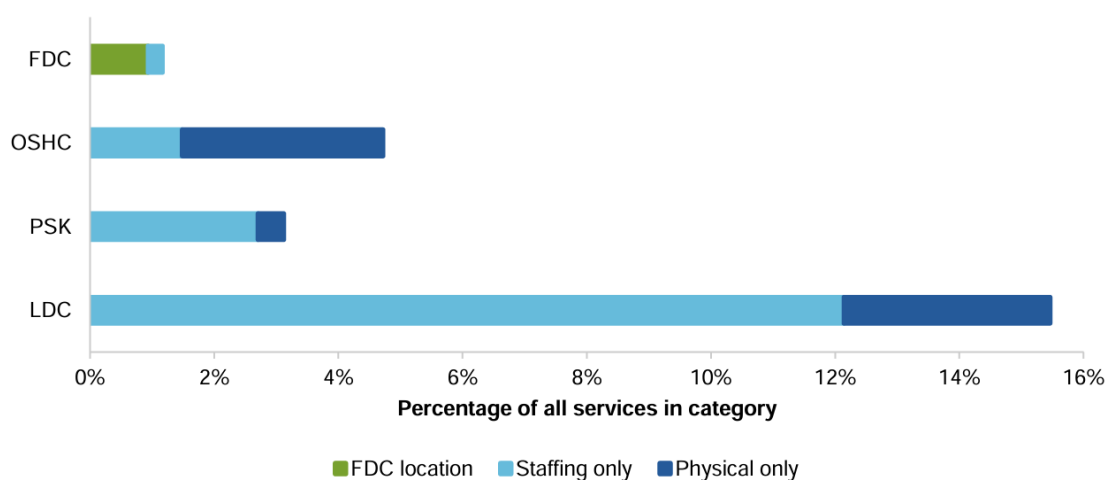
Source: [December 2023 final report | ACCCfile:///C:/Users/thesh/Dropbox \(Personal\)/Family Day Care Qld/Shangriff sourced material/ACCC Childcare Inquiry-final report December 2023.pdf](#), page 188

Research commissioned by FDCA found that the professionalisation of the workforce is increasingly attracting educators from other early childhood education and care settings. Many of these educators expressed concern about the quality of care they were able to provide in centre-based environments, due to the large number of children in long day care centres, high child to staff ratios and rigid routines.²⁰

This remarkable improvement in quality is yet to be acknowledged by Australian Government agencies with the Department of Education still expressing concern about the quality of the sector in its submission to the PC.

In terms of regulatory risk, the Australian Government should consider the risk to the quality of ECEC services indicated by the number of waivers sought by providers. Figure 9 shows that LDCs are much more likely to be granted waivers from the regulatory requirements.

Figure 9: Waiver types as a percentage of services in category, April 2024



- a. PSK = preschool/kindergarten; OSHC = outside school hours care; LDC = long day care; FDC = family day care.
- b. Calculated as the share of all services with any waivers of a particular type. The total number of services is based on data from the March quarter of 2024. At that time, one service had both a staffing and physical waiver in force, and was excluded.

Source: [Volume 3: Appendices - A path to universal early childhood education and care \(pc.gov.au\)](#), page 57

Accessibility - Queensland case Study

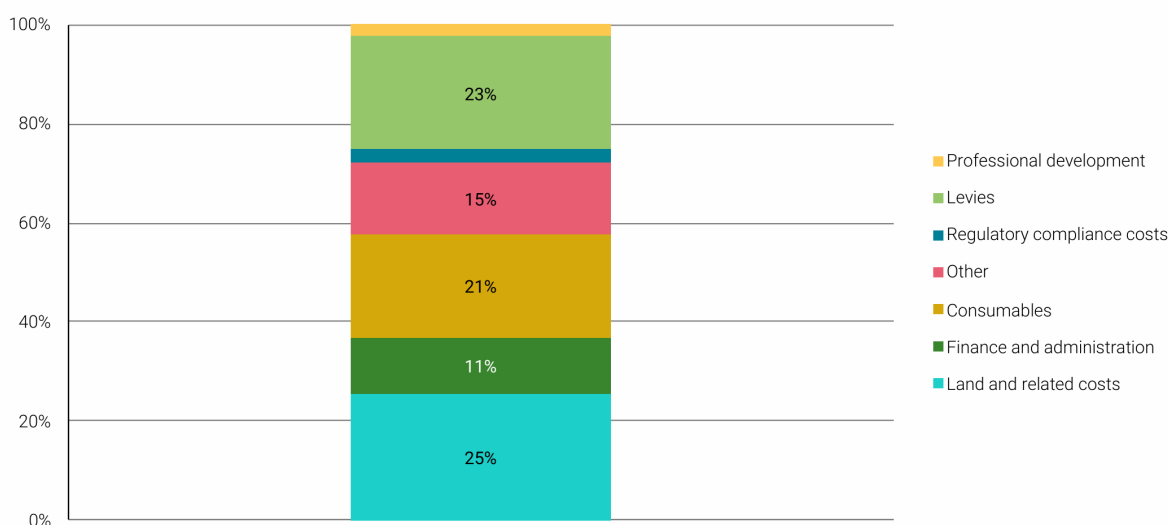
A rural town in the North Burnett region recently lost a doctor due to the lack of childcare. There is no childcare centre and the four family day care educators in the town are constantly full and have huge waiting lists. One educator said everyone was stretched but eager to help.

“We all tried to get waivers, but we couldn’t get them in time. We were told there was a three month wait which was too late. The doctor left because she couldn’t get childcare.”

The difficulty in recruiting family day care educators affects the viability of family day care services putting pressure on levy rates and service viability. The levies that FDC educators pay to services makes up almost a quarter of their costs as illustrated in Figure 10.

²⁰ [*FDCA_EducatorResearchReportUpdate_online_\(2\).pdf](#), page 6

Figure 10: Share of costs for family day care educators, by cost category, 2022



Source: [ACCC Childcare Inquiry-final report December 2023.pdf](#), page 189

The pressure to reduce levy rates to attract educators can have contrary outcomes for quality and compliance. The effect was described by FDCA in its submission to the ACCC inquiry.

In context, declining educator numbers do place viability pressure on services given the levy-based revenue structure, hence the need for consideration of additional supports, like operational funding, in recognition of the critical role of services as “co-regulator” and in underpinning quality and viability in family day care.²¹

Table 2 sets out the main areas where the FDC sector is subject to differing treatment.

Table 2: ECEC settings applying to sectors (July 2024)

Service sector	CC Subsidy Rate - Hourly		Minimum Qualification	Care for own children
	Below school age	School-aged children		
Long Day Care	\$14.29	\$12.51	Certificate III – must hold or be working towards	Own children can be enrolled at same LDC and educator can claim CCS
Outside School Hours Care	\$14.29	\$12.51	Certificate III – must hold or be working towards	Own children can be enrolled, and educator can claim CCS
Family Day Care	\$13.24	\$13.24	Certificate III – must hold Cannot be working towards (may apply for waiver)	FDC educators can care for their own children and children of close relatives, but they are included in the cap and CCS is not able to be claimed

²¹ FDCA submission to the ACCC Childcare Inquiry, page 8

Too often the family day care sector appears to be an after-thought in the policy development process with reforms only considered through the prism of centre-based care settings. There are two recent examples of new initiatives that are causing concern to family day care services and educators.

Firstly, the Government announced that recent wage increases for centre-based educators will be subsidised for those workers but there is yet to be any information on whether additional support will flow through to family day care educators.

Secondly, new integrity measures will mean that from 1 July 2025, family day care services must collect gap fees directly from families. This means that family day care educators will no longer collect the gap fee themselves. Many services are concerned about how this will have the contractor relationship viewed by the Australian Tax Office but even more starkly is the impact to services who are likely to carry the risk of family debts with auditors with ECEC clients indicating services should plan for approximately 5% default rates.

Recommendations – Quality and equity

FDCQ seeks to build a constructive approach to ensuring the quality of the family day care sector that operates from a strengths-based approach and recognises the significant improvement in the quality of the sector.

FDCQ is strongly of the view that it timely to review how the sector is regulated to ensure quality is promoted, equity between service types is achieved and innovation can flourish. The unique circumstances of family day care educators as small business operators must be recognised if the sector is to grow and remain viable.

Recommendation 5.1

The Australian Government should immediately establish the Home Based Care Advisory Group comprising peak associations and providers of family day care and in home care services to support genuine engagement, improved communication and facilitate the co-design of future reforms.

Recommendation 5.2

The Australian Government, in conjunction with state and territory regulatory agencies, should review the regulatory settings to ensure they comply with its Regulatory Policy, Practice & Performance Framework²², with particular attention to the following principles.

- Regulation must be targeted, risk-based and proportionate.
- Regulation should put people and business at the centre through user-centred design and delivery.
- Regulation is most effective when it is data-driven and based on available evidence, and when its effectiveness and impact on business and the community is well understood.
- Regulation should reflect the realities of the digital era and take full advantage of digital and technology capabilities and practices, while also ensuring equitable access to regulatory systems, including for those with low digital connectivity and literacy.

²² [Regulatory Policy, Practice & Performance Framework \(regulatoryreform.gov.au\)](https://www.regulatoryreform.gov.au/), page 7

Recommendation 5.3

The Australian Government should develop a direct funding support program (an “Approved Service Engagement Payment”) for family day care approved services to assist in the recruitment, induction and training of new family day care educators.

Recommendation 5.4

The proposed Early Childhood Education and Care Commission should have a dedicated work stream headed by a Senior Executive focussed on the family day care and in home care sectors with the responsibility to ensure funding, policy and regulatory settings are informed by evidence and an understanding of the family day care, in home care and small business sectors.

Recommendation 5.5

The Australian Government should review StartingBlocks.gov.au to improve the level of information about the availability of family day care educators in local communities and the benefits of family day care services in terms of affordability, flexibility and inclusion.

Recommendation 5.6

The Australian Government should promote the value of Early Childhood Education and Care including the family day care sector to attract new educators and improve the retention of existing educators in the sector by promoting the benefits of working as a small business owner providing high quality services to children.

Recommendation 5.7

The Australian Government should make additional funding available for IT infrastructure to reduce the administrative burden of compliance and support improved training and professional development.

Conclusion

Family day care is a vital part of the ECEC sector. This paper illustrates the strengths of the sector in terms of its affordability, flexibility, quality, accessibility and efficiency.

If the Australian Government is going to move towards universal provision of quality ECEC, family day care will be a critical partner.

Collaboration between the sector and the Government is an opportunity to share learnings for innovative and flexible approaches to meet the reform challenges of addressing service supply, disadvantage, supporting wellbeing and educator recruitment and retention.

The family day care sector is committed to working together with the Australian Government to achieve reform, sustainability and future growth for the benefit of children and their families.

Appendix One: Productivity Commission findings and recommendations

The PC's final report, *A path to universal early childhood education and care*, was released on 18 September 2024. It made the following findings and recommendations across 10 areas of inquiry.

Children's outcomes

Finding 1.1

Most evidence shows children can benefit from attending high-quality ECEC

Most credible evaluations of ECEC programs have shown that ECEC attendance can have benefits for children.

While difficult to quantify, these benefits can be substantial and often extend beyond short-term effects on learning and development in early childhood to a wide array of outcomes, including educational attainment, labour market success and physical and mental health. Benefits seem stronger for children experiencing vulnerability or disadvantage, although they can extend much more broadly. This evidence is more extensive for children aged three and above, and for preschool programs.

The effects of ECEC attendance hinge on the quality of the service and the characteristics of the home environment.

Finding 1.2

There is more to learn about how ECEC programs can best improve children's outcomes

The literature on ECEC presents some lessons about how programs and systems to improve children's outcomes might be designed. But there is much that is not known.

- The benefits from ECEC programs can be greatest for children experiencing vulnerability or disadvantage, while extending more broadly. While intensive, targeted programs will be best for some children, services that are accessible to children from a wide range of backgrounds may be more conducive for the learning and development of each child who attends.
- Children have benefited from programs with a wide range of features, including those with different operating models, starting ages and number of weekly hours attended. Realising the potential of ECEC for childhood development requires a better understanding of how program features affect children's outcomes.
- Factors that contribute to the quality of ECEC services can be difficult to disentangle using available measures of process or structural quality. A better understanding is needed of how children's outcomes will be affected by efforts to improve these measures, including regulated features of services such as staffing requirements.

Recommendation 1.1

New collections for the Longitudinal Study of Australian Children

The Australian Government should provide funding for the Longitudinal Study of Australian Children to establish new cohorts at regular intervals. The data collected should be linked with administrative data to provide a more comprehensive understanding of children's experiences.

Recommendation 1.2

A research agenda for ECEC can address key knowledge gaps and inform policy

The Australian, state and territory governments should support the development and delivery of a research agenda for ECEC.

As a first step, the Australian Education Research Organisation should commence development of the research agenda. It should work collaboratively with researchers, policymakers and the ECEC sector to identify research priorities, support access to data and disseminate research outputs.

Once the ECEC Commission is established (recommendation 10.2), it should take on the coordination and further development of the research agenda.

An inclusive ECEC system for all children

Finding 2.1

Many Australian children attend ECEC services, but children who would benefit most are less likely to attend

ECEC services play a major role in the lives of young children and their families. In August 2023, nearly half of one-year-olds used some form of ECEC and participation rates rose until children reached school ages. About 90% of four-year-olds were enrolled in ECEC and about 15% of children aged 5–12 years used outside school hours care.

However, children experiencing disadvantage and vulnerability— who are likely to benefit most from ECEC services – are less likely to attend than their more advantaged peers.

Finding 2.2

Work-in-progress should clarify services' obligations to include children with disability

The Commission notes the Australian Government's work-in-progress to amend the *Disability Standards for Education 2005* (Cth) to cover the whole ECEC sector. Amendments would further clarify services' obligations under the *Disability Discrimination Act 1992* (Cth), both for the sector and families, and address the misconception that rights vary in different ECEC services.

The Commission also notes planned efforts to help services find and use resources that set out their obligations under the *Disability Discrimination Act 1992* (Cth), and to include more detail on supporting children with disability in the Guide to the National Quality Framework. These initiatives should lift the ECEC sector's understanding of, and compliance with, the obligations established by the *Disability Discrimination Act 1992* (Cth) and contribute to improved inclusion of children with disability.

Finding 2.3

A range of supports can promote the inclusion of children from diverse backgrounds

The National Quality Framework (NQF) sets expectations around inclusion and cultural responsiveness for ECEC services. The updated approved learning frameworks provide a stronger focus on cultural safety and responsiveness, and there is scope for other aspects of the NQF, such as the National Quality Standard, to align with this focus.

While most services aim to deliver inclusive practice, structural barriers, such as educator capacity or funding limitations, restrict implementation of the NQF. Exclusionary practices persist for many children and their families, hindering their full access and participation.

A new approach to inclusion funding could support services in better addressing cultural safety through capacity building and dedicated programs.

Bilingual and bicultural educators have the potential to play a significant role in children's cultural safety and development. Through shared language, cultural understandings and experiences they can build connection and engagement with children and their families. Their presence and contributions to the sourcing of culturally relevant resources and programming can support culturally and linguistically diverse children to feel included and educate other children about diversity.

Finding 2.4

ECEC services should support cultural safety for Aboriginal and Torres Strait Islander children

Mainstream ECEC services need to support cultural safety because of the contribution it can make to the cultural wellbeing, identity, school readiness and ongoing ECEC participation of Aboriginal and Torres Strait Islander children.

Finding 2.5

Uptake of Innovative Solutions Support is not fulfilling its potential to address inclusion needs

The very small number of applications for Innovative Solutions Support strongly suggests that this component of the Inclusion Support Program is not fulfilling its potential to assist services in addressing the inclusion needs of their communities. This is likely due to the characteristics of the current system, including a lack of awareness and the onerous application process.

Finding 2.6

Inclusion support funding is not distributed in line with developmental vulnerability

Results from the Australian Early Development Census (AEDC) show stark differences in the proportions of children with developmental delay by socio-economic status (SES). In 2021, just over 33% of children in the least advantaged quintile were developmentally vulnerable on one or more of the AEDC domains, in comparison with just under 15% of children in the highest SES quintile.

But the proportion of services receiving Inclusion Support Program funding varies little by the socio-economic status of communities. Children who would most benefit from an inclusive ECEC experience are more likely to be missing out on additional support.

A distribution of inclusion support funding more in line with the distribution of developmentally vulnerable children in communities would be expected in an inclusive system.

Finding 2.7

Eligibility requirements for inclusion funding create barriers to access

Services must provide evidence that a child has high ongoing support needs to access the Inclusion Development Fund Subsidy for an Additional Educator or the Family Day Care Top Up. Different professionals can provide this evidence, in a range of forms, including other than a formal diagnosis. But this may not be sufficiently clear to services and families.

The requirement that families provide evidence of high ongoing support needs is also a barrier when a family is unwilling to acknowledge that to be the case, or unable to obtain documentary evidence.

The prioritisation of children with disability diagnoses when demand exceeds the capped allocation risks precluding some children with other additional needs from receiving support and entrenching the Inclusion Support Program as a 'disability-only' program.

Finding 2.8

Subsidy design and rules for additional educators are unduly restrictive

Eligible services can apply for subsidies to hire additional educators to support the inclusion of children with additional needs through the Inclusion Development Fund Subsidy for an Additional Educator or Immediate/Time-Limited support. But there are several shortcomings with these programs that create disincentives for services to enrol children with additional needs.

The subsidy rate has not increased since 2016 and does not cover the costs of employing an additional educator.

Subsidies can only be claimed for a limited number of hours per week (for example, 25 hours for a single child in centre-based day care), irrespective of the number of hours that children who require support attend.

Additional educators must meet National Quality Framework qualification requirements – meaning services cannot employ people with relevant experience and expertise in adjacent sectors, such as allied health.

Finding 2.9

Applying for the Inclusion Support Program is unduly burdensome

Some services experience challenges in applying for the Inclusion Support Program (ISP).

Inclusion Agencies and the Inclusion Development Fund (IDF) Manager can struggle to approve applications for ISP subsidy support within contracted timelines during periods of high demand. Services can experience lengthy wait times for approval of their applications for subsidies for an additional educator and, in the meantime, bear the costs if they have engaged someone to support a child. Delays contribute to the financial disincentives to services to enrol children with additional needs. Increases in the budgets of Inclusion Agencies and the Inclusion Development Fund Manager might be needed.

Expanded access to Immediate/Time-Limited Support irrespective of whether the child's needs are short- or longer-term would reduce the disincentive to services to enrol children with additional needs. Inquiry participants also raised administrative issues with the ISP. Most notably, the administrative requirements of the IDF Subsidy for an Additional Educator (such as the Strategic Inclusion Plan or seeking reapproval with changes to a child's care environment) posed were a barrier for many services.

Navigating the Inclusion Support Portal may be difficult for many services. This may improve with the Portal enhancements that the Australian Government Department of Education and Services Australia are undertaking.

Finding 2.10

An enhanced and expanded needs-based funding approach would more effectively contribute to achieving inclusion

The Inclusion Support Program (ISP) only meets some of the inclusion needs of children and families using ECEC. The ISP primarily provides support to services to meet the needs of individual children, particularly those with diagnosed disability. There is insufficient funding to meet broader inclusion needs of children attending ECEC, including, for example, to support children affected by trauma to participate, ease practical barriers to access and improve cultural safety.

An enhanced and expanded needs-based funding approach would address the needs of both individual children with diagnosed needs and those whose additional needs are evident but not diagnosed. It would support services to reach out to families and to connect with the other services that support them and their children.

An appropriately funded, enhanced and expanded needs-based program would be more likely to contribute to all children being supported to succeed, regardless of their circumstances and abilities.

Recommendation 2.1

Amend the Disability Standards for Education

The Australian Government should amend the *Disability Standards for Education 2005* (Cth) to cover the whole ECEC sector as soon as possible.

Recommendation 2.2

Enhancing the Inclusion Support Program should be an immediate priority

Immediate changes to the Inclusion Support Program (ISP) are needed to ensure children with additional needs are adequately supported in early childhood education and care (ECEC). The Australian Government Department of Education should amend the Inclusion Development Fund Subsidy for an Additional Educator (IDF-AE Subsidy) and Immediate/Time-Limited (I/TL) Support to:

- increase the hourly subsidy rate for an additional educator's wage to the level set for a Children's Services Employee Level 3.3 and index the subsidy rate to that wage classification
- remove limits on the weekly hours the subsidies can be approved for and ensure they align with the child's attended hours
- allow other human-services qualified staff and inclusion professionals, such as allied health or other relevant professionals, to be employed as an additional educator. The Australian Government Department of Education should investigate the role of the Inclusion Development Fund Manager (IDFM) and Inclusion Agencies (IAs) in delays in processing applications for ISP funding during periods of high demand and increase their funding if necessary.

Recommendation 2.2

Enhancing the Inclusion Support Program should be an immediate priority

When a service identifies that a child has high support needs and engages an additional educator (or other inclusion support worker), they should be able to receive I/TL Support while seeking documentary evidence and applying for the IDF-AE Subsidy. This would reduce the costs that services incur while waiting for subsidy approval, helping to reduce the disincentives to enrolling children with high support needs and ensuring those children can be supported when they start attending a service.

If the IDFM is experiencing high levels of demand and struggling to process applications, they could have the discretion to extend I/TL Support while processing a service's application for IDF-AE Subsidy. Where families are unwilling or unable to provide documentary evidence to support an IDF-AE Subsidy application, service staff should be able to exercise their professional judgement and apply for ISP funding. While in receipt of I/TL Support, the service's IA should attend the service and determine whether to endorse the service's application for the IDF-AE Subsidy.

Where a service's application is not endorsed, further payments should be discontinued, and services should be required to pay back any subsidies received. To further streamline application processes, the Australian Government Department of Education should also

consider relaxing requirements for reapprovals when there are changes to the care environment.

The Australian Government Department of Education should work with Inclusion Agencies to communicate documentary requirements for receipt of ISP funding more clearly to services, including the eligibility of children without a formal diagnosis.

The Australian Government Department of Education and relevant state and territory departments of education should work together to streamline application requirements between their respective inclusion programs, to reduce the need for services to apply for funding multiple times.

Recommendation 2.3

Adopt an enhanced and expanded needs-based inclusion funding instrument

By 2028, the Australian Government should develop and implement a new needs-based Early Childhood Education and Care Inclusion Fund (Inclusion Fund). The fund should have three streams.

- Children with high support needs should be supported through a stream similar to the Inclusion Development Fund, but with the enhancements suggested in recommendation 2.2 (Disability and Complex Needs Inclusion Stream).
- Broader inclusion needs within the community of children and families supported by services should be funded based on the characteristics of that community (Mainstream Inclusion Stream).
- A program should be established to enable services to apply for support for upgrades to physical facilities to ensure all children can be included, irrespective of their abilities (Inclusion Fund Grant Stream).

Calculation of Mainstream Inclusion Stream funding provided to a service could draw on indicators correlated with children's inclusion needs and data from the services' historical enrolment profile. The Mainstream Inclusion Stream should include mechanisms to ensure timely allocation. Services should have funding available to address children's needs when those children enrol.

Recommendation 2.4

Adopt an enhanced and expanded needs-based inclusion funding instrument

A service should have flexibility in determining how funds are used to best fit the needs of its community. Services should develop plans outlining how funds will be spent and should receive assistance in doing so. Plans should be approved before funding is received.

A 'menu' of approved programs should be developed to help services purchase support from verified providers. Recipients of larger allocations could have some flexibility in implementing programs that are not on the menu. Prospective program providers could tender to be included in the menu, in a process similar to that for whole of government purchasing.

Design of the fund should include an annual review by services of progress against their plan to help them understand what is working well and what might be improved, and an acquittal process to verify how funds were used.

Trials to test the effectiveness of different program and service approaches should be set up. The Inclusion Fund should be evaluated after three years to gain insight into outcomes, sufficiency of funding, menu content and features of fund administration.

The Australian Government Department of Education should investigate services' funding requirements for physical modifications to facilities to accommodate children with additional needs and establish a fund to address them.

When the implications of the Australian Government's response to the NDIS Review become clearer, they could be reflected in determination of funding levels across the three streams. As part of designing and implementing a new instrument, the Australian, state and territory governments should work together to clarify responsibilities and streamline their inclusion funding programs.

The ECEC workforce

Finding 3.1

Workforce constraints affecting the capacity of the sector risk persisting without action

Workforce constraints are affecting the ECEC sector, and there are risks that, without action, there will be fewer ECEC workers than needed. This will frustrate efforts by governments to make ECEC more accessible – any initiatives to make ECEC more affordable for families or to make more places available will not be effective if there are too few qualified educators and teachers to meet extra demand.

Recommendation 3.1

Set goals for the ECEC workforce

The Australian, state and territory governments should set goals for the ECEC workforce. The outcomes for the ECEC workforce identified in the draft National Vision for ECEC can form the basis for these goals, but the goals should also include reference to:

- the pay and conditions being sufficient to attract and retain enough qualified workers in the sector so that all children and families have access to at least 30 hours or three days of high-quality ECEC for 48 weeks per year for children aged 0-5 if they choose to, and for outside school hours care to be available in all public schools where there is sustainable demand
- there being a pipeline of future educators and teachers that will meet future ECEC demand
- the ECEC workforce having access to pathways that facilitate career advancement and that encourage ECEC workers (both current and future) to view a career in the sector as attractive and rewarding.

These goals should be incorporated into an enhanced ECEC workforce strategy (recommendation 3.12).

The ECEC Commission (recommendation 10.2) should publicly report on progress towards achieving these goals for the ECEC workforce.

Finding 3.2

Expected wage increases may relieve recruitment and retention challenges

The pay and conditions offered to the ECEC workforce – long at the heart of recruitment and retention challenges – will likely be addressed through processes arising out of recent changes to the *Fair Work Act 2009* (Cth), including through the multi-employer bargaining process that is underway and proceedings by the Fair Work Commission to address potential gender undervaluation in the *Children's Services Award 2010*, which covers a significant number of employees working in the sector.

Finding 3.3

Government support can help to offset the impacts of wage increases on ECEC affordability and accessibility

Wage increases for ECEC staff will result in higher costs for services, which can be expected to lead to adverse impacts on ECEC affordability and accessibility, including:

- higher out-of-pocket expenses for families as providers pass on higher wage costs in the form of higher fees
- some services closing because they cannot meet the higher wage costs and remain viable, and slower expansion by the sector as a whole
- a potential decline in the quality of some services as they look to offset the cost of increasing wages by reducing spending on other inputs that enhance ECEC quality.

Government funding to support a wage increase – which the Australian Government has indicated it will provide – would help to mitigate some of these impacts.

Recommendation 3.2

Evaluate recent changes to ECEC VET training packages

HumanAbility, as the Jobs and Skills Council responsible for Vocational Education and Training (VET) package development for the ECEC sector, should commission an evaluation of the CHC30121 Certificate III in Early Childhood Education and Care and the CHC50121 Diploma of Early Childhood Education and Care qualifications no later than 2025.

The evaluation should consider whether reforms to these qualifications in 2021 led to increased training quality and are resulting in VET that is meeting the needs of the sector, including by considering the content taught across the Certificate III- and Diploma-level ECEC qualifications and the quality and job readiness of graduates from these programs.

If the evaluation finds that quality concerns remain, HumanAbility should strongly consider making greater use of independent assessment within Early Childhood Education and Care VET qualifications as a way to address these concerns.

Recommendation 3.3

Re-examine entry requirements for Diploma courses for people who already hold a Certificate III qualification

As a matter of priority, HumanAbility should review the prerequisites for entry into the CHC50121 Diploma of Early Childhood Education and Care, with a view to making enrolment more accessible for holders of older Certificate III-level qualifications in Early Childhood Education and Care that are not deemed to satisfy the prerequisites for the Diploma-level course.

Recommendation 3.4

Develop bespoke traineeship pathways for family day care settings

HumanAbility, in consultation with governments, the Australian Children's Education and Care Quality Authority, training providers and family day care providers, should develop tailored pathways that encourage traineeships to be undertaken in family day care settings.

Finding 3.4

Accelerated qualifications for Diploma-qualified educators should help lift early childhood teacher numbers

With demand for early childhood teachers (ECTs) set to remain high, accelerated pathways that allow Diploma-qualified educators to obtain an early childhood teaching qualification in a reduced time frame can play an important role in growing the pool of ECTs.

These programs address some of the barriers that Diploma-qualified educators face when upskilling by reducing the financial and study time commitments that educators face in order to undertake further study.

Finding 3.5

Completion rates for early childhood teaching qualifications have fallen

Completion rates for domestic students who commenced early childhood teaching qualifications in the mid-2010s are much lower than those for students who enrolled a decade earlier. 67% of domestic students who commenced an early childhood teaching degree in 2005 had completed it within six years, but in 2016, this was down to 48%. A range of reasons have contributed to these falling completion rates, including increased difficulties balancing work, life and study commitments among students, and challenges accessing mentoring and support while studying.

It is likely that educators seeking to upskill constitute a reasonable proportion of those who do not complete their studies. This points to the value of wrap-around supports to assist educators who are studying to become early childhood teachers.

Finding 3.6

Unpaid professional experience requirements are a barrier to upskilling

The requirement to undertake supervised professional experience as part of teaching qualifications presents a significant barrier to some educators upskilling to become early childhood teachers, especially where this professional experience is unpaid. Many cannot afford to go without income while completing placements, and placements that involve travelling long distances and staying away from home create additional challenges for educators from remote and regional areas.

Recommendation 3.5

Reduce barriers for qualified educators to upskill to early childhood teachers

To improve pathways for educators seeking to become early childhood teachers (ECTs), the Australian, state and territory governments should:

- work with universities and the ECEC sector to develop and promote accelerated degree programs through which Diploma-qualified educators can upskill to become ECTs
- expand wrap-around supports to educators who are undertaking university-level qualifications to become ECTs. Supports could include assistance to navigate enrolment processes, assistance to build academic skills and mentoring. These initiatives should be underpinned by robust monitoring and evaluation
- provide financial support to ECEC services so they can provide a reasonable amount of paid leave to educators to complete supervised professional experience requirements associated with early childhood teaching qualifications.

In addition:

- when providing information on teaching courses to potential students, universities should publish an indication of how prior ECEC qualifications will be recognised. This could take the form of a median or average amount of credit that students with ECEC qualifications have received in the past
- the Australian Children's Education and Care Quality Authority should examine the supervised professional experience that is required for an early childhood teaching qualification to be approved for the purposes of the National Quality Framework, and consider extending the ability of students to fulfil such requirements in their existing workplaces.

Recommendation 3.6

Support innovative delivery of teaching qualifications

Governments should provide financial incentives to universities to facilitate trials of innovative approaches for providing Initial Teacher Education to early childhood teachers, while still maintaining high standards in teaching degrees.

The Australian Children's Education and Care Quality Authority should work with governments and universities to develop pathways for early childhood teaching qualifications that are awarded through innovative teaching approaches to be recognised under the National Quality Framework.

Finding 3.7

Inter-jurisdictional differences in teacher registration impose unnecessary workforce barriers

Teacher registration offers considerable benefits for early childhood teachers (ECTs) in the form of professional recognition, development opportunities and access to networks of peers and mentors.

Teacher registration requirements for ECTs across jurisdictions are inconsistent, which risks limiting the work opportunities for ECTs who move across jurisdictions, to the detriment of their careers, and reducing the number of ECTs who are available to services to employ.

Recommendation 3.7

Improve registration arrangements for early childhood teachers

State and territory governments should ensure that under their teaching registration arrangements:

- early childhood teachers (ECTs) working in National Quality Framework-approved ECEC settings are required to be registered with the teacher registration body in their jurisdiction
- any ECT-level qualification that has been approved by the Australian Children's Education and Care Quality Authority (ACECQA) for recognition under the National Quality Framework should be automatically recognised as meeting qualification requirements associated with teacher registration
- there are accessible pathways for ECTs with an ACECQA-approved qualification to teach in primary school (after they undertake additional study focussing on teaching in primary school settings).

State and territory governments should also review their arrangements concerning highly accomplished and lead teacher (HALT) certification (in relevant jurisdictions) and act on opportunities to make it more accessible for ECTs. As part of these reviews, state and territory governments should:

- issue guidance on the eligibility of ECTs for HALT certification, the process through which ECTs can seek HALT certification, and the implications for ECTs if certification is achieved
- ensure all ECTs have access to a HALT certification authority.

Recommendation 3.8

Lift support and mentoring for new early childhood teachers

State and territory governments should develop structured mentoring and support programs for new early childhood teachers (ECTs) if they do not already have these in place. In developing these programs, state and territory governments should reflect the findings of the research underway by the Australian Education Research Organisation (AERO) on the effectiveness of existing support programs.

Jurisdictions that already operate programs to support and mentor new ECTs should review their programs to incorporate the findings from AERO's research once this is finalised.

Recommendation 3.9

Improve pathways and support for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications

In collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, governments should trial and evaluate new pathways for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications so they can participate in the ECEC workforce in greater numbers.

A central aim of these new pathways should be to better recognise the cultural knowledge and experience many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children.

In designing these pathways, governments should consider:

- using different approaches, such as culturally appropriate interviews, to better understand the prior knowledge, learning and experience of Aboriginal and Torres Strait Islander people, and to inform decisions about the extent that this can be recognised in the form of course credit or other ways of recognising prior learning
- using teaching and assessment models that – while still ensuring rigour – might be more accessible or culturally appropriate for Aboriginal and Torres Strait Islander students, such as teaching in local languages or making greater use of observational assessments
- providing tailored learning support to Aboriginal and Torres Strait Islander students.

Recommendation 3.10

Facilitate more placements in Aboriginal and Torres Strait Islander ECEC services

HumanAbility and the Australian Children’s Education and Care Quality Authority, as the organisations who set requirements with respect to placements in ECEC, should review any requirements that limit the extent that placements are able to take place in Aboriginal and Torres Strait Islander ECEC services and provide advice to training providers on the circumstances in which placements can be undertaken in these services.

Finding 3.8

The ECEC workforce faces barriers to professional development

Take-up of professional development opportunities by the ECEC workforce is relatively widespread. But the workforce still faces several significant barriers to accessing professional development, including difficulty getting time off work and the cost of professional development activities. Costs to employers of backfilling positions while staff undertake professional development can also be an impediment. Some governments provide support to overcome these barriers.

Recommendation 3.11

Contribute to professional development for the ECEC workforce

The Australian, state and territory governments should provide financial support for the ECEC workforce to undertake professional development activities, including activities to build staff capability to:

- remain up to date with the latest pedagogical research and how to apply this in their teaching
- understand and apply the National Quality Standard and the national approved learning frameworks.

This support should be additional to support for professional development through the ECEC Inclusion Fund (recommendation 2.3), which aims to improve the capability of staff and services to provide more culturally safe and inclusive ECEC.

Recommendation 3.12

Enhance the National Children's Education and Care Workforce Strategy

In addition to incorporating an agreed set of goals for the ECEC workforce (recommendation 3.1), the Australian, state and territory governments should enhance the value of the National Children's Education and Care Workforce Strategy (Shaping our Future) by:

- including projections of the number of educators and teachers the sector is expected to require (over different timeframes) in the strategy
- revising the actions of the strategy to incorporate the recommendations of this inquiry on growing and developing the ECEC workforce
- clarifying how each action in the strategy will be resourced.

The ECEC Commission (recommendation 10.2) should monitor the strategy's implementation, including through public, biennial assessments of governments' progress implementing the strategy, and whether this progress has been sufficient to deliver the goals for the ECEC workforce.

ECEC and labour force participation

Finding 4.1

Lower-income families are less likely to use ECEC

Many families rely on ECEC services, or on a combination of formal and informal care, to participate in the labour force, access study and training or volunteer.

Families who do not participate in ECEC typically have lower incomes, are less likely to be in the labour force, more likely to have a lower level of education and to be receiving income support than those who do participate. They also tend to have more traditional beliefs about gender roles and to live in lower socio-economic communities.

Families are also less likely to use ECEC if they have a parent at home to care for children – whether this is due to their preferences to care for their children themselves or reflects barriers that prevent them from accessing ECEC is difficult to disentangle. Some families may want to use ECEC but find it too expensive or inaccessible; others may have concerns over the quality of care.

Finding 4.2

Mothers' labour force engagement has increased markedly in recent years

The labour force participation rate of mothers (with a child aged under 15 years) increased from 68% to 79% over the decade to 2023 – mostly due to an increase in the participation of mothers with a child aged 0–4 years. Full-time employment has also been on the rise, up by 10 percentage points to 52% over the decade to 2023, but the part-time employment rate of Australian mothers is still higher than the rate in most OECD countries.

High rates of part-time work are a feature of the Australian labour market and survey evidence suggests that many mothers choose to work part time (but some of those who make that choice may increase their working hours with changes to ECEC policy).

While mothers' engagement in the labour force has increased, the labour market disruption that often comes with having a child negatively affects the lifetime earnings of many women. ECEC can help mothers back to work, improving their labour market outcomes and gender equality.

Finding 4.3

About 328,000 parents nominate ECEC-related barriers as the main barrier they face to greater labour force participation

In 2022-23, about 2 million parents with children aged under 15 years old (the large majority of them mothers) were either not in the labour force or were working part time.

Of this group, just over half reported that 'caring for children' was the main barrier they faced to increasing labour supply. When asked what it was about caring for children that influenced their labour force decisions, about 30% of these parents (or 328,000 people) nominated ECEC-related issues including affordability, availability and other factors. The other 70% nominated a preference to care for their children or that their children were too young or old for ECEC.

Parents who reported issues other than caring for children as the main barrier to increasing their labour supply nominated factors like study or long-term illness.

The data suggests that if ECEC-related barriers were reduced, about 328,000 parents might be able to increase their labour supply. It is also likely that additional parents would change their preferences around caring for children if ECEC were more affordable or readily available, leading to a greater number of parents – mostly mothers – increasing their participation.

Finding 4.4

Removing ECEC-related barriers could see an increase in labour supply of up to 143,000 full-time equivalent workers

If all reported ECEC-related barriers were removed, it is estimated that the equivalent of an additional 46,000 full-time workers among parents who want a job or more hours could be added to the labour supply. These would mostly be mothers from lower-income households and those with younger children (aged 0–4 years).

If parents who reported ECEC-related barriers to working yet did not want a job or to work more hours are included in the estimate, the equivalent of 143,000 full-time workers could be added to labour supply.

These figures are likely upper bounds – the analysis assumes that all ECEC related barriers are solved (including availability) and that non-ECEC barriers do not prevent these parents' increased engagement in the labour force. That said, there might also be some parents who would change their preference to care for their own children and engage in paid work if ECEC-related barriers were removed.

Finding 4.5

High workforce disincentive rates are largely due to the tax and transfer system

The contribution of ECEC expenses to high workforce disincentive rates (WDRs) has been reduced by recent policy changes. The introduction of the July 2023 Cheaper Child Care reform reduced WDRs by an average of 4 percentage points for a range of different family compositions modelled by the Commission. The removal of the annual cap on subsidies received by higher-income families in 2021 and introduction of the Higher Child Care Subsidy in 2022 would have further reduced WDRs for some families.

WDRs remain high – sometimes exceeding 70% – for many sole parents and some secondary earners, typically mothers, creating a financial disincentive to work and to increase days of work. However, these rates are mainly due to the tax and transfer system rather than out-of-pocket ECEC expenses.

Some families face relatively high daily WDRs with a relatively high contribution from ECEC out-of-pocket expenses. These are typically coupled families with more than one child aged under 5 years and the WDRs are associated with the third, fourth and fifth days of work in a week for the secondary earner.

Availability of ECEC

Finding 5.1

Universal access to high-quality ECEC for at least 30 hours (or three days) per week for 48 weeks per year for children aged 0–5 years should be a long-term policy goal

Governments should set a long-term policy goal to ensure that all children aged 0–5 years whose families choose to use ECEC can access at least 30 hours or three days a week for 48 weeks per year of high-quality ECEC. Meeting this benchmark, along with improved affordability, inclusion and flexibility, would enable a universal ECEC system.

Nonetheless, flexibility for families to choose the level of use and type of service that suits them is important. Families should be able to choose the number of days/weeks that are most appropriate for their children and their labour force participation choices.

Finding 5.2

Expansion of for-profit providers has been the main contributor to increased supply of ECEC

ECEC provision grew by 50% to 1.1 million places over the decade to March 2023. For-profit centre-based day care accounted for just over 60% of that growth, with a further 22% due to expansion by for-profit outside school hours care services. Growth in centre-based day care was delivered mostly by a mix of small, medium and large sized for-profit providers, while growth in outside school hours care was delivered mostly by large for-profit providers.

Growth in for-profit provision of centre-based day care was reasonably evenly spread across all areas of socio-economic advantage.

Recommendation 5.1

Advisory service for small not-for-profit providers

To help overcome the barriers to expansion faced by small not-for-profit providers, the Australian Government should establish an advisory function that supports these providers to build capacity.

This function should be separate from the ECEC Development Fund advisory body (contained in recommendation 5.2), which is designed to assist community groups with applying for Development Fund grants and competitive tenders.

Finding 5.3

ECEC availability varies markedly around the country

ECEC availability tends to be poorer in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage.

Provision of preschool places by state and territory governments improves the broader picture for availability. However, these places only increase availability for some children aged three and over, and dedicated preschools often have more limited days of operation and/or shorter session lengths than centre-based day care.

Finding 5.4

Recommended changes to the Child Care Subsidy and ongoing demand from parents will further support increases in supply in some regions; but in other areas, more support will be needed

Some areas are persistent 'thin markets' – where demand is insufficient to support the competitive provision of services.

If the activity test were removed and affordability improved for lower-income families (recommendation 6.1), demand for ECEC will increase in some areas to the point where services may be viable without further government support and supply will expand through market dynamics. This is likely to occur in lower socio-economic areas with larger populations (including on the urban fringe).

In other markets, prospective providers may be reluctant to invest due to higher costs, variable demand and the challenges of recruiting and retaining educators and teachers.

In these markets, supply-side funding programs will be needed to boost provision to achieve at least 30 hours or three days a week of high-quality ECEC for 48 weeks a year for all children aged 0–5 years whose families choose to use ECEC.

Recommendation 5.2

Support universal access in persistently thin markets via an ECEC Development Fund

To ensure that at least 30 hours or three days a week of quality ECEC is available for 48 weeks of the year for all children aged 0–5 years whose families wish for them to participate, the Australian Government should provide additional support in markets where it is clear that ECEC providers are unlikely to invest, even with the changes recommended by this inquiry.

This support could take the form of:

- grant funding or low-interest loans to establish a service in communities that are able to cover the operating costs of a service (such as wages, rent and other overheads) via Child Care Subsidies and families' out-of-pocket gap fees, but expected earnings would not cover the capital costs of building, repurposing or expanding physical facilities
- block grants to cover capital and operating costs in communities where the level of demand is too low to support all of the costs of operating a service. Funding in these markets should generally be ongoing and enable a baseline level of provision, with periodic review to determine if a service can be self-sustaining with Child Care Subsidies. Ongoing funding could also mean that existing grants are reassessed (including scope for changing providers) without an onerous process of re-application
- specific arrangements for Aboriginal community-controlled organisations to be co-designed with Aboriginal and Torres Strait Islander communities.

The Australian Government should use a process of competitive tendering or commissioning to provide services in markets where community representatives do not apply for grants. This process should:

- be open to all prospective service providers, not just incumbent providers in a given area
- be open to centre-based day care, family day care and mobile care providers, depending on the needs of the community
- consider the quality of other services operated by prospective providers and give preference to those who have been at least Meeting the National Quality Standard
- strongly prefer not-for-profit providers where a service is completely or substantially directly funded by government.

In some cases, the current requirement for a capital co-contribution of 50% can be a significant barrier to potential providers entering a market and should be waived on a case-by-case basis.

An advisory program should be established that works with community representatives and enables them to get the support they need.

Ownership of facilities established by communities should remain in community hands. Ownership of other services should be retained by the Australian Government.

Finding 5.5

Family day care can be an effective solution to improving access to ECEC in thin markets

Family day care can be part of the solution to ensuring that families have access to ECEC in markets where there might be low and/or variable demand. Expansion of family day care in recent years has been limited. The Commission notes the Australian Government Department of Education is working to support the use of family day care while satisfying probity and integrity expectations.

Finding 5.6

Eligibility for the In Home Care program could support workforce participation by parents of multiples

The Australian Government could consider extending the In Home Care program to families with triplets or a higher number of children of the same age.

Recommendation 5.3

Allow two family day care services to be run in a single venue in regional and remote Australia

The National Quality Framework should be amended to allow two educators to provide education and care to up to 14 children at any one time at an approved family day care venue. No more than eight children can be preschool age or under.

This amendment should only apply to approved family day care venues in Inner Regional Australia, Outer Regional Australia, Remote Australia and Very Remote Australia as defined in the Australian Statistical Geography Standard.

Affordability and CCS system barriers to ECEC access

Finding 6.1

The extent to which services charge fees above the hourly rate cap varies markedly by service type

Indexation of the Child Care Subsidy (CCS) hourly rate cap against the Consumer Price Index has not kept pace with growth in hourly fees over the past five years. The share of services with an average hourly fee above the CCS hourly rate cap increased markedly for centre-based day care (CBDC) and family day care (FDC) services, though fell for outside school hours care (OSHC) services.

Finding 6.2

The extent to which services charge fees above the hourly rate cap varies markedly by service type

However, the majority of CBDC and OSHC services still have an average hourly fee below the hourly rate cap. And CBDC services with average fees above the hourly rate cap are heavily concentrated in areas of higher socio-economic status. Average fees charged by OSHC services are also higher in areas of higher socio-economic status, but are much less likely to exceed the hourly rate cap in those areas. The case to reset the CBDC and OSHC hourly rate cap to promote affordability for those facing barriers to accessing ECEC is not strong.

Many FDC services have average fees that exceed the hourly rate cap, including in lower socio-economic status areas. The FDC hourly rate cap should be reviewed.

The hourly rate cap for in home care may also not sufficiently reflect costs of provision (paper 5) and should be reviewed, as should the need for an hourly rate cap for non-standard ECEC hours (paper 7).

Finding 6.3

ECEC is less affordable for lower-income families

The Child Care Subsidy (CCS) lowers out-of-pocket expenses for most families, but ECEC is relatively more expensive for those who can least afford it.

Among families receiving CCS, those in the bottom 10% of the income distribution (with incomes of \$40,000 on average) are estimated to pay out-of-pocket expenses equal on average (mean) to about 7% of their income (with the median family facing out-of-pocket expenses of about 5% of their income). Families in the following few deciles pay less on average, with the share of out-of-pocket expenses gradually increasing across the deciles. Families whose incomes are in the top 10% of the income distribution (incomes of \$250,000 on average) spend about 6% of their after-tax income on average (both mean and median) on ECEC.

While out-of-pocket expenses as a share of income are reasonably similar for many cohorts, that does not mean that they affect families equally. Financial resources are more constrained for lower-income families which makes them more sensitive to price. Out-of-pocket expenses equal to 10% of income can represent a larger financial burden for a family earning \$80,000 per year for example, than one with an income of \$200,000 per year. This is likely contributing to lower participation rates in ECEC for lower-income families.

Finding 6.4

Complex ECEC subsidy arrangements can be a barrier to access for some families

The information available to families when they are working out their Child Care Subsidy entitlement can be confusing and create substantial uncertainty. Navigating this complexity can be much more difficult for those with low levels of English and/or computer literacy. For some families, this level of complexity creates a substantial barrier to ECEC access, and in some cases, means they choose not to access ECEC.

Finding 6.5

Targeted CCS changes would improve affordability for lower-income families as well as families across all income groups

To reduce affordability barriers that affect access to ECEC, the Commission has considered a suite of Child Care Subsidy (CCS) reforms, including:

- removing the activity test for all families
- increasing the rate of CCS to 100% for families on incomes of up to \$80,000, tapering by one percentage point for every \$5,000 over \$80,000
- raising the rate of Higher Child Care Subsidy (for families with more than one child aged five and under in ECEC) to 100% for families with incomes up to \$140,000, tapering by one percentage point for every \$5,000 over \$140,000, with families with an adjusted taxable income of \$580,000 and above being ineligible.

About half of families would be eligible for a 90% or above subsidy rate with these reforms.

Modelling shows that when implemented together, these reforms would target support to children and families who would benefit the most, but would also result in lower out-of-pocket ECEC expenses for the vast majority of families across the income range. Demand for ECEC for children aged 0–12 is expected to rise by 10%, and come particularly from children who had not previously attended ECEC. Alongside improving availability, inclusion and flexibility, these changes would enable universal access to ECEC.

Finding 6.6

A low flat fee would make ECEC more affordable for many families but come at a substantial cost to taxpayers

Introducing a low flat fee for ECEC services would represent a significant shift in the way the sector operates. Modelling shows that introducing a flat fee is likely to lead to an increase in demand for ECEC, particularly from families with higher incomes, and a small increase in labour force participation. This policy is estimated to see an increase of 66% in government outlays on ECEC subsidies.

Finding 6.7

A universal 90% subsidy rate would mostly benefit families on higher incomes

In line with the request in the terms of reference to consider a universal 90% subsidy, the Commission has assessed the potential effects of a policy option where the only change to current settings is that the Child Care Subsidy (CCS) rate increases to 90% of the hourly fee, up to the hourly rate cap, for all families.

A uniformly high rate of CCS would reduce out-of-pocket expenses for some families but not benefit low-income families, who are already eligible for a 90% subsidy rate.

Modelling shows that ECEC demand would increase as a result of a universal 90% subsidy – but this increase would come overwhelmingly from higher income families, rather than those experiencing disadvantage.

Recommendation 6.1

Modify the Child Care Subsidy to improve affordability and access

The Australian Government should modify the Child Care Subsidy (CCS) to:

- remove the activity test
- raise the subsidy rate for families with annual adjusted taxable income at or below \$80,000 to 100% of the fee, up to and including the hourly rate cap
- taper down the CCS rate from 100% by one percentage point for every \$5,000 above an adjusted taxable income of \$80,000
- increase the Higher Child Care Subsidy rate to 100% for families with an annual adjusted taxable income at or below \$140,000 and taper down from 100% by one percentage point for every \$5,000 above an adjusted taxable income of \$140,000, with families with an adjusted taxable income of \$580,000 and above being ineligible.

The CCS should be renamed the ECEC Subsidy.

Recommendation 6.2

Increase the ACCS (Transition to Work) subsidy rate to 100% of the fee up to and including the hourly rate cap

In the event that recommendation 6.1 were adopted, the Australian Government should also increase the Additional Child Care Subsidy (Transition to Work) subsidy rate to 100% of the fee, up to and including the hourly rate cap to align with the recommendation to increase the Child Care Subsidy rate to 100% for families with an income up to and including \$80,000.

Recommendation 6.3

Change the approach taken to indexing the hourly rate cap and review levels of the hourly rate cap for some types of service

To maintain ECEC affordability for families, the Australian Government should change the indexation approach used for the Child Care Subsidy hourly rate cap. The indexation rate should be set at either:

- the higher of either: – 3% (the indexation ‘floor’), to provide certainty and maintain a minimum level of indexation during times of low inflation – a composite index comprising 75% of the Wage Price Index and 25% of the Consumer Price Index
- a rate prescribed by the Minister of Education.

The Australian Government should also review the hourly rate caps for family day care and in home care to determine the levels they should be set at to better reflect operating costs and support affordability, while maintaining integrity. The review should also consider the need for an hourly rate cap for non-standard hours.

The ECEC sector is facing a period of significant change. As part of the three-yearly review into the fees, costs and profits (recommendation 6.12), the hourly rate cap, and the indexation weighting and suitability of the 3% floor should be evaluated. The evaluation should examine whether the hourly rate cap has kept pace with changes in the costs of ECEC delivery and if the indexation approach needs to be adjusted.

Recommendation 6.4

Set the default CCS withholding rate at 0% and make it simple for families to choose a different rate if they wish to

The Australian Government should set the default Child Care Subsidy (CCS) withholding rate to 0% for all families.

The Australian Government should clearly provide the option to adjust the CCS withholding rate both during the CCS application process and whenever families update their details, improving visibility and knowledge about the rate.

The Australian Government should also increase the number of times families can change their withholding rate online to 12 per year.

Recommendation 6.5

Review CCS eligibility for restricted or temporary residents

The Australian Government Department of Education, in consultation with the Department of Home Affairs, should review Child Care Subsidy eligibility for restricted or temporary residents with the aim of extending eligibility to reduce financial barriers to ECEC participation.

Recommendation 6.6

Trial expanding the Assistance for Isolated Children Distance Education Allowance to include preschool education programs

The Australian Government should trial an expansion of the Assistance for Isolated Children Distance Education Allowance to include preschool programs delivered via distance education. An evaluation of the trial should determine the public benefits and costs of an expansion and whether there is sufficient evidence to justify permanent expansion.

Recommendation 6.7

Simplify the Child Care Subsidy application and income reconciliation processes

The Australian Government should simplify the Child Care Subsidy (CCS) application and income reconciliation processes to make it easier for families to access subsidised ECEC.

- In the short term, Services Australia should use information previously provided by families to prefill CCS applications to remove the need for families to provide information twice. In the medium to longer term, Services Australia should aim to introduce automatic CCS eligibility.
- Aspects of CCS income reconciliation should be aligned with Family Tax Benefit income reconciliation to make the income reconciliation process easier for relevant families.
- Families in receipt of Additional Child Care Subsidy (Child Wellbeing) and Additional Child Care Subsidy (Grandparents) should be exempt from notifying Services Australia of their income for CCS reconciliation purposes.
- The period of backdating for CCS should be increased from 28 to 90 days.
- If the activity test remains in place, the CCS application should include a drop-down menu for families to choose their activity hour range for the activity test.

Recommendation 6.8

Support families with changing or challenging circumstances through CCS and ACCS

The Australian Government should support families in changing or challenging circumstances so that children can consistently attend ECEC.

- Eligibility for the Additional Child Care Subsidy (ACCS) (Child Wellbeing) should be maintained for children on a long-term protection order, in formal foster care or in formal kinship arrangements while their circumstances remain unchanged.
- ACCS (Grandparent) should be extended to recognise informal kinship carer arrangements.
- The determination length for ACCS (Child Wellbeing) should be extended to 26 weeks.
- The need for families to report their income if they receive ACCS (Child Wellbeing) or ACCS (Grandparents) for an entire year should be removed.
- A child's eligibility for CCS should be maintained for a period of eight weeks when there is a change of guardian.

Recommendation 6.9

Establish a 'one stop shop' Early Childhood Education and Care website

The Australian Government should establish a website that contains all of the information that families need to understand how their Child Care Subsidy (CCS) eligibility is determined and how the CCS withholding rate functions.

The website should also provide a CCS calculator with functionality to estimate a family's out-of-pocket expenses based on:

- the fees of a range of services in their local area and any other services that the family chooses to include in the comparison
- different hours of ECEC use and levels of family income.

The website should also include up to date information on fees and vacancies in all CCS-approved ECEC services. The Australian Government Department of Education should consider using CCS administrative data to update fee information.

This 'one stop shop' website could be built upon the current Starting Blocks website.

Recommendation 6.10

Prompt families to update their details with Services Australia

The Australian Government should use Single Touch Payroll information from the Australian Tax Office to prompt families through SMS and/or email to update their activity (if the activity test remains in place), income level details and their withholding rate with Services Australia.

Recommendation 6.11

Maintain integrity of the Child Care Subsidy program

The Australian Government should provide additional funding to maintain integrity of the Child Care Subsidy (CCS) program if it makes changes to the CCS that increase the amount of subsidy families are eligible for.

Integrity measures should not increase barriers to ECEC participation by families or to the provision of ECEC by CCS-approved services.

Recommendation 6.12

Monitor rises in fees and out-of-pocket expenses and conduct three-yearly reviews of fees, costs and profits

The Australian Government should continue to monitor changes in ECEC fees and out-of-pocket expenses on a regular basis to identify services where movements are out of step with sector norms. The Department of Education should carry out this role. Increases in fees that vary markedly from those of similar services should prompt closer investigation, and a regulatory response should be considered if they are not reasonable.

The Australian Government should also introduce a three-yearly review into the fees, costs and profits of ECEC to be completed by the ECEC Commission and by the Department of Education while the ECEC Commission is being established. This review should aim to:

- understand the costs associated with ECEC delivery and any significant changes in those costs
- identify if movements in fees are reasonable given movements in costs and if not, why not
- whether there is any evidence of excessive profits in the sector.

The review should also identify if the hourly rate cap has kept pace with changes in the costs of ECEC delivery and if the indexation weighting requires updating (recommendation 6.3). The Department of Education's monitoring function should use the outcomes from this review to inform its ongoing monitoring of fees and out-of-pocket expenses.

Meeting the needs of families

Recommendation 7.1

Address practical barriers to ECEC access through an ECEC Inclusion Fund

As part of a new ECEC Inclusion Fund (recommendation 2.3), funding should be available to services to address practical barriers to ECEC access, such as providing a bus service or addressing other non-fee barriers, such as clothing or food, where it would enable children currently missing out to attend ECEC.

To minimise duplication, funding available under the current Community Child Care Fund to address community-level barriers to participation should be transferred to the ECEC Inclusion Fund. The Australian Government Department of Education should examine the activities currently funded to determine whether they would be suitable for incorporation into the new Fund.

Recommendation 7.2

Trial a system navigator role

The Australian Government should trial a 'system navigator' role to support families who face complex barriers to navigating and accessing the ECEC system and who would be otherwise unlikely to engage.

The initiative should:

- be delivered by Inclusion Agencies as part of the Inclusion Support Program and be

independent of ECEC services

- operate on a referral model from other services that support children and families. The need for a navigator to undertake outreach should be explored further during the trial implementation
- include a small pool of funding that Inclusion Agencies could draw upon to address barriers to access (such as assisting with ECEC bonds, clothing, or other issues as necessary)
- support families to access both CCS-approved services and dedicated preschool
- be subject to an evaluation prior to consideration of further investment or expansion
- be trialled alongside immediate changes to the Inclusion Support Program (recommendation 2.2).

Finding 7.1

Additional costs of providing ECEC during non-standard hours are not reflected in the hourly rate cap

Families working non-standard hours may find it harder to access ECEC that meets their needs. Services incur additional costs, such as penalty rates, to provide ECEC during non-standard hours but these costs are not reflected in the hourly rate cap.

Recommendation 7.3

Review barriers to providing ECEC during non-standard hours

The Australian Government should review barriers to providing ECEC during non-standard hours and consider appropriate policy responses, including:

- alongside reviewing the hourly rate caps for family day care and in home care (recommendation 6.3), consider if a non-standard hours ECEC rate cap is required
- review the extent to which planning regulations restrict ECEC services from operating in non-standard hours.

Finding 7.2

There is limited data on the availability of, and demand for, casual ECEC

Data limitations preclude a thorough examination of whether there is unmet need for casual ECEC. However, for some families, such as those experiencing disadvantage and vulnerability, access may be important.

Recommendation 7.4

Support occasional care for those most in need

A small pool of funds should be available through the ECEC Development Fund (recommendation 5.2) to support occasional care services attended by families experiencing high levels of disadvantage and/or vulnerability and for whom alternative options are not available. Both CCS-approved and non-CCS-approved services should be eligible to apply. Depending on services' CCS status, this funding could either be supplementary to the CCS, or instead of the CCS (in which case, the funding amount would likely need to be higher).

The Australian Government Department of Education should engage with occasional care services and the ECEC sector more broadly to determine the appropriate form of this funding, eligibility and other requirements. At a minimum, this should include:

- requirements for services to demonstrate they are providing, or will provide, occasional care to families experiencing high levels of disadvantage and/or vulnerability and for whom alternative options are not available. Other families, such as those working variable hours, should also be permitted access to places funded by the Development Fund where there are vacancies, but the focus and first priority for funded places should be families experiencing disadvantage and/or vulnerability

- requirements for services to demonstrate other funding options are not available or have been exhausted
- appropriate mechanisms such that funding is not provided to centre-based day care services predominantly providing regular bookings of 'long day care'.

Recommendation 7.5

The flexibility of ECEC services should be encouraged

Families identify flexibility as an area of improvement for the ECEC system, with issues cited relating to session lengths and charging practices, service operating hours and the ability to access casual options or swap days.

Providers face real constraints in providing flexible services beyond what they currently offer. But there is evidence of providers offering flexibility where they are able, such as by allowing families to change days, pick up additional days where available or offering discounts when families take holidays.

The Australian Government Department of Education should continue to consider ways it could encourage ECEC providers to offer greater flexibility to families as the market evolves and new insights emerge.

Finding 7.3

Dedicated preschools have had difficulty providing additional subsidised hours of ECEC

The 15 hours per week of preschool provided under the Preschool Reform Agreement do not align with a standard work week. For some families accessing dedicated preschools, this may mean they need to supplement preschool hours with additional ECEC to support their labour force participation.

Dedicated preschools are not prohibited from offering additional hours of ECEC, or from facilitating access to a separate outside preschool hours service either on or off site. But provisions in Family Assistance Law have made it hard for these types of activities to attract the Child Care Subsidy.

Recommendation 7.6

Address barriers to providing subsidised wrap-around care in dedicated preschools

The Australian Government should ensure that Family Assistance Law does not pose a barrier to providing subsidised wrap-around care in dedicated preschools where there is sustainable demand.

Finding 7.4

ACCOS are well placed to provide early years and family services – but face funding challenges

Aboriginal community-controlled organisations (ACCOS) provide culturally safe ECEC and other services to Aboriginal and Torres Strait Islander children and families – but often face funding challenges and uncertainty.

Under Priority Reform 2 of the National Agreement on Closing the Gap, governments have committed to building Aboriginal and Torres Strait Islander community-controlled sectors, including in early childhood care and development.

Recommendation 7.7

Funding arrangements for ACCOs should be considered as part of a process of shared decision-making

Governments should consider funding arrangements for Aboriginal community-controlled organisations delivering ECEC and other integrated early years services through a process of shared decision-making. Consistent with Priority Reform 1 of the National Agreement on Closing the Gap, the Early Childhood Care and Development Policy Partnership is the most appropriate forum for this process to take place.

Finding 7.5

ECEC services cater to many children and families, but some families need additional support

Integrated services can support children and families experiencing vulnerability or requiring services beyond ECEC. Initiatives that create the 'connection function' that links ECEC services with other child and family services can also overcome the siloing of services, providing more effective support to families.

Recommendation 7.8

Consider if new ECEC services receiving supply-side funding should be established as integrated services

When the Australian Government is engaging with communities on solutions to limited or no ECEC supply in their area (recommendation 5.2), it should also work with them to identify if there is a need for a new ECEC service to operate as an integrated service.

Where a need is identified, the Australian Government should work with the relevant state or territory government to consider if an integrated service should be established and if so, how. Funding should be available under the ECEC Development Fund for the ECEC component of the service.

Recommendation 7.9

Support connections between ECEC and child and family services

As part of an ECEC Inclusion Fund (recommendation 2.3), ECEC services should be permitted to use inclusion funding to liaise and coordinate with other services a child may require or be accessing, such as allied health or National Disability Insurance Scheme professionals.

Pending establishment of an ECEC Inclusion Fund, funding for services to undertake these types of liaison or coordination activities should be available on an application basis through the Innovative Solutions Support component of the Inclusion Support Program.

Regulating for quality

Recommendation 8.1

State and territory regulatory authorities should improve their performance reporting

To improve the transparency of the ECEC regulatory system, all regulatory authorities should publish an annual report detailing progress against key objectives in the previous 12-month period, including metrics on the:

- number of service assessments performed
- average time to conduct an initial assessment on a new service and average time between reassessments of services
- proportion of services with a rating and the proportion of services assessed
- proportion of services that received a visit from the regulatory authority
- number of complaints and the average time taken to investigate a complaint
- total funding for the regulatory authority

- the number of dedicated staff and number of authorised officers within the regulatory authority.

This information may be included in the relevant state government department's annual report, and should also be collated and published by the ECEC Commission (recommendation 10.2), to make the information more accessible to governments, the ECEC sector and users of ECEC.

Recommendation 8.2

A new review of the National Quality Framework

The Australian, state and territory governments should, through the Education Ministers Meeting, commission an independent review of the National Quality Framework (NQF), with a specific focus on the way in which services are assessed against the National Quality Standard, and if assessments could be made more accurate, consistent and efficient.

Independent NQF reviews should be conducted on a regular basis to enable regulators to incorporate feedback from ECEC providers as well as new findings from research on links between ECEC quality and children's outcomes.

Finding 8.1

The timeframe between service assessments is too long

The time between ECEC quality assessments undertaken by state regulatory authorities is unacceptably long. This increases the risk of poor-quality service provision and undermines the relevance and value of quality ratings.

Recommendation 8.3

Ensure regulatory authorities are adequately resourced

The Australian Government should provide additional funding to the state and territory regulatory authorities that administer the National Quality Framework, to allow sufficient monitoring of quality and support for quality improvement.

This should be guided by an independent review to determine a regulatory resourcing standard sufficient for effective quality regulation.

Finding 8.2

Families rarely use information about ECEC service ratings

Families care about ECEC quality but are usually unaware of or do not value ratings against the National Quality Standard when choosing between ECEC services, preferring other indicators. Families would benefit from more detailed, accessible information on service ratings.

Recommendation 8.4

More effective communication of quality ratings

Families would benefit from more useful and more accessible information on services' National Quality Standard ratings.

The Australian state and territory governments should amend the National Quality Framework to:

- ensure families are informed when their service receives a new quality rating
- require services to inform families of their quality rating before they enrol
- require services to include their quality rating on their website.

The Australian Children's Education and Care Quality Authority should provide clearer and more detailed information on quality ratings on its national registers and Starting Blocks website.

Recommendation 8.5

Clear courses of regulatory action when services are Working Towards the NQS

The regulatory authorities and the Australian Children's Education and Care Authority (ACECQA) should publish consistent guidance to the sector outlining that it is not acceptable for services to be repeatedly rated as Working Towards the National Quality Standard (NQS).

When a service is rated as Working Towards the NQS, they should face a broadly consistent, escalating range of regulatory measures.

- The first instance of Working Towards the NQS should generate increased support from the regulatory authority. The service should develop a comprehensive plan to meet the NQS.
- The second consecutive rating of Working Towards the NQS should generate additional support if the service has demonstrated meaningful improvements since its previous assessment, and is willing to continue to lift quality. If the service has not made meaningful progress, the regulator should issue a compliance notice to the service provider.
- If the service has been rated as Working Towards the NQS for three consecutive assessments, and has not made meaningful progress towards meeting the NQS, the regulator should issue a compliance notice to the provider, with a financial penalty issued if the service has not made changes to meet the NQS by the end of the compliance notice period. If the service has not made significant progress towards meeting the NQS following a financial penalty, the service approval should be suspended. If a service has not resolved its issues by the end of the service approval suspension period, the approval should be cancelled.

Recommendation 8.6

Powers for regulators to issue compliance notices to underperforming services

The Education and Care Services National Law (2010) should be amended to allow regulators to issue a compliance notice when a service is repeatedly rated as Working Towards the National Quality Standard (NQS) and is not making meaningful progress towards meeting the NQS. This would include the power to issue financial penalties if the compliance notice is not successful in compelling the service to meet the NQS or make significant progress towards meeting the NQS.

Recommendation 8.7

Support for services to improve quality

State Governments should facilitate the provision of a more consistent suite of support for ECEC services, including more intensive programs for services not meeting the National Quality Standard, as well as education, training and information that assist all services to foster continuous improvement. Any programs should be developed with guidance from the Australian Children's Education and Care Authority to improve consistency and effectiveness.

As part of the review of the resourcing of regulatory authorities (recommendation 8.3), the resourcing needed for state governments to provide quality improvement supports to services should also be considered.

Recommendation 8.8

Reward quality provision in new ECEC services

State regulatory authorities should consider greater use of fast-tracked approvals to reward high quality providers wanting to open new services.

Recommendation 8.9

Ensure appropriate quality regulation for services outside the scope of the National Quality Framework

The Australian Government should ensure the design of any future funding model or agreements for services receiving direct Australian Government ECEC funding that are out-of-scope of the National Quality Framework include mechanisms to adequately ensure and monitor the quality of these services.

The ECEC Commission (recommendation 10.2) should be tasked with reviewing regulatory arrangements for out-of-scope services receiving direct Australian Government ECEC funding to ensure they meet the needs of children. As part of this work, the ECEC Commission, with Australian, state and territory governments, should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities and peaks to determine the appropriate way to regulate the quality of Aboriginal and Torres Strait Islander services out-of-scope of the National Quality Framework.

ECEC funding models

Finding 9.1

Proposed reforms would increase the quantum and proportion of government funding

The Commission's recommended reforms to alleviate affordability barriers, enable a significant expansion of ECEC availability and move to a comprehensive needs-based inclusion funding instrument would significantly increase the quantum and proportion of government funding of the ECEC sector.

This is in addition to increases in funding likely to occur as a result of any government funding to support wage increases as a result of the Fair Work Commission processes currently underway and state and territory governments' continued preschool reform.

Recommendation 9.1

ECEC funding mechanisms should be designed around clear principles

The Australian, state and territory governments should adopt a set of principles to guide decision-making about ECEC funding instruments. These principles should comprise equity, affordability, quality, accessibility, simplicity, efficiency and integrity.

Finding 9.2

Improving components of the current funding model would support universal access

The architecture of the current ECEC funding model provides a baseline mechanism to support families to access ECEC, with additional, targeted interventions to address cost barriers, provide support for inclusion needs and establish services in regional and remote markets.

Reforms to improve the efficiency and effectiveness of the Child Care Subsidy, expand targeted supply-side funding to uplift availability and deliver a comprehensive approach to inclusion, would represent a significant improvement on the current funding model towards realising the National Vision for the ECEC sector.

This mixed funding model performs strongly against the key funding design principles of affordability, accessibility, equity, quality, and efficiency. Reforms to simplify the system and improve accountability and transparency will strengthen and underpin this approach.

Recommendation 9.2

The Australian Government should focus on improving the current funding model

The Australian Government should focus on delivering improvements to the existing funding architecture in line with recommendations in other supporting papers to improve the efficiency and effectiveness of the Child Care Subsidy, expand targeted supply-side funding to uplift availability and deliver a comprehensive approach to inclusion.

Recommendation 9.3

The national agreement for ECEC should be a vehicle to address preschool funding issues

In forming a new national agreement for ECEC (recommendation 10.1), the Australian, state and territory governments should resolve a number of preschool funding issues. Over the next two agreements, the Australian, state and territory governments should consider:

- ensuring state and territory government fee relief is applied after the Child Care Subsidy, such that families receive the full benefit of reduced gap fees for children attending preschool programs in centre-based day care settings
- in the short term, using bilateral funding agreements to address perceived inequities in funding for states and territories that primarily depend on dedicated preschools to deliver preschool programs
- in the long term, adopting a consistent funding model for all ECEC, regardless of setting, that would be applied across all jurisdictions and designed in line with the funding principles outlined in this paper (recommendation 9.1).

Recommendation 9.4

Proposed ECEC reforms should be evaluated as part of a future sector review

A comprehensive review of the ECEC sector, including a review of funding models, should be undertaken after the proposed reforms have been implemented. The review, to commence by 2030, should take into account ongoing evaluations of the reforms, any learnings from their staged implementation and the outcomes of any trials.

Governance arrangements for a future ECEC system

Finding 10.1

System stewardship is a missing part of the policy puzzle

To ensure that the ECEC system delivers better outcomes for children and families, a system stewardship approach is needed, with the Australian, state and territory governments acting as the primary stewards for the system. However, a lack of effective coordination mechanisms across governments and limited government accountability for system-wide outcomes, at present, hamper the effective use of a system stewardship model.

Recommendation 10.1

Improve policy coordination, role clarity and accountability through a new national agreement

The Australian, and state and territory governments should negotiate a new national agreement for ECEC. This agreement should include:

- governments' overarching objectives for the system and the outcomes they seek to achieve through their policy settings
- a set of policy aims that reflect improvements in access, affordability and inclusion
- a detailed articulation of the roles, responsibilities and functions of different governments, government agencies, and coordination mechanisms.
 - As part of this, governments should formally commit to adopting a system stewardship approach for the sector, where they – as the stewards – acknowledge that they are responsible and accountable for the outcomes produced by the system as a whole.

- State and territory governments should also be given responsibility for ensuring access to outside school hours care services in public schools where there is enough demand for a service to be viable.
- commitments to advance reforms relating to preschool funding and data, including to:
 - address barriers to passing Australian Government preschool funding to centre-based day care services delivering a preschool program and ideally ensure funding follows individual children. While states and territories should retain the ability to negotiate a state-specific preschool definition, or to require providers to meet conditions to access funding, this should not unreasonably restrict the ability of centre-based day care services to deliver a preschool program or to access Australian Government preschool funding
 - improve preschool data collection, sharing and research.
- consideration of how the agreement interacts with other key strategies and agreements that impact the ECEC sector.

Continued opportunities for coordination between the Australian, state and territory governments following the negotiation of the national agreement should be facilitated to allow governments to form coordinated responses to persistent and emerging issues as they arise. A forum should be established to:

- consider how governments' policies and programs interact
- identify and address persistent or emerging challenges
- coordinate the design and implementation of new policies.

The agreement should commence in 2026 and have a term of five years. A review of the ECEC system – including the performance of this agreement – should commence no later than 2030 (recommendation 9.4), and once the term of the agreement expires, a new agreement should be negotiated based on the findings of the review.

Recommendation 10.2

An ECEC Commission to support system stewardship

The Australian and state and territory governments should establish an independent ECEC Commission. The ECEC Commission's functions should include:

- monitoring and publicly reporting on the progress of governments – as system stewards – towards their commitments under the national agreement (recommendation 10.1) and on outcomes produced by the ECEC system more broadly
- providing independent advice to the system stewards on how they can coordinate and design their policies to achieve effective outcomes for the system, by leveraging an ability to take a system-wide view
- acting as a custodian over research and data, and facilitating the better use and dissemination of ECEC data and research learnings.

To ensure its independence, the ECEC Commission should be underpinned by legislation and overseen by a board with fixed-term appointments. At least one of these appointments should be an Aboriginal or Torres Strait Islander person who is able to promote the experiences of Aboriginal and Torres Strait Islander families and providers in the ECEC system.

Appendix Two: ACCC findings and recommendations

The final report of the Australian Competition and Consumer Commission's Child Care Inquiry was released on 29 January 2024. It made 31 findings and eight recommendations.

Findings

1. Childcare services in Australia provide education, care and developmental support to a diverse range of children and households in significantly different locations and situations.
2. Childcare markets under current market settings are not delivering on accessibility and affordability for all children and households across Australia.
3. Childcare markets in Australia can broadly be described as adequately served, under-served and unserved.
4. A single approach to government regulation and intervention ('one size fits all') is unlikely to deliver government objectives or meet community expectations across all childcare markets in Australia.
5. Childcare services and government support and regulation (across different levels of government) are highly interconnected. A change to one aspect of the system can have wide-ranging impacts across the sector. Issues and policy responses cannot be considered in isolation and must be assessed across the whole childcare sector.

Prices

6. Childcare fees across all services have grown faster than inflation and wages since the introduction of the Child Care Subsidy.
7. Outside school hours care licence agreements likely constrain fee growth.

Costs and profits

8. Labour is the main driver of cost for supplying childcare, accounting for 69% of the total costs for centre-based day care services and 77% of total costs for outside school hours care services. Labour costs have increased significantly, especially for large centre-based day care providers over the last 5 years.
9. Land and related costs are the other significant driver of cost for centre-based day care providers.
10. Not-for-profit providers appear to face lower land costs than for-profit providers, but these savings are invested into labour for centre-based day care services.
11. Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and greatest socio-economic advantage.
12. On average, large centre-based day care and outside school hours care providers appear to be profitable and financially viable.
13. Occupancy is a key driver of revenue and therefore profits and viability.
14. On average, margins are higher:
 - a) for for-profit providers of centre-based day care than not-for-profit
 - b) in Major Cities and more advantaged areas
 - c) for services with higher quality ratings.
15. The ability to attract and retain staff is a key determinant of perceived quality, which affects the profitability and viability of a service.

Competition

16. Parents' and guardians' demand for centre-based day care is driven by a complex combination of factors. Where a choice of services is available, parents and guardians look to prevailing market prices, however informal measures of quality are key considerations.
17. Providers' supply decisions are influenced by expectations of viability, which are heavily influenced by demand for childcare in an area. When considering current or expected future demand, the demographics of an area (many of which are related to relative socio-economic advantage) and existing supply are key factors providers take into account.
18. Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets. These are more pronounced in regional and remote locations, and impacts are exacerbated for suppliers serving communities or children experiencing disability, complex needs and/or disadvantage.
19. The nature of competition reflects the unique demand and supply factors in childcare markets.
 - d) For centre-based day care, price plays a less influential role once households have chosen how much childcare to use and found available services. Where providers compete to attract and retain children and families, they do so on the basis of quality.
 - e) For outside school hours care, providers compete on price and quality for the opportunity to operate a particular service. Because children generally attend the outside school hours care service attached to their school, parents and guardians choose between using the service (if it has availability and they are happy to pay the service fee) or finding alternative care (such as informal care).
 - f) For family day care, a preference for this type of care is based on its specific service characteristics – including a home-like environment, small number of children cared for and consistency of a single educator. Once a household has decided to use family day care, they will consider similar factors to centre based day care when choosing a service (with location, availability and quality more influential than price). If there is limited availability or parents and guardians are not satisfied with quality of services available, they may consider centre based day care as an alternative.
 - g) For in home care, strict eligibility requirements mean it is only available where other forms of care are not suitable or accessible. Where a household is eligible and a provider is available, price is the primary consideration with households choosing between using in home care at the service price or not using the service at all.

Family day care and in home care services

20. The numbers of family day care services and in home care services have reduced significantly across Australia since 2018.
21. Reductions in the number of family day care services has a disproportionate impact on culturally and linguistically diverse households and on households in less advantaged areas.
22. There is little financial incentive for family day care and in home care educators to enter or remain in the sector, as effective wages are below comparable award rates for other forms of childcare.
23. The level of funding under the hourly rate cap for in home care is inadequate. The family day care hourly rate cap is also unlikely to be sufficient to adequately cover costs and recompense educators.

24. The in home care sector is unlikely to appropriately serve all the children and households it is intended to.

Impact of the price regulation mechanisms

25. The design of the Child Care Subsidy and existing price regulation mechanism has had a limited effect in placing downward pressure on prices and constraining the burden on taxpayers. The hourly rate cap does not act as an effective signal of high prices.
 - h) For centre-based day care, providers consider many other factors when setting daily fees besides the hourly rate cap. These include competitors' prices, households' willingness and ability to pay, and costs, as well as the activity test and households' out-of-pocket expenses.
 - i) For outside school hours care, most services are priced well below the hourly rate cap. Fees are often determined over a longer period of time and defined in licence agreements, and not necessarily re-evaluated each year. As such, the hourly rate cap generally does not have much bearing on provider pricing decisions.
 - j) For family day care and in home care, there is a high share of services charging above the hourly rate cap, which likely reflects the costs of providing these services exceeds the hourly rate cap.
26. Centre based day care providers are often optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.
27. The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.
28. The website StartingBlocks.gov.au is not widely used by parents and guardians. It relies on services to provide information and this information can be out of date or not supplied. The website administrator, ACECQA, does not receive data on session length so cannot publish the session length on the StartingBlocks website. This significantly limits parents' and guardians' ability to estimate out-of-pocket expenses and easily compare fees between services.

International comparisons and price regulation models

29. OECD data indicates centre based day care in Australia from 2018 to 2022 was relatively less affordable for households than in most other OECD countries.
30. There appears to be a trend across OECD countries towards supply-side subsidies to cover providers' costs of provision.
31. As a condition of supply-side funding, some Australian states and territories are requiring providers not to increase fees more than is reasonably necessary, and imposing reporting and monitoring requirements.

Recommendations

Proposed refinements to existing system

Recommendations 1 to 4 set out suggested improvements we recommend be made to the existing regulatory arrangements for childcare markets. The interconnectedness of government supports and policies mean consideration needs to be afforded to the impacts of changes across the sector and relevant markets, and on different cohorts of parents, guardians and children.

Recommendation 1

The ACCC recommends that the Australian Government reconsider and restate the key objectives and priorities of its early childhood education and care policies and supporting measures, including the price regulation mechanism.

Recommendation 2

The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and hourly rate cap, to simplify their operation and address unintended consequences, including on incentives and outcomes. In doing so, we recommend consideration be given to:

- a) Determining an appropriate base for the hourly rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could include consideration of labour costs. As part of this, the family day care and in home care hourly rate caps should be reviewed and consideration given to increasing them. This should ensure providers can adequately cover costs, including appropriate labour costs.
- b) Changing the hourly rate cap to a daily rate cap for centre based day care services to improve price transparency. There would need to be more detailed exploration of the incentives and consequences of such a change, including consideration of setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality. In particular, the need to ensure flexibility of operating times for households or children with disability and/or complex needs should be considered.
- c) Removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to disadvantaged children (for example, households with low incomes or in disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care.
- d) A stronger role for governments to monitor providers' prices, costs, profits and outcomes, supported by a credible threat of regulatory intervention to place downward pressure on fees.

Recommendation 3

The ACCC supports reconsideration of the information gathered for and reported on StartingBlocks.gov.au so that it is better focused on meeting parents' and guardians' information needs – balanced against the costs of collecting and publishing information. This could include:

- a) considering the frequency, granularity and scope of information submitted by childcare providers and published, to ensure currency and relevance for parents and guardians
- b) focusing on collecting and publishing information that assists parents and guardians to accurately estimate out-of-pocket expenses and relevant information to assist parents and guardians assess quality factors
- c) incorporating input and advice from the Behavioural Economics Team of the Australian Government, or other behavioural economist
- d) ensuring information is appropriately and effectively publicised to parents and guardians.

Recommendation 4

The ACCC recommends that governments further consider how the existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.

Reforms that require broader policy considerations for more fundamental change

Recommendations 5 to 8 relate to broader design changes to the childcare system.

Recommendation 5

The Australian Government should design policy options to better meet the needs of children and households for whom in home care services are intended to serve.

Recommendation 6

- a) The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians.
- b) Consideration should be given to identifying alternative approaches for First Nations households to access the Child Care Subsidy (and other childcare entitlements). This should recognise the current lack of flexibility in the system to take account of, for example, kinship care arrangements. It should also recognise and account for the barriers that can exist to stop or inhibit First Nations households engaging with Centrelink or Services Australia, such as practical documentation or evidence barriers and historical and cultural barriers associated with past trauma.

Recommendation 7

A market stewardship role should be considered for government, by both Australian and state and territory governments, to monitor, regulate and shape childcare markets to ensure they deliver government objectives.

A key part of this role should be identifying under-served or unserved markets and cohorts of childcare users. The stewardship role should also encompass consideration of appropriate interventions, whether through demand-side subsidies or supply-side subsidies, or a mix, as well as any complementary regulatory measures that may be necessary.

Recommendation 8

The ACCC supports further consideration of the benefits and challenges of supply-side subsidies (particularly as a longer-term consideration) coupled with other more direct forms of market intervention, as appropriate.