
Regulation Impact Statement

Child Care Assistance Package

June 2015



Providing feedback

Comments and submissions that address all or any of the implementation issues described in *Chapter 5 – Implementation options for the Child Care Assistance Package*, or any matter related to the Child Care Assistance Package, are welcome. You can also complete a short online survey. There will be a survey for services and a survey for families.

The closing date for feedback is **31 July 2015**.

To make a formal submission, provide a comment online or complete a survey online, please visit the Early Childhood Australia website at <http://www.earlychildhoodaustralia.org.au/our-work/ris-consultations/>

This is a public consultation process and all submissions, except for any information supplied in confidence, will be published on Early Childhood Australia's website, and will remain there indefinitely as a public document for others to read and comment on. For submissions received from individuals, all personal details will be removed before it is published.

If you are providing a comment online, your feedback will be quoted anonymously.

Submissions can be sent by email or post to the following addresses:

By email: consultations@earlychildhood.org.au

By post: Child Care Assistance Package
Early Childhood Australia
PO BOX 86
DEAKIN ACT 2600

Each submission should be accompanied by a submission coversheet, which is available on the Early Childhood Australia website at <http://www.earlychildhoodaustralia.org.au/our-work/ris-consultations/>

Early Childhood Australia has been engaged to assist the Department of Social Services to facilitate public consultation on the Regulation Impact Statement for the Child Care Assistance Package.

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Acronym

ACECQA	Australian Children’s Education and Care Quality Authority
BBF	Budget Based Funded
CCB	Child Care Benefit
CCCF	Community Child Care Fund
CCR	Child Care Rebate
ECEC	Early Childhood Education and Care
ICT	Information and Community Technology
IPSP	Inclusion and Professional Support Program
JETCFFA	Jobs, Education and Training Child Care Fee Assistance
POA	Priority of Access
RIS	Regulation Impact Statement

Summary Guide

The Child Care Assistance Package

On 10 May 2015, the Australian Government announced an increase of \$3.5 billion to support implementation of the Child Care Assistance Package, which will assist families with their child care costs. This brings the total spend on child care to almost \$40 billion over the next four years.

The new child care system will focus on quality child care that is affordable, accessible and flexible.

- **Affordable** – From 1 July 2017, the Child Care Subsidy will replace the Child Care Benefit (CCB), the Child Care Rebate (CCR) and Jobs, Education and Training Child Care Fee Assistance (JETCCFA). The Child Care Subsidy will provide greater financial assistance to meet the cost of child care for parents engaged in work, training, study or other recognised activity.
- **Accessible** – From 1 July 2016, elements of the Child Care Safety Net will commence. The Child Care Safety Net will provide targeted assistance to child care services in disadvantaged communities and also disadvantaged or vulnerable families and children, to address barriers in accessing child care, while encouraging parents to enter and return to the workforce.
- **Flexible** – From January 2016, the Interim Home Based Carer Subsidy Programme will support approximately 4,000 nannies and provide care for around 10,000 children whose families cannot easily access mainstream services for reasons such as shift work or living in rural, remote areas, or children with special needs.

Purpose of this document

This document is a Regulation Impact Statement (RIS). It sets out the options that were considered in the development of the Child Care Assistance Package and describes implementation options to the key components of the Child Care Assistance Package.

This RIS does not explore implementation options in relation to the Interim Home Based Carer Subsidy Programme. This is subject to a separate process.

Organisations and individuals with an interest in Australian Government child care subsidises and programmes are invited to review the implementation options for the key components of the Child Care Assistance Package and provide feedback through a national consultation process. The feedback will be used to update the RIS and assist the Government in making decisions about implementing the Child Care Assistance Package.

What is a RIS?

A RIS assesses the impact of potential changes in regulation. Regulation is any rule endorsed by government where there is an expectation of compliance.

A RIS must consider certain questions, which include:

- What is the problem you are trying to solve?
- Why is government action needed?
- What policy options are you considering?
- What is the likely benefit of each option?
- Who will you consult about these options and how will you consult them?

-
- What is the best option from those you have considered?
 - How will you implement and evaluate your chosen option?

The content of this RIS corresponds to these questions.

Guide to the document

This RIS is divided into seven chapters and four attachments:

- Chapter 1 – Background to the problem
- Chapter 2 – What is the policy problem to be solved?
- Chapter 3 – Objectives of Government action
- Chapter 4 – Options considered in the development of the Child Care Assistance Package
- Chapter 5 – Implementation options for the Child Care Assistance Package
- Chapter 6 – Consultation
- Chapter 7 – Implementation and evaluation
- Attachment A – Terms of Reference
- Attachment B – Australian Government funded child care programmes
- Attachment C – High level comparison of key elements of each option
- Attachment D – Full list of recommendations from the Productivity Commission Inquiry

Chapter 1 and 2 – Background to the problem and the policy problem to be solved

Chapters 1 and 2 explain what has happened in the lead up to this RIS. They also describe in broad terms the policy problems that are being addressed. Additional detail on the justification for considering change in specific areas is provided in Chapters 4 and 5.

Chapter 3 – Objectives of Government action

Chapter 3 explains the rationale and guiding principles for government action.

Chapter 4 – Options considered in the development of the Child Care Assistance Package

Chapter 4 describes the Child Care Assistance Package and describes the options that were considered during its development.

Chapter 5 – Implementation options for the Child Care Assistance Package

Chapter 5 describes individual implementation options that could be used to address the identified problems. It includes more detail about the specific issues being addressed and what the impacts of each option could involve. The chapter includes questions that stakeholders may consider when framing feedback.

Chapter 6 – Consultation

Chapter 6 describes the consultation that has happened in the lead up to the RIS. It also describes consultation that is now occurring as part of the RIS process.

Chapter 7 – Implementation and evaluation

Chapter 7 describes the possible timing for any changes that flow from the RIS.

Attachment A

Attachment A provides Terms of Reference for the Productivity Commission Inquiry into childcare and early childhood learning.

Attachment B

Attachment B provides information on existing Government funded child care programmes.

Attachment C

Attachment C provides a high level comparison of key elements of Child Care Assistance Package and the other options considered during its development.

Attachment D

Attachment D provides a full list of recommendations from the Productivity Commission Inquiry.

1. Background to the problem

1.1 Australia's child care sector

The child care sector touches the lives of most Australian families, with almost every child now participating in some form of child care before entering school, or afterwards through outside school hours care.

Historically, the Australian Government's policy focus on child care has been to support the workforce participation of parents to boost Australia's productivity. However, since the 1990s, the Government's role expanded to also focus on the quality of child care services and the role they play in early childhood development.

Currently, the Government is the primary funder of formal child care and early learning through fee assistance to parents, while states and territories have primary carriage of regulation and licencing.

Public expenditure on child care has grown significantly in recent years, with child care fee assistance one of the Government's fastest growing major outlays. In 2013–14, the Government spent over \$5.7 billion on child care fee assistance and this is projected to rise to more than \$7 billion in 2015-16. With this level of expenditure and given the cost that child care can represent for many households, it is important to ensure that parents and taxpayers are getting value for money from the system.

The child care sector is large and diverse and has been, and continues to be, evolving in response to changing demographics, family preferences, the regulatory environment and government assistance settings.

In response to the growing number of children and families using formal care and families' changing work patterns, over several years child care policies and programmes have attempted to improve accessibility and affordability for families. However, these changes have resulted in the system becoming more complex. As the child care sector is subject to both Australian Government and state and territory regulation, this has created further complexity for services and families and has resulted in duplication and regulatory burden for service providers.

In September 2013, and consistent with its election commitment, the Government tasked the Productivity Commission to undertake an inquiry into the child care and early childhood learning system and provide recommendations on how to make it more affordable, flexible and accessible.

In line with the Terms of Reference for the Inquiry (refer to [Attachment A](#)), the Government's objectives in commissioning the Inquiry were to examine and identify future options for a child care and early childhood learning system that:

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

This was the first detailed review of the system since the 1990s and provided the Government with an opportunity to make a generational policy change that will create a sustainable system that encourages greater workforce participation and productivity, and addresses children's learning and development needs.

The *Productivity Commission Inquiry Report into Childcare and Early Childhood Learning* (2014) was publicly released on 20 February 2015 and can be viewed on the [Productivity Commission website](http://www.pc.gov.au/inquiries/completed/childcare): www.pc.gov.au/inquiries/completed/childcare.

Child care services

A wide range of child care services are available in Australia, with a mix of public and private (both for and not for profit) providers. In the June quarter 2014, around 16,683 approved child care services operated in Australia. The Productivity Commission estimates that around 50 per cent of approved services are provided on a 'for profit' basis.

Although the Government heavily subsidises parents' use of child care services and the quality of services is subject to state and territory government regulation, the foundation of the system is a set of market-oriented arrangements where parents make choices about the type, quality, location and other service features that best meet their needs as well as the price they are willing and able to pay.

Child care services can be broken into the following broad service types:

- **Long day care** – a centre-based service that usually operates 10-12 hours per day, 5 days a week and caters for 0-5 year olds. These services may also deliver a preschool programme
- **Outside school hours care** – a centre-based service that provides care for primary school-aged children (5-12 years old) before school, after school and during school vacations
- **Occasional care** – a centre-based service that provides care for children on an hourly or sessional basis primarily for 0-12 year olds
- **Family day care** – a service where children are usually educated and cared for in the educator's own home and which caters primarily for 0-12 year olds
- **Mobile** – a service that visits different locations usually providing care in isolated or disadvantaged communities in regional and remote areas
- **Budget Based Funded** – services that are funded directly by the Government to deliver education and care in regional, remote or Indigenous communities where the market is or was otherwise unviable
- **In-home care** – a service where children are cared for in their own homes by educators
- **Registered care** – care provided by individuals.

There are also a range of informal arrangements that may involve nannies, grandparents, relatives and family friends. Although over recent decades there has been a trend away from informal care towards formal care provided by qualified educators, the majority of families continue to use informal care.

Families and children

The Productivity Commission found that the number of children attending formal child care services has almost doubled over the 15 years to 2011 and this growth exceeds the growth in the population of children.

During the June quarter 2014 there were 797,860 families with 1.16 million children (an increase of 9.8 per cent since the June quarter 2013) using approved child care in Australia. For children aged 0-12 years using approved child care, this represents **29.6 per cent** of the 3,856,880 children aged 0-12 years in Australia.

The average number of hours children used approved child care services was 24.5 hours per week, an increase of 4.2 per cent from the June quarter 2013 to the June quarter 2014. This increase is part of an ongoing pattern of growing utilisation of approved child care services across Australia. Table 1 provides data on approved child care, as at the June quarter 2014.

Table 1: Child care: children, families, hours and services, June quarter 2014

Service type	Children	Families	Hours/week (average per child)	Services
Long day care	631,400	518,170	27.6	6,606
Family day care and in-home care	192,510	110,690	31.1	783
Occasional care	7,430	6,240	11.4	117
Outside school hours care	367,940	261,440	10.8	9,177
Total*	1,161,150	797,860	24.5	16,683

*As families and children may use more than one service type in any particular quarter and due to rounding, the sum of the component parts may not equal the total.

Source: Department of Social Services administrative data.

Government involvement in child care

All levels of governments (Australian, state and territory and local governments) have a role in the child care system, primarily through supply and demand funding, regulation and legislation, information provision, and setting national policies.

For many child care policy matters, the Australian Government works collaboratively with state and territory governments to develop national policies.

Governments provide a range of financial assistance to the child care sector to meet the objectives of workforce participation, child development and equity of access. The importance of each of these policy objectives has evolved over time.

The Australian Government is the single largest funder of the sector, through child care fee assistance, support for services and National Partnership Agreements with state and territory governments.

State and territory governments have primary responsibility for the approval and regulation of child care services under the National Quality Framework and other laws that apply to children. Local governments have a statutory role as a land use planner, including issuing development consents and construction certificates and strategic land use planning. A number of local governments also provide child care and early learning services to their communities.

These governance, regulation and funding arrangements across the country have increased the levels of complexity and inconsistency for service providers and families.

Child care fee assistance

The Government provides assistance to help families meet the cost of child care predominantly through CCB and CCR.

The Family Assistance Law is the basis for the payment of CCB and CCR, as well as other family assistance payments (such as Family Tax Benefit) to eligible parents. Family Assistance Law sets out the child care service and service provider approval and compliance obligations a service must meet for continued approval. A range of legislation and regulations are collectively known as Family Assistance Law, including:¹

- *A New Tax System (Family Assistance) Act 1999*
- *A New Tax System (Family Assistance) (Administration) Act 1999*
- *Child Care Benefit (Eligibility of Child Care Services for Approval and Continued Approval) Determination 2000*
- *Family Assistance Legislation Amendment (Child Care Management System and Other Measures) Act 2007.*

CCB is an income-tested payment targeted towards low to middle income families and can be received as a lump sum payment or paid direct to the service to reduce child care fees. Different loadings are applied to the standard CCB rate depending on the circumstances of the family, such as the number of children in the family and the type of care they use.

In relation to operating requirements, providers of the following types of services must undertake that:

- long day care, in-home care and family day care services will operate on all normal working days in at least 48 weeks of the year and be available to provide care for any particular child for at least 8 continuous hours on each normal working day on which it operates
- occasional care services will operate for a maximum of nine hours per day
- outside school hours care services will, if they provide before or after school care, operate on each school day. If providing vacation care, services will be available to provide care for at least eight continuous hours on each normal working day for at least seven weeks of school holidays in a year.

Under the Family Assistance Law, only occasional care has a maximum operating hour requirement imposed, with a minimum operating hour requirement set for all other service types.

To be eligible for CCB, an individual or their partner (if they have one) must meet residency requirements, be liable for the child care costs and have an eligible child in their care attending approved child care in Australia. All eligible families can receive CCB for up to 24 hours per child per week. To receive more than 24 hours CCB in a week, both parents must be undertaking a minimum of 15 hours per week (or 30 hours in a fortnight), of work, training or study, or satisfy an exemption. The amount of assistance is based on a family's income.

¹ The full list is available on the [Department of Social Services website](http://www.dss.gov.au/our-responsibilities/families-and-children/programmes-services/early-childhood-child-care/family-assistance-law) at www.dss.gov.au/our-responsibilities/families-and-children/programmes-services/early-childhood-child-care/family-assistance-law

To be eligible for CCR families must be eligible for CCB (even if they do not qualify for assistance because their family income is too high). CCR pays up to 50 per cent of a family's out-of-pocket child care costs after any CCB is deducted, up to a maximum of \$7,500 per child per annum. Parents have to participate in work related commitments at some time during a week or satisfy an exemption to receive CCR.

Families on higher incomes tend to receive relatively more CCR as they are eligible for less income-tested CCB. Parents can choose to receive CCR on a fortnightly, quarterly or annual basis, or have it paid direct to services on their behalf to reduce fees.

The strongest growth in Government expenditure on child care has been for CCB and CCR. These are 'demand-driven' payments, which mean they respond to demand from families for approved child care. Together they constitute around 90 per cent of the Government's outlays on child care. Between 2003–04 and 2013–14, CCB and CCR expenditure grew from \$1.4 billion to around \$5.6 billion (excluding Jobs, Education and Training Child Care Fee Assistance).

There are additional fee assistance payments aimed at families in specific circumstances:

- **Special Child Care Benefit** – assists where there is a child at risk of serious abuse or neglect, or for a family experiencing short term financial hardship which has substantially reduced their capacity to pay child care fees. Initial claims are limited to 13 weeks, and reassessed thereafter.
 - Special Child Care Benefit is demand driven and child care services determine access to the payment for the first 13 weeks. Special Child Care Benefit is not intended to be an ongoing support payment.
- **Grandparent Child Care Benefit** – assists grandparents who are the primary carers for their grandchildren and who receive an income support payment. Grandparent Child Care Benefit pays the full cost of child care fees for each child in CCB approved care for up to 50 hours a week. Grandparents need to meet the CCB eligibility requirements except for the work, training, study test to claim Grandparent Child Care Benefit.
- **Jobs, Education and Training Child Care Fee Assistance (JETCCFA)** – helps eligible income support parents with the cost of approved child care while they are working, studying or training. JETCCFA meets the net costs of care, after CCB, up to a maximum of \$8.00 per hour per child. In addition there is a minimum \$1 per hour parental co-contribution. Parents can claim 50 per cent of this co-contribution from CCR, reducing the actual out of pocket cost of care to parents to 50 cents per hour (depending on the fee charged).
 - JETCCFA is a demand driven programme with a capped appropriation. Whenever there are changes in related policy areas, such as workforce participation requirements for parents on income support, pressure on this subsidy grows.

Support for child care services

In situations of market failure, where barriers or distortions hinder the market's ability to meet and satisfy a demand or identified need, successive Governments have established a range of 'supply-side' (service provider-focused) support and funding programmes that aim to assist the market to respond to demand for child care services.

In principle, these initiatives are geared towards assisting service providers to address sustainability and viability within the following four broad areas:

- **Establishment barriers** such as 'up-front' capital, infrastructure costs or delays associated with licensing, local government planning regulations and access to land.

-
- **Capacity and capability barriers** such as cost/profitability ratios and/or required skills and expertise to include children with additional needs, including children with disability, Indigenous children, children from culturally and linguistically diverse backgrounds and from humanitarian or refugee backgrounds.
 - **Sustainability barriers** such as localised ‘*shallow*’ markets (where the market is incapable of swift adaptation to changing economic or demographic drivers resulting in pricing pressures and a mismatch between supply and demand) or ‘*thin*’ markets (where there are simply insufficient families with children needing to access care).

Further information on Australian Government funded programmes is at [Attachment B](#).

National Partnership Agreements

The Australian Government also provides financial assistance to child care and early learning through National Partnership Agreements with state and territory governments.

The *National Partnership Agreement on Universal Access to Early Childhood Education* aims to ensure that every child has access to a quality early childhood education programme in the year before full time school with a focus on participation by vulnerable and disadvantaged children. As the Australian Government Department of Education and Training is responsible for the National Partnership Agreement, this Agreement is not subject to this RIS.

The *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care* incorporates a National Quality Framework for Early Childhood Education and Care (National Quality Framework). The National Quality Framework includes a National Quality Standard to ensure high quality and consistent early childhood education and care across Australia.

The National Quality Framework applies to most long day care, preschools, family day care and outside school hours care services. The National Quality Framework replaced separate licencing and quality assurance systems across jurisdictions, including those administered by state and territory governments.

The National Quality Framework operates under an ‘applied law system’ where a national law is established by a host jurisdiction enacting a law and other jurisdictions adopt the law or pass corresponding legislation.

State and territory governments have primary responsibility for the regulation and approval of child care services under the National Quality Framework, while the Australian Government provides strategic oversight of the National Quality Framework through the Council of Australian Governments’ Education Council.

Through the Education Council, the Australian Government and all states and territories are undertaking the review of the National Quality Framework to ensure the goal of improving quality in education and care services is being met in the most efficient and effective way.

Provision of information to parents and providers

The Australian Government’s [MyChild website](http://www.mychild.gov.au) (www.mychild.gov.au), administered by the Department of Social Services, provides a single, national, searchable database on child care and preschool services, including fees, vacancies, National Quality Framework quality ratings, and hours of operation. There are over one million visits to the site each year.

In addition, the Department of Social Services also provides a number of other services and resources to support child care service providers:

- **Child Care Access Hotline** – a free telephone service providing information to parents including types and location of care, possible vacancies, fee information where provided by approved child care services, how to choose a quality child care service, and Australian Government support. Around 30,000 calls are made to the Hotline each year.
- **Child Care Services Handbook** – an online publication that details policy and legislative requirements, information on government programmes, and guides to child care assistance. The full range of information is at www.dss.gov.au/our-responsibilities/families-and-children/programmes-services/early-childhood-child-care/child-care-service-handbook.

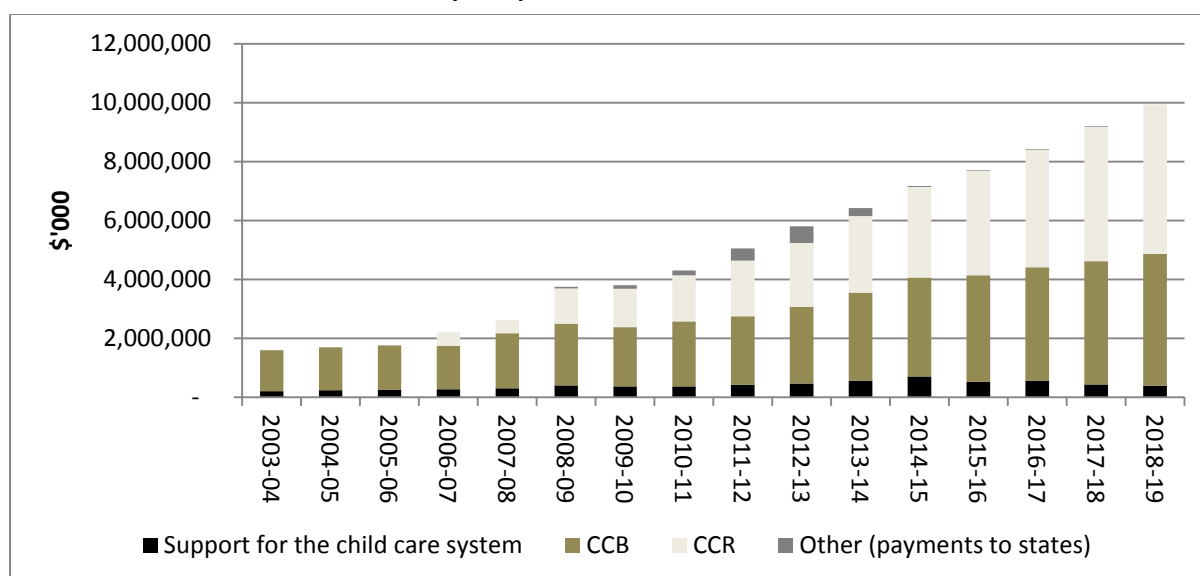
As the agency responsible for payment to families, including the assessment and payment of child care assistance to families, the Department of Human Services provides policy and programme information to parents and educators. It does this through its Australia-wide network and its website at www.humanservices.gov.au. Families are able to access the department's services through online services and mobile phone apps, including the ability to apply for payments and review and change their personal information applicable to child care payments.

Australian Government funding

In 2015–16 the Australian Government is projected to spend over \$7.3 billion on fee assistance.

Australian Government outlays on child care services and fee assistance have increased from \$1.6 billion in 2003-04 to over \$6.4 billion in 2013-14 (see Figure 1).

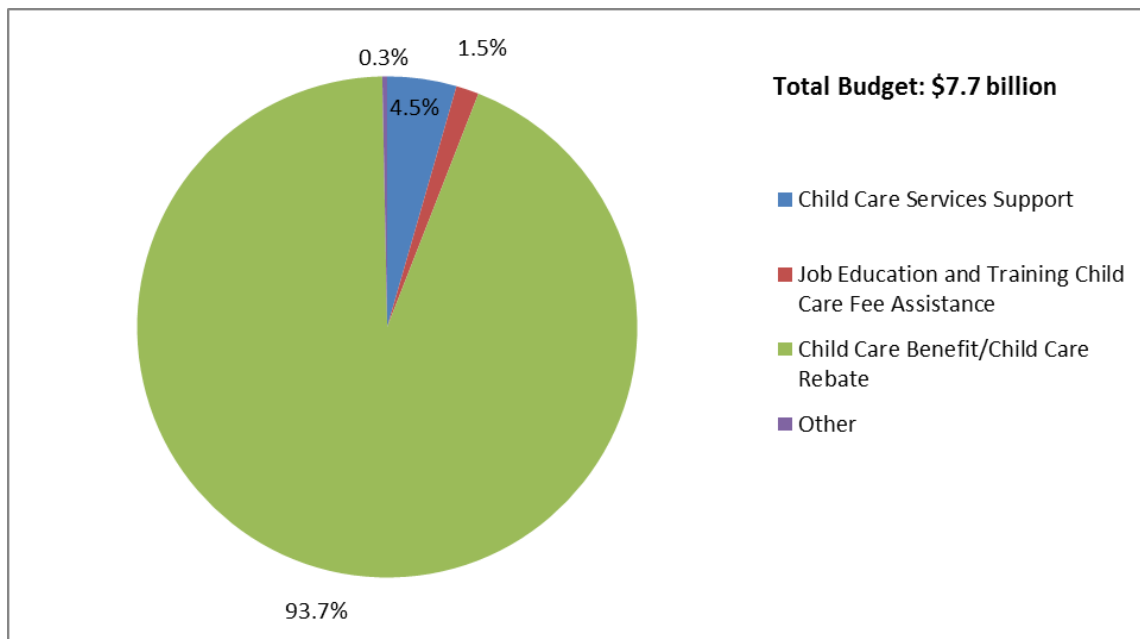
Figure 1: Australian Government child care and early learning outlays and projected expenditure, 2003-04 to 2018-19 (\$000)



Source: Department of Social Services administrative data

While the majority of financial assistance goes to support families with their fees, there are a range of other programmes. Figure 2 displays the proportion of funding on the variety of different child care programmes.

Figure 2: Australian Government child care and early learning expenditure 2015-16 budget



Source: Department of Social Services administrative data

2. What is the policy problem to be solved?

2.1 Barriers to an efficient and effective child care system

The current child care system is complex and unwieldy. Families constantly raise concerns that it is difficult to access child care when they need it and often it is unaffordable especially for more than two to three days a week. In addition, many Government assistance programmes have become unsustainable.

Despite the Government being projected to spend over \$7 billion on fee assistance in 2015-16, the child care system is seen as unaffordable, inflexible and creating disincentives to workforce participation. Change is required to better target assistance and to better constrain Government outlays.

In tasking the Productivity Commission to undertake their Inquiry, the Government acknowledged the existing child care system can be improved:

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

The Government faces a number of complex and competing policy challenges in relation to child care including:

- the complexity of the system for families and services
- affordability for families
- accessibility and flexibility for families to support workforce participation
- sustainability for the Government.

Complex system for families and services

Both the Productivity Commission and the Australia's Future Tax System Review (Henry Tax Review in 2009) found that the current child care system, particularly in respect of funding arrangements and government involvement, is complex and difficult for families and services to navigate.

Feedback from consultations with stakeholders also indicates the current system is generally perceived as being complicated and difficult to easily and quickly access.

Financial assistance for families

Challenges to the sector such as the changing costs of delivery and localised, uneven service provision, mean that some children and families still miss out on accessing quality, affordable child care, while Government expenditure, and therefore the cost to taxpayers is growing rapidly.

The calculation of child care fee assistance for families is particularly complicated as the hourly rate of CCB can differ based on:

- the type of care
- whether the care is part-time or full-time
- the number and ages of children a family has in care
- whether the care is work-related.

While tailoring assistance to particular groups is important, it comes at the cost of additional complexity. This can make it difficult for parents and providers to interact with the system and may deter them from doing so. The existence of two child care payments and the way they interact can also add to complexity². In consultations in 2015 some parents indicated they do not understand what Government assistance they might be entitled to and this can add to workforce barriers when making participation choices.

Additionally, the Productivity Commission found that depending on how parents elect for their subsidies to be paid, there may be a long lag between fees paid by parents and subsidies paid by the Government, with many of these parents underestimating the value of the assistance provided by Government.

The Productivity Commission noted that compared with an arrangement where assistance is provided through a single funding instrument, current arrangements are expensive to administer both for service providers — which provide advice for families and usually represent the interface through which families claim their subsidises — and government — whose role is to assess entitlements, pay entitlements to families and to reconcile the amount families actually receive against the amount to which they are entitled once their realised income is known.

While the option of claiming CCB and CCR entitlements in the form of a fee reduction or a lump sum payment gives families a choice around when they receive assistance, the Productivity Commission considers this adds an additional layer of complexity to current funding arrangements. Paying the subsidy direct to providers could help to reduce bad debts.³

Some stakeholders have indicated the complexity of working out their entitlements (i.e. government subsidies, benefits and concessions) makes it difficult for their financial planning and budgeting. This complexity has contributed to some families not being able to accurately and correctly make decisions about the benefits of increasing their workforce participation.

Complex government involvement

The child care sector also has a history of increasingly complex government involvement, as supplier, regulator and funder (to both families and services), with all three levels of government playing a role. This interaction between three levels of government has led to a tendency for some overlap or duplication between the levels and regulatory burden for providers, who often have to respond to requirements from all three levels and across local and state and territory government boundaries. Table 2 provides a summary of regulation/support of child care services.

² *Australia's future tax system – Report to the Treasurer 2009*,

http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/Publications/Papers/Final_Report_Part_2/chapter_f4.htm

³ Productivity Commission 2014, *Childcare and Early Learning* (p. 608), Inquiry No. 73, Canberra.

Table 2: Current regulation/support of child care services

<i>Service types</i>	<i>Australian Government fee assistance</i>	<i>Other Australian Government assistance</i>	<i>Regulated by states or territories under the National Quality Framework</i>	<i>Regulated under other state or territory legislation</i>
Long day care	✓	✓ To support unviable markets	✓ (most)	N/A
Family day care	✓	✓ To support unviable markets	✓	N/A
In-Home Care	✓ (capped places)	✓ Direct funding	✗	Only in Tasmania and South Australia
Outside school hours care	✓	✓ To support unviable markets	✓	N/A
Occasional care	✓ (capped places)	✓ Direct funding	✗	In some jurisdictions
Budget Based Funded services	✗	✓ Direct funding	✗	In some jurisdictions
Mobiles	✗	✗ Other than BBF mobiles	✗	In some jurisdictions

Affordability for families

Without financial assistance, many families would find the cost of child care to be prohibitive. The Government seeks to address this through a range of subsidies and programmes. Despite this assistance, some families find the affordability of child care a challenge.

Fee growth

In recent years, despite increased outlays, the amount of fee assistance has not kept pace with increases in fees. In addition, an increasing proportion of fee assistance is going to higher income families rather than lower income families.

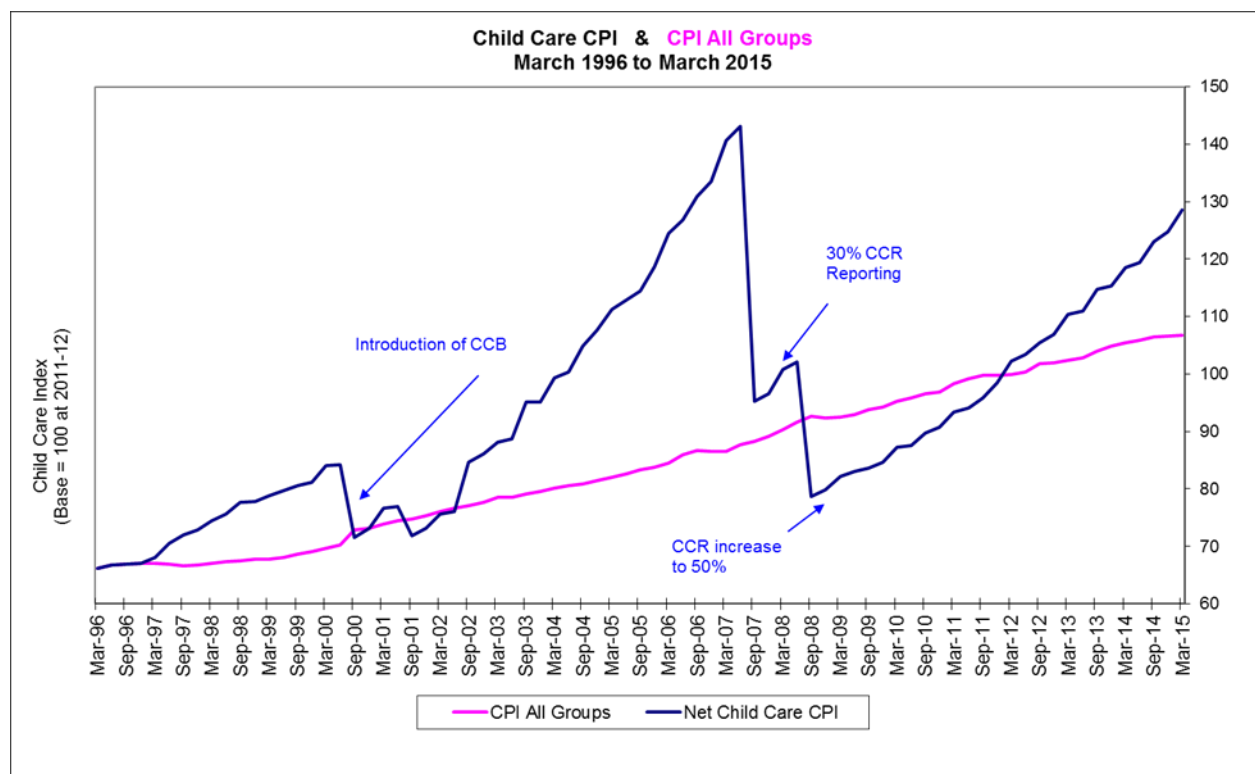
A common issue and concern raised by families is about the lack of affordability of child care, especially for children who were younger than school age. Families have also expressed concerns about child care providers continually increasing fees, with some feeling their services regularly raise fees without justification. In consultations there have been calls on any Government reforms to help place downward pressure on fee growth.

The existing system places little downward pressure on fees. The Government pays a minimum of 50 per cent of fees charged, irrespective of the type of service delivered or family circumstances (up to an annual cap for CCR).

The most current data available shows an increase of 10.1 per cent in the average weekly cost of child care per child from June quarter 2013 to June quarter 2014.⁴ Additionally, the Productivity Commission stated that following an increase in the rate of CCR in July 2008 (from 30 per cent to 50 per cent of a family's out of pocket expenses), the average annual increase in long day care fees accelerated. However, by July 2009, the rate of increase in fees slowed. Although the rate of CCR increased there was no significant impact on workforce participation.

⁴ Department of Social Services administrative data

Figure 3 shows how policy changes to child care fee assistance have impacted on affordability between 1996 and 2013 including the introduction of CCB and CCR. Figure 3: Child Care Prices and CPI 1996 to 2015.



Note: To produce an estimate of an average household's gross child care fees payable, the Australian Bureau of Statistics (ABS) collects prices from a sample of child care centres, including FDC, and private and community child care centres in each capital city. The net child care cost index is the gross cost less the estimated CCB and CCR entitlements, based on income and usage profiles of a representative sample of child care users.

The ABS did not include the Child Care Tax Rebate/CCR in the Child Care CPI estimates until 2007. The inclusion of CCR at this point, combined with the one-off 10 per cent increase in CCB that occurred in the 2006-07 Budget, resulted in a large drop in calculated value of the Net Child Care CPI.

One of the main drivers of fee costs in the child care sector is wages. Some services have indicated that regulatory requirements such as staff qualifications and ratios also contribute to operating costs.

Irrespective of differing staffing requirements across jurisdictions, there are large variations in fees between states and territories as well as metropolitan, regional and remote areas. This results from the variable costs of operating a service. For example, infrastructure costs can be high in metropolitan areas and remote areas.

Service charging practices

Many providers charge for sessions of care rather than for the number of hours for which care is actually provided. Such fee charging practices are commercial decisions made by providers and each provider decides the fee structure appropriate to their business, including the profit margin.

This is expressly allowed by the Family Assistance Law. Under subsection 10(1) of the *A New Tax System (Family Assistance) Act 1999* CCB and CCR is paid where a service charges a family for a 'session of care'. The Government currently pays subsidies for all hours charged for by services, up to the weekly limit of hours of a session of care for the eligible individual, regardless of whether the child was in attendance for the whole session.

Current charging practices by service providers can lead to situations where families pay for more child care than they need by paying for sick days, public holidays or unused sessions of care. Stakeholder submissions to the Productivity Commission Inquiry highlighted that many families are paying for care they do not need or use. The Productivity Commission found that long day care services, in particular, tend to offer care in full day sessions only. This means that parents who do not need a full day of care (typically between 10-12 hours in a long day care service) are required to pay for an entire day regardless of what they actually use. These practices can result in families exhausting their fee assistance entitlement for CCR more quickly than if they were just charged for hours used. It can also reduce the availability of places.

Feedback from consultations with stakeholders highlights concerns about families having to pay for a significant amount of unused care. While some families understood that they had to pay a premium to hold their child care place as services needed to recover fees to meet their operating costs, many others felt that the system and/or providers were inflexible in not adapting and responding to parental needs for care.

Impact on workforce participation

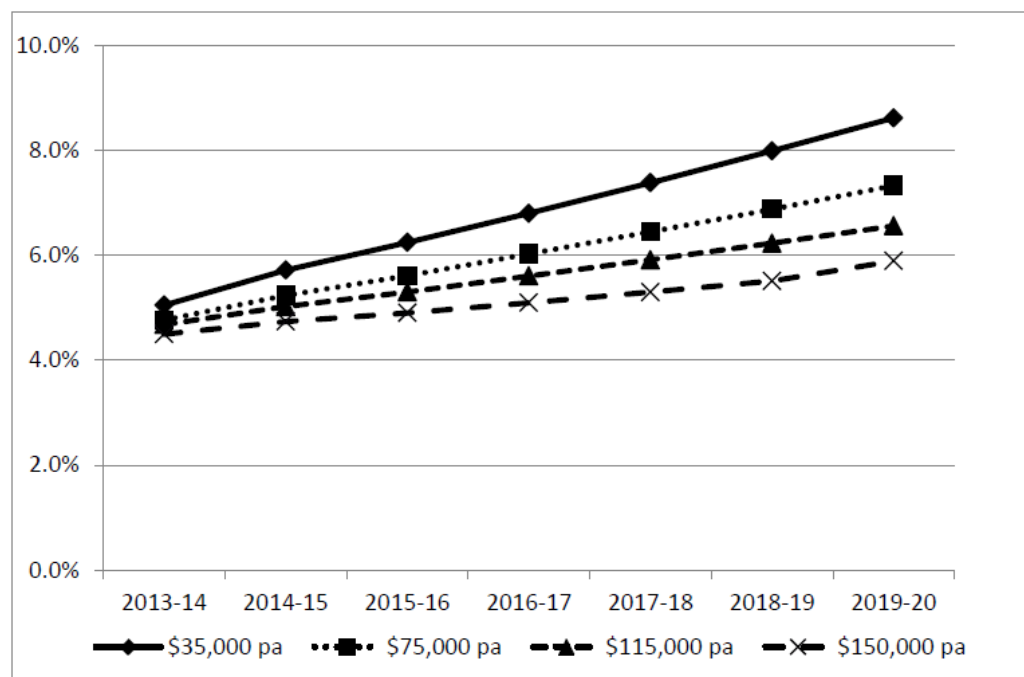
The relationship between affordability for families and workforce participation is complex. The current child care system is increasingly seen as unaffordable and creating disincentives to parents' workforce participation. The Productivity Commission has estimated that there are approximately 165,000 parents (on a full-time equivalent basis) who would like to work, or work more hours but are not able to do so because they are experiencing difficulties with the cost of, or access to, suitable child care.

The way child care assistance interacts with other government payments, and the implications this has on the work decisions of families is complex. The gains or losses from working an additional day can affect families' disposable incomes differently, depending on their income levels, the number of children in child care and the fees charged.

The Productivity Commission found that secondary income earners in couple families and single parent families with children under school age could face a significant disincentive to work more than three days a week due to high effective marginal tax rates from the cumulative impact of income tax and the withdrawal of child care fee assistance, Family Tax Benefits and the Parenting Payment.

It would be expected that women with lower earnings potential and families on lower incomes (for whom child care expenses may take up a larger part of their disposable income) would be expected to be more affected by child care price changes than those with higher incomes. Figure 4 shows the increase of out of pocket costs for families with different income levels over time.

Figure 4: Out of pocket costs as a proportion of disposable income



Source: Department of Education administrative data

Accessibility

In addition to the significant growth in the number of children using approved care over the last decade, there has been a growth in the number of services. This suggests the market has responded reasonably well to demand.

However, while child care services are accessible for most families the Productivity Commission found some families experience difficulty accessing child care, including:

- there are fewer services offering places for 0-2 year olds
- families often have difficulty securing outside school hours care for preschool and school age children
- some families travel long distances to access child care
- there are reported shortages of child care places in parts of major cities
- the current cap on approved occasional care places greatly restricts accessibility for families.

The supply of child care can be impacted by:

- **set up and running costs** which can impact on the availability of places, as services may find it too expensive to expand or set up, even in areas of high demand
- **location** – some families have difficulty accessing child care in some areas of Australia, such as inner-city suburbs and mining towns⁵, where the cost of entry and operation for service providers outweighs the community's and parents' capacity to pay, even after subsidies and other assistance from governments
- **providers access to capital**⁶ (particularly for not-for-profit organisations⁷)

⁵ Department of Education n.d., unpublished research.

⁶ IBISWorld 2013, *Child Care Services in Australia*.

⁷ Lyons, M, North-Samardzic, A & Young, A 2007, 'Capital access of nonprofit organisations', *Agenda*, vol. 14, no. 2, pp. 99-110.

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- **regulatory burden** arising through development and building approval processes, constraints due to zoning restrictions, lack of available land and the cost of meeting National Quality Framework requirements
 - **eligibility criteria to attract Australian Government subsidies** – providers must meet certain eligibility criteria, including operating hour requirements. This can limit services from opening where it would otherwise be viable to do so, especially in rural and remote areas where demand may not be sufficient to sustain a service for five days a week or for 48 weeks a year (for example, in locations with seasonal employment such as tourism or agriculture).

The effect of these issues on supply can reduce competition in local areas where there is a single dominant provider, or result in insufficient supply in areas where there is little return on investment.

Flexibility

The child care sector has a diverse array of service types, falling into two broad categories: centre-based and home-based.

Centre-based care comprises long day care, outside schools hours care, occasional care and a range of integrated child care models, while home-based care includes family day care, in-home care, and most informal care, including nannies. There are also mobile child care services in rural and remote communities that generally operate from halls or buildings like centre-based services, but do not own or permanently lease the premises.

Despite the range of service types, many families still find the current system to be inflexible and are seeking child care arrangements that meet their specific and diverse needs.

Increasingly, parents no longer work '9 to 5' and need more flexibility as to the location, timing and form of care. This can result in some families perceiving a lack of supply in a situation where there is a child care service available, but not in the form and/or at the times they need it.

Current regulatory arrangements interfere with the operation of child care services making them less flexible and creating a disincentive for families to enter the workforce.

Feedback from consultations indicates that families consider the child care system has not adapted to meeting the changes of the modern working environment, where most people need more flexible services as they no longer have standard working conditions or hours, or prefer in-home care options.

The demand for greater flexibility is more acute for parents working non-traditional hours, such as emergency service personnel, shift workers or casual workers in the retail or hospitality sectors.

Impact on workforce participation

Lack of accessible and flexible child care is a significant issue affecting workforce participation and family stress levels. It can impact on families' workforce participation in the following ways:

- mothers may not return to work, or return part-time to a different role with less potential for promotion
- parents can be required to tag-team with resultant stress levels on parents and potentially children
- families may need to rely on relatives and/or a complex set of formal and informal child care arrangements

-
- families may be unable to access care for last minute shift changes or vary days that can be used.

Parents with non-standard working/studying conditions and hours have reported that the lack of flexibility in child care service options and practices has necessitated them changing their work/study arrangements.

Research conducted by the then Department of Education, Employment and Workplace Relations in late 2012 confirmed the importance of child care and noted that flexibility of care (to match parents' work hours) was also important, ranking above affordability alone.

Sustainability

Fiscal sustainability

Australian Government expenditure on child care has grown significantly in recent years and child care fee assistance is one of the Government's fastest growing major outlays. In 2013–14, the Government spent over \$5.7 billion in child care fee assistance.

There is a policy tension between improving flexibility and affordability for families while being fiscally responsible. Child care fee assistance accounts for approximately 88 per cent of child care outlays and the main inter-related drivers of expenditure on child care fee assistance are:

- the **number of children** in approved services
- the **number of hours** children spend in approved services – or, rather, the hours charged by approved services
- the **fees** charged by approved services.

An increase in one or more of these drivers can have a significant impact on total expenditure.

For example, if the proportion of children (aged 0-12) in formal care increases by 5 percentage points in 2014-15 (from 29 per cent to 34 per cent of all children) it will add approximately **\$1 billion per year** to the child care budget. If the proportion of children (aged 0-12) in formal care increases to 50 per cent of all children in 2014-15 (aged 0-12), it would add approximately **\$4 billion per year** to the child care budget.

It is anticipated that CCR will overtake CCB as the Australian Government's largest single child care assistance programme. This trend raises questions about the current structure of payments.

Efficiency and effectiveness of Government programmes

There are opportunities to improve the efficiency and effectiveness of Government supply and demand side child care programmes.

The Productivity Commission found there are at least 20 Australian Government child care assistance programmes and many have overlapping objectives. Additionally, some assistance programmes — such as Special Child Care Benefit, JETCCFA and the Community Support Programme — have been poorly targeted and funds have flowed to services and families well outside their intended purposes.

In practice, many of the supply-side programmes were created to address specific policy issues and have tended to become increasingly complex for government to administer and for service providers to navigate as those specific issues have evolved.

There are also complex interactions between ‘demand-side’ funding such as CCB and CCR, and ‘supply-side’ funding provided direct to services, to assist with, for example, establishment costs, special needs children and families, and the cost of operating in remote areas. It is also worth noting that ‘supply-side’ and targeted programme funding has remained relatively constant over recent years – at the same time that child care fee assistance for families outlays have grown substantially.

Compliance powers

The Department of Social Services has a broad ranging programme to encourage, enforce and strengthen compliance with Family Assistance Law to mitigate the risks associated with relying on child care services to submit accurate information. The child care payments compliance strategy focuses on prevention, including education, detection/recovery and deterrence.

Despite such efforts, the Department of Social Services has identified a range of compliance concerns, including significant non-compliant behaviour by services, particularly in the family day care sector, in relation to incorrect claims for child care fee assistance.

The current legislative and Information and Communication Technology (ICT) systems do not adequately support activities and impact the ability for the Department of Social Services to identify, investigate and address non-compliance. The compliance regime under the Family Assistance Law includes a civil penalty regime consisting of infringement notices and civil penalty orders, sanctions and criminal offences.

However, the compliance framework within the Family Assistance Law has a number of limitations, it does not support a broad range of responses to encourage, monitor and enforce compliance and there is limited capacity within the law to encourage services to meet their obligations through ‘stepped’ regulatory responses that reflect the seriousness of any offence.

3. Objectives of Government action

The Australian Government made an election commitment to task the Productivity Commission with an inquiry into how the child care system can be made more flexible, affordable and accessible.

This is the first detailed review of the system since the 1990s and provides an opportunity to make a generational policy change that will create a more sustainable system that:

- encourages greater workforce participation and productivity, and better meets families' needs
- addresses children's learning and development needs, particularly those who are vulnerable or at risk of poor long-term development outcomes.

3.1 Rationale for government intervention

As the Productivity Commission outlined in its report, there are a range of social and economic circumstances under which government intervention is widely accepted as necessary in order to achieve a range of objectives or outcomes. These include:

- facilitating outcomes such as workforce participation that may only be achievable through government intervention to alter incentives faced by families and/or providers
- addressing child development outcomes that have future benefits for the broader community
- providing information on the child care market, such as quality of services, the availability of places, or future demand for places.

Such objectives represent a mix of social and economic goals – as the Productivity Commission summarised in its report:

- greater workforce participation by parents can:
 - boost measured economic output and tax revenue
 - reduce reliance on welfare support and promote social engagement
 - improve child development outcomes – family characteristics, including parental employment status and income, are some of the most crucial determinants of child development outcomes
- early learning and development opportunities can contribute to:
 - healthy child development (that builds human capital)
 - early identification and intervention to address developmental delays
 - better transitioning of children into the formal education system
 - reduced risk of harm to certain children in the community
 - overcoming disadvantage and its longer term social consequences.

Governments can also regulate the quality of child care and provide assistance to:

- increase information available to parents and providers
- ensure broad social objectives such as the safety of children are met
- promote sector stability, such as through assistance that supports providers moving quickly to new minimum standards of provision.

In practice, and as noted in Chapter 3, while Australia's child care system has a number of important strengths, there is substantial scope for improvements in those areas of the child care market over which the Australian Government has responsibility and influence. Through its supply and demand funding, regulation and legislation, information provision and setting national policies, the Government can play a unique and influential role in shaping and regulating the child care sector to achieve better outcomes for Australian families.

There are also important interactions with Australia's family payments and the taxation system that provide the Government with opportunities to align its policies to better achieve national priorities, for example, increasing productivity through workforce participation, especially for women.

The Productivity Commission Inquiry provides the Government with the opportunity to take specific action to achieve its child care priorities, including:

- simplifying and streamlining a complex system that is difficult to understand and navigate
- improving affordability for parents, including taking what steps it can to constrain price growth
- improving access and flexibility
- supporting workforce participation and early childhood development
- better targeting assistance for vulnerable children and communities
- improving budget sustainability in the longer term
- reducing regulatory burden through improved data / information sharing and ICT systems.

3.2 Guiding principles for government action

The Productivity Commission Inquiry provides guidance when considering the nature of government action in the child care market, subject to the overarching criterion of generating the greatest net benefits to the community:

- **Ensure safety and quality** – setting and enforcing minimum standards, including in relation to the health, safety and security of children in care.
- **Support family choice** – encouraging a range of child care options to be available, recognising that no single type of care will be best (or necessarily be affordable) for all families.
- **Promote efficient provision** – removing barriers that may hinder the supply or type of child care services that families demand; encouraging competition and innovation; and integrating child care services with other forms of care, health services and schools.
- **Deliver the best value for the community** – ensuring assistance is to areas and families where the greatest benefits to the community are likely to be generated; enabling provision in certain circumstances where the market is unable to deliver required services; and meeting government social and financial objectives over the short and longer term.
- **Changes to be evidence-based and accountable** – changes to government funding and regulation should be evidence based, with the effectiveness of programmes and requirements evaluated and justified.

4. Options considered in the development of the Child Care Assistance Package

Three policy options were considered in the development of the Child Care Assistance Package. This section of the RIS provides an overview of the Child Care Assistance Package (the Government's preferred option) and two alternate options, the no change option and the Productivity Commission's recommended reforms.

4.1 Child Care Assistance Package

On 10 May 2015, the Government announced it will spend almost \$40 billion on child care support over the next four years, including an increase of \$3.5 billion to support implementation of the Child Care Assistance Package, which will assist families with their child care costs. The new child care system will focus on affordable, accessible and flexible child care.

All child care subsidies and support will remain linked to immunisation requirements which from 1 January 2016 will be strengthened under the Government's '*no jab, no pay*' policy. The only exemption to this policy will be on medical grounds.

The new system will be supported by smart technology to ensure better monitoring of the system, more efficient payment processes and reduced red tape for families and service providers alike. The system will also assist with protecting the new scheme from abuse and rorting.

Description

Child Care Subsidy

From 1 July 2017, the Child Care Subsidy will replace CCB, CCR and JETCCFA. The Child Care Subsidy will provide financial assistance to meet the cost of child care for parents engaged in work, training, study or other recognised activity.

The Child Care Subsidy will be based on a percentage of the actual fee paid, up to a maximum hourly fee cap for each service type, with the level of subsidy based on family income.

From implementation, families earning around \$65,000 or less will receive a subsidy of 85 per cent of the actual fee paid (up to an hourly fee cap). The subsidy gradually tapers to 50 per cent for families earning around \$170,000 or more.

The hourly fee cap will be \$11.55 for centre based long day care, \$10.70 for family day care, and \$10.10 for outside school hours care.

For families earning approximately \$185,000 or more, an annual cap of \$10,000 per child will apply.

Family eligibility will be determined by a three-step activity test which aligns hours of subsidised care with the amount of work, training, study or other recognised activity undertaken.

Step	Hours of activity (per fortnight)	Number of hours of subsidy (per fortnight)
1	8 hours to 16 hours	Up to 36 hours
2	More than 16 hours to 48 hours	Up to 72 hours
3	More than 48 hours	Up to 100 hours

Some families who do not meet the activity test will be assisted through the Child Care Safety Net.

Further information on the activity test is provided in Chapter 5, Implementation Options, Child Care Subsidy.

Child Care Safety Net

The Child Care Safety Net will provide targeted assistance to child care services in disadvantaged communities and also disadvantaged or vulnerable families and children, to address barriers in accessing child care, while encouraging parents to enter and return to the workforce. The Child Care Safety Net has three components, namely:

- *Additional Child Care Subsidy* – which will provide targeted additional fee assistance to children and families who are genuinely disadvantaged
- *Community Child Care Fund* – a competitive grants programme to assist services to reduce barriers to access child care
- *Inclusion Support Programme* – to assist services to be more inclusive and improve access for children with additional needs

Additional Child Care Subsidy

The Additional Child Care Subsidy will commence on 1 July 2017 and will provide fee assistance in addition to the Child Care Subsidy to top up support for:

- children ‘at risk’ of serious abuse or neglect
- families experiencing temporary financial hardship
- families transitioning to work from income support
- families with incomes below \$65,000 who do not meet the activity test.

Community Child Care Fund

The Community Child Care Fund will commence 1 July 2017 and will comprise competitive grants to services to provide:

- community support: to address barriers for disadvantaged children, or children in regional or remote areas
- sustainability support: for child care services experiencing viability issues
- access to affordability support: to improve affordability for low income families in high cost areas
- capital support: to increase the supply of care in centre-based and mobile services.

From 1 July 2016, the Community Child Care Fund will also provide for the integration of child care, maternal and child health, and family support services in a number of disadvantaged Indigenous communities, as recommended by Andrew Forrest in his review of Indigenous Jobs and Training, *Creating Parity*.

Inclusion Support Programme

The Inclusion Support Programme will commence on 1 July 2016 and will improve the capacity and capability of child care services to include children with additional needs, particularly children with disability or from culturally and linguistically diverse backgrounds. The programme includes:

- practical inclusion advice and support for services
- access to specialist equipment
- additional funding to services to assist inclusion of children with additional needs.

Interim Home Based Carer Subsidy Programme

From January 2016, the Interim Home Based Carer Subsidy Programme (Nanny Pilot Programme) will provide care for around 10,000 children whose families cannot easily access mainstream services for reasons such as shift work or living in rural, remote areas, or children with special needs. The two year pilot will be evaluated to inform policy decision regarding future home based care options. Families with an annual family income of less than \$250,000 who meet the programme guideline requirements will be able to express interest in participating in the programme. Families will receive a percentage of the fixed hourly rate of \$7.00 per hour per child, at the same assistance rate as proposed under the Child Care Subsidy, and with a similar activity test. Families earning around \$60,000 or less will receive a subsidy of 85 per cent of the hourly fixed rate. The subsidy gradually tapers to 50 per cent for families earning around \$165,000 or more. Up to 50 hours of care will be subsidised per week per child.

Nannies will be required to be at least 18 years of age, have a current Working with Children Check, meet first aid requirements and be attached to a government-approved service provider.

Preschool

The Government has also announced \$843 million over two years (2016 and 2017) for preschool programmes across Australia by extending funding to the states and territories under the *National Partnership Agreement on Universal Access to Early Childhood Education*.

National Quality Framework

The Government will extend funding of \$61.1 million over three years to support the National Quality Framework while working with the States and Territories, who have carriage of legislation and regulation for the National Quality Framework, to streamline its operation.

Key differences between the Child Care Assistance Package and the Productivity Commission

The Child Care Assistance Package is based on the Productivity Commission's recommendations, either in whole, in part, or with modifications taking into account feedback from families and services following the release of the Productivity Report.

Key differences include the following:

- Child Care Subsidy:
 - the subsidy is based on a proportion of the actual fee, compared to the Productivity Commission's national benchmark price based on median fees to better reflect regional differences
 - it has a higher minimum subsidy rate (50 per cent, rather than the Productivity Commission's 20 per cent) for higher income families
- Child Care Subsidy Activity test:
 - the activity test has greater alignment of hours of subsidised care with the amount of work, training, study or other recognised activity undertaken
 - the activity test has a lower entry requirement to subsidised child care (8 hours of activity per fortnight, compared to the Productivity Commission's requirement of 24 hours of activity per fortnight)
- Nannies:
 - Nannies do not need to belong to a service that has been approved under the National Quality Framework

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- Child Care Safety Net:
 - the Safety Net includes additional support for families facing temporary financial hardship
 - the Safety Net includes additional support for families transitioning from income support to work.

The Productivity Commission's recommended reforms and its impacts are discussed on page 38.

Impact

The Child Care Assistance Package is intended to have a range of impacts on families, child care services and the Government. The range of reform measures would assist in meeting Government objectives outlined in Chapter 3, including those that aim to:

- improve access and flexibility
- improve affordability for parents and better target assistance for low and middle income families, vulnerable children and disadvantaged communities
- constrain fee increases
- improve budget sustainability in the longer term
- support workforce participation and early childhood development.

The Child Care Assistance Package will provide greater choice for more than 1.2 million families by delivering a simpler, more affordable, more flexible and more accessible child care system.

A stronger three-step activity test that more closely aligns the level of activity with the number of hours of subsidised care is intended to impact family behaviour resulting in changes to workforce participation and usage of child care.

The Child Care Subsidy is expected to impact on all approved services and will be simpler for child care services to understand and navigate than current arrangements, and could provide services with greater flexibility.

The 1 July 2017 start date has been chosen to give families and service providers time to adjust to the new model and support seamless introduction of new systems and arrangements.

Impact on families

Child Care Subsidy

The Child Care Subsidy will be simpler for families to understand and improve affordability for the majority of families using approved child care, particularly low and middle income families.

From 1 July 2017, families using child care on family incomes of between \$65,000 and \$170,000 will be, on average, around \$30 a week better off. Those on higher incomes will, on average, continue to receive the same level of support.

Feedback from consultations indicates broad support for a single subsidy, and there was general agreement that greater assistance should be provided to low to middle income earners. A minimum co-contribution from all child care users was seen as acceptable, fair and necessary.

A co-contribution can encourage parents to be conscious of the fees charged and help to keep downward pressure on child care fees.

Administrative impacts

A single subsidy based on family income should improve the transparency and simplicity of support available. As noted by the Productivity Commission in its report, the proposal for a single means tested subsidy to replace current child care payments was almost universally accepted as a major improvement on the current system.⁸

Under the Child Care Subsidy fee assistance is based on actual fees charged, up to an hourly cap. Consultations found this approach was considered to be appropriate and fair as it:

- allows for variability in child care fees, including those in high cost child care locations
- allows for variability in use of child care services – the same rate of subsidy regardless of type of service so the parent could choose which option suited them most
- is simple to understand
- is easy to calculate – as individuals were aware of their actual fees.

Activity test

The new activity test more closely aligns the level of activity with the number of hours of subsidised care. The activity test requirements are intended to reduce disincentives to increase workforce participation. Families may increase workforce participation in order to access more hours of subsidised child care.

While the activity test may require some families to report changes in circumstances of their recognised activity, having three broad steps will reduce the reporting burden for families with variable work hours to estimate their entitlement to subsidised child care. The activity test is based on fortnightly activity to minimise the need for reporting and help smooth out irregular hours. Developments to the ICT system, such as apps and online tools, will help families understand their entitlement and report changes to circumstances if they need to. The ICT system developments are discussed in Chapters 5 and 7.

Feedback from consultations indicates both families and sector representatives broadly support a closer alignment between the number of hours of subsidised care and the level of work, training, study or other recognised activity by the family, by having more steps in the activity test than proposed by the Productivity Commission (Option 4.3). There was also broad support for having a small initial step which was seen as important to facilitate a graduated return to work used by many mothers.

It is estimated the new measures will encourage more than 240,000 families to increase their involvement in paid employment, including almost 38,000 jobless families.

Nanny Pilot Programme

The Nanny Pilot Programme will be a targeted programme which is likely to impact a small number of families and service providers.

Those families who meet the eligibility requirements and are participating would be eligible to receive a subsidy. This would provide these families with more flexibility and greater choice about the way they access child care for their children. The programme should assist families to access affordable care that meets their needs and facilitates greater workforce participation. Families would be required to complete some data and evaluation activities for the programme, but these requirements would be minimal.

⁸ Productivity Commission 2014, *Childcare and Early Learning* (p. 600), Inquiry No. 73, Canberra.

Recent consultations with families found the majority of participants were supportive of expanding government financial assistance for child care to include nannies. This support was evident across all family income levels.

The programme will operate in parallel to the in-home care programme and provide eligibility to a broader range of families to access a nanny.

Child Care Safety Net

The Child Care Safety Net will overlay the Child Care Subsidy by providing targeted assistance to disadvantaged or vulnerable families and children and child care service providers in disadvantaged communities to address a range of access, affordability, locational and socio-cultural barriers to child care.

The Child Care Safety Net will be better targeted than the current set of child care programmes, so more children who genuinely need additional assistance will receive it. Children most likely to benefit from early learning are under-represented in the child care system, including children with additional needs, Indigenous children and children from disadvantaged families.

The Additional Child Care Subsidy will target additional support to children and families who are genuinely disadvantaged, to minimise barriers to participation and provide access to early learning. It is expected that approximately 95,000 children at risk of serious abuse or neglect, or from families under temporary financial hardship, or families who are transitioning to work will be assisted through higher subsidies.

The Additional Child Care Subsidy will also provide up to 24 hours per fortnight of subsidised child care to children from families with incomes less than approximately \$65,000 per year who do not meet the activity test to ensure continued access to early childhood learning for these low income families. The 24 hours is equivalent to two six hour sessions per week, which is the same period provided for K-2 public school education. Service providers will have flexibility to deliver these sessions.

As most of the funding under the Child Care Safety Net will be provided through payments and grants to child care service providers, the regulatory impact on families under the Child Care Safety Net is low. The only exception is for families transitioning to work from income support who will be required to apply directly for the Additional Child Care Subsidy. The regulatory impact arising from application and reporting for these families is expected to be broadly neutral when compared to the current JETCCFA programme.

Recent consultations with families and child care sector representatives found that there is broad support for greater assistance being provided to low and middle income earners, especially disadvantaged or vulnerable families and that any additional Government funding on child care should be targeted to those most in need.

Impact on services

Child Care Subsidy

As noted in the Productivity Commission's Inquiry, there was strong support for its recommendation that the fee assistance subsidy should be paid directly to the provider of the family's choice. A number of providers said this would assist them in reducing bad debts, and reduce the incentives for families to move from provider to provider leaving bad debts and pocketing the cash rebate.⁹

Estimated benefits and costs include:

- reduced complexity for services regarding fee payment
- reduction in bad debts
- reduced the regulatory burden by streamlining the service approval/application processes and automatic reporting of children's attendance through the ICT system.

Proposed changes to the existing activity test under this option could also impact provider behaviour, particularly charging practices in long day care services. The current long day care charging model is a daily fee (typically 10-12 hour blocks). Providers may choose to change their charging practices to align with the hours of subsidy available under the proposed activity test.

Service providers that are funded through the Budget Based Funded programme but are currently ineligible for CCB and CCR will be assisted to transition to the Child Care Subsidy (noting that some families who use these services may also be eligible for assistance under the Additional Child Care Subsidy).

Nanny Pilot Programme

There would not be a significant impact on service providers participating in the programme. The programme will engage a small number of providers through an open selection process. Providers would be required to engage families, provide the home based carers (nannies) and receive the subsidy on behalf of families. Providers will only be selected if they have existing systems in place to meet these requirements so regulatory burden is minimised. There is a potential for the programme to attract educators from other services types to become nannies, increasing the workforce pressures faced by some providers.

Child Care Safety Net

To be eligible for funding under the Child Care Safety Net, service providers will be required to be approved for the Child Care Subsidy. The main impacts on services from the Community Child Care Fund and Inclusion Support Programme will be application, reporting, and compliance processes. Funding for the Community Child Care Fund and Inclusion Support Programme will be provided through competitive grants to child care service providers.

The Child Care Safety Net is likely to involve the introduction of some new processes and requirements for accessing the assistance being offered, but this would broadly be offset by improvements in programme design and administrative/ICT architecture. It is anticipated across the interrelated elements more than 10,000 services would either obtain assistance from this programme or seek assistance on behalf of families. It is also anticipated that introducing these new programmes and ceasing similar existing programmes would, on-balance, reduce the regulatory impact for both families and services.

⁹ Productivity Commission 2014, *Childcare and Early Learning* (p. 608), Inquiry No. 73, Canberra.

The Child Care Safety Net should allow for improved monitoring and increased flexibility compared to the current suite of programmes. The Child Care Safety Net will be better targeted than the current programmes to those who need it most. Under the Community Child Care Fund there will be the ability to move funding to new areas as services become more viable as a result of the programme.

Depending on the nature of grant funding requirements which will be resolved through the development of programme guidelines (such as ongoing grant monitoring activities), the overall regulatory burden under the Child Care Safety Net is likely to decrease due to ceasing many programmes and instead using a smaller number of broader programmes.

Impact on communities and government

Broader economy-wide benefits

While not separately modelled by the Department of Social Services, it is expected the Child Care Assistance Package will generate a range of broader economy wide benefits, similar to those indicated by the Productivity Commission in its report,¹⁰ including:

- increases in workforce participation, leading to greater economic productivity and also flow on benefits for child development as outcomes are improved for children whose parents have some workforce attachment
- an increased uptake of child care by children from disadvantaged and lower socio-economic backgrounds
- better child development outcomes associated with early identification and intervention to address developmental delays.

Government

Under the Child Care Assistance Package, families will always make a contribution to their child care fees.¹¹ Parents will be able to compare the fees they are paying against the fees other services charge, and the cap, and make informed decisions about what they are getting for their fees. During consultations with families, a minimum contribution from all child care users was seen as acceptable and fair.

A co-contribution should encourage families to consider their child care service options and, in combination with a tighter proposed activity test, exert downward pressure on fee prices. This is expected to help increase affordability for families, particularly low income families, as well as help minimise growth in Government child care fee expenditure.

If a family is charged more than the hourly subsidy cap, they will need to meet the full amount they are charged over the cap. This would create a strong signal at the upper end of the market indicating a price ceiling to help constrain fee growth.

Given the intention to introduce better designed and target programmes, build improved ICT systems, and develop an enhanced legislative and compliance architecture, the impact for the Government is intended to be a more fiscally sustainable programme with strong payment integrity and a better return on investment for both the Government and Australian families.

¹⁰ Productivity Commission 2014, *Childcare and Early Learning* (p. 38), Inquiry No. 73, Canberra.

¹¹ Noting the high capped level of subsidies for children at risk of serious abuse or neglect and temporarily financial hardship families means the intention is that these families will have their full fee subsidised (subject to a higher cap).

Communities

The Child Care Assistance Package, in particular the Child Care Safety Net, is likely to have a positive impact on families accessing child care across regional and remote communities.

Regulatory impact

The net regulatory impact of the Child Care Assistance Package is a decrease in regulatory costs in the order of \$170,990,000 to \$336,101,000 per annum and is itemised in the table below.

ICT developments, particularly the streamlining the processes through the implementation of the child care ICT system, account for the majority of the regulatory savings (changes to the ICT system and their benefits are discussed on page 73). There will also be a reduction in the number of programmes under the Child Care Assistance Package, which will also reduce regulatory costs for the sector and families.

Table 3: Regulatory impact of the Child Care Assistance Package

Change in costs (\$million)	Business	Community Organisations	Individuals	Total change in cost
Nanny Pilot Programme	\$0.020	\$0.013	\$0.973	\$1.006
Child Care Subsidy	In the order of -\$29.942 to -\$59.888	In the order of -\$29.942 to -\$59.888	In the order of -\$91.329 to -\$196.544	In the order of -\$151.213 to -\$316.32
Child Care Safety Net	\$10.41	-\$10.41	\$0.033	-\$20.787
Total, by sector	In the order of -\$40.332 to -\$70.278	In the order of -\$40.339 to -\$70.285	In the order of -\$90.323 to -\$195.538	In the order of -\$170.994 to -\$336.101

4.2 No change option

Description

Under this option, existing child care assistance arrangements would remain in place, including:

- child care fee assistance (CCB, CCR and JETCCFA)
- additional support for vulnerable and disadvantaged children, including Special Child Care Benefit and support to services via Inclusion and Professional Support Program and the Budget Based Funded Programme
- National Quality Framework, including outcomes of the current review of the Framework.

Further details of existing child care assistance arrangements are included in Chapter 3.1 (Australia's child care sector) and a high level comparison of the key elements of each option, including the no change option, is at [Attachment C](#).

Impact

Under this option, families, services and the Government would continue to operate in the context of existing regulatory and funding arrangements for child care.

Recent consultations found the current child care system seen as being complicated, expensive (particularly in certain locations), difficult to easily and quickly access, and generally inflexible for families with non-standard working conditions and hours.

Without any changes to the way child care is funded and managed, existing child care assistance arrangements would remain in place. The costs to Government would continue to rise and would become unsustainable. The lack of stronger compliance powers and current child care programmes, which are not well targeted, would continue. This would mean there would be limited ability to ensure the right families were receiving the right assistance.

Child care affordability for many parents would continue to deteriorate; many families would continue to struggle to find quality child care that is flexible and affordable enough to meet their needs and to participate in the workforce; and families would continue to find the child care system complex and difficult to navigate.

Long term issues with payment and delivery, including supports to disadvantaged children and grants to services, would also not be addressed. These issues include sharp practices targeting certain assistance programmes and some programmes where either due these practices or poor targeting, funds have flowed to services and families outside their intended purposes (e.g. Special Child Care Benefit and the Community Support Programme). It would also result in significant reporting burdens remaining, for example:

- Inclusion and Professional Support Program administration (Inclusion Support Subsidy application forms and inefficient ICT system)
- Registered Care (20 page application form and need to provide receipts of care)
- Budget Based Funding administration (services using manual processes for reporting, utilisation and acquittals).

In effect, a no change scenario means the constraints and challenges identified in Chapter 2 would remain, and may over time worsen.

4.3 The Productivity Commission recommended reforms

Description

The Productivity Commission made a number of recommendations that, if implemented, would fundamentally change the current system. Key recommendations include:

- a single means tested subsidy for families using Australian Government approved services
- a more stringent activity test to access child care subsidies
- expansion of the system to provide subsidies to families using more service types, including nannies and mobile services
- support for disadvantaged or at risk children
- support for services operating in unviable markets or disadvantaged communities
- simplified National Quality Framework requirements.

Child care fee assistance

The Productivity Commission recommended a single means tested subsidy, the Early Care and Learning Subsidy, to replace the current fee assistance arrangements. The Productivity Commission recommends the subsidy be:

- based on a benchmark hourly rate, initially set at the median fee for each type of care (long day care, family day care and outside school hours care), with the benchmark determined semi-annually as the median of published fee prices.
The Productivity Commission estimates the rates in 2013-14 dollars to be:
 - long day care (children aged from birth – 35 months) - \$7.41
 - long day care (children aged 36 months to primary school age) - \$7.20
 - family day care (including nannies) - \$6.94
 - outside school hours care - \$6.00
- means tested, with families with incomes up to \$60,000 per annum eligible for subsidy equal to 85 per cent of the benchmark price, tapering to 20 per cent of the benchmark price for families with incomes of \$250,000 per annum or above
- paid directly to providers each fortnight.

Some families may not have any co-payment if their fees are significantly lower than the benchmark price – this is where the fee is so low the subsidy rate multiplied by the benchmark price equals the fee charged.

The subsidy would be passed on to families as a fee reduction by approved providers that would satisfy the requirements of the National Quality Framework, and this would include nannies. The following types of services would generally be an approved service for the purpose of attracting the subsidy:

- centre-based services including long day care, outside school hours care, occasional care, Budget Based Funded and mobile services
- home-based services including family day care and nannies.

The scope of the National Quality Framework would be expanded to include all centre-based and home-based services that are eligible for the child care fee assistance payment. However, this would be difficult to implement as states and territories have expressed they are unsupportive of including nannies as part of the National Quality Framework due to the additional regulatory burden that would fall onto the states and territories but also on the nannies or services themselves.

An approved service would need to meet the following criteria:

- satisfy the requirements of the National Quality Framework
- meet operating requirements.

The registered child care category would be removed.

Family eligibility

To be eligible for the subsidised child care the Productivity Commission recommended a subsidy would only apply to families who meet residency requirements and whose children are immunised (unless care is occurring in the child's home), and are 13 years and under.

The activity test recommended in the Productivity Commission's report would provide families with up to 100 hours a fortnight of subsidised care if they are engaged in approved work, training or study for at least 24 hours a fortnight or are exempt. Table 3 below shows the Productivity Commission's proposed activity test.

The Productivity Commission found a tighter activity test would increase workforce participation and limit cost pressures.

Activity (per fortnight)	Number of hours of subsidy (per fortnight)
No activity – only recipients of Parenting Payment	Up to 20 hours
24 hours or more, or exempt	Up to 100 hours

The Productivity Commission recommended a number of families be exempt from the activity test, including:

- parents receiving an income support payment would be entitled to up to 100 hours of subsidised care per fortnight
- parents receiving Parenting Payment would be entitled to 20 hours only per fortnight without activity.

Unless covered by an exemption, a parent who does not meet the minimum 24 hours of activity per fortnight will not be entitled to any subsidised child care.

Nannies

The Productivity Commission recommended fee assistance be extended to nannies provided they are regulated under the National Quality Framework.

The definition of education and care included in the Education and Care Services National Law (National Law) excludes care provided to children where this care occurs in the child's own home. Agreement by all state and territory ministers and the Australian Government to legislative change would be required for this recommendation to take effect.

The Productivity Commission suggested families using nannies would need to encourage their nanny to seek approval so that they can access the subsidies available to approved services.

Under the Productivity Commission recommendations nannies would have to meet the National Quality Framework requirements to become approved providers. This would be a major transition for nannies and would take some time to implement (qualification changes under the National Quality Framework were phased in over a six year period).

The Productivity Commission recommended that while it should not be compulsory for nannies to be employed through an agency or existing child care centre in order to be eligible for assistance, requiring nannies at a minimum to be registered with a coordination unit with at least a diploma qualified coordinator (similar to family day care) would likely provide administrative efficiencies for the Government, some savings in compliance costs for parents and nannies, including potentially simplifying and/or improving the efficiency of:

- the administration of any child care subsidy payments
- monitoring of compliance.

The Productivity Commission recommended removing the in-home care category of approved care if the Government agreed to bring nannies into the approved child care system.

Occasional Care

The Productivity Commission argued the current cap on approved occasional care places greatly restricts the accessibility of occasional care for families particularly for those families who are shift-workers, employed on a casual or contractual basis or who are studying or looking for employment. The Productivity Commission recommended the Government should remove the existing caps on the number of approved occasional care places.

Changes to service operating requirements

In order to improve accessibility and flexibility for families, particularly those working non-standard hours, the Productivity Commission recommended removing existing service eligibility requirements related to hours and days per week. The Productivity Commission recommended:

- child care services for children under school age should be operational for at least 48 weeks per year in order to be approved to receive child-based subsidies
- child care services for school age children should be operational for at least seven weeks per year in order to be approved to receive child-based subsidies
- the current requirement for before and after school care services to operate on every school day should be abolished.

Additional targeted support

The Productivity Commission's proposed single mainstream payment based on a benchmark rate would provide greater assistance, and reduce out of pocket costs, for many low income families compared to the current payment system (CCB/CCR).

However, the Productivity Commission concluded that addressing cost alone is not enough to substantially increase participation among disadvantaged children, and additional support would be needed to respond to barriers that are not addressed through mainstream support. As such, the Productivity Commission recommended overlaying the mainstream payment with additional targeted support via:

- **'At risk' funding** to subsidise 100 per cent of the benchmark rate for children assessed as being at risk of abuse or neglect
- **Community Early Learning Programme** to directly fund services in disadvantaged communities
- **Viability Assistance Programme** to provide time-limited support to mainstream services in regional and remote areas
- **Inclusion Support Programme** to support providers to include children with additional needs such as children with disability, children from culturally and linguistically diverse, refugee or humanitarian backgrounds and Indigenous children.

The Productivity Commission recommended ceasing JETCCFA, Grandparent Child Care Benefit and Special Child Care Benefit for families experiencing temporary financial hardship, arguing that its proposed single payment and activity test exemptions will provide sufficient support for these groups.

National Quality Framework

The Productivity Commission made a number of recommendations related to streamlining of the National Quality Framework. Many of these recommendations are consistent with those that are being considered through the 2014 review of the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*.

Preschool

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

Other Productivity Commission recommendations

The Productivity Commission makes a total of 51 recommendations and 16 findings. While this draft RIS addresses many of these recommendations, there are a number that are either:

- being addressed through related policy processes (such as the 2014 review of the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*) or
- outside the Department of Social Services responsibility (such as universal access to preschools).

A full list of the recommendations is at [Attachment D](#).

Impact

The Productivity Commission's recommendations represent significant changes to Australia's child care and early learning system. The proposed changes would affect all child care participants — children and families (as child care users), child care service providers, and governments (as funders and regulators).

The Productivity Commission summarised the impact of its proposed reforms as follows, based on their modelling and analysis:

- For 2013-14, the Early Care and Learning Subsidy is estimated to be slightly more expensive than existing subsidies (\$5.9 billion compared to a budget estimate of \$5.7 billion).
- Child care use under the Early Care and Learning Subsidy is estimated to rise by 35 million hours (or 3 per cent in 2013-14).
- Labour supply use under the Early Care and Learning Subsidy is estimated to rise by 32 million hours (or 1.2 per cent in 2013-14).
- Gross Domestic Product is estimated to rise slightly (\$1.3 billion in 2013-14). This estimate does not capture the wider welfare benefits to society associated with increased child care use, particularly by targeted groups, nor the improvements in the accessibility and flexibility of child care services or changes in unmeasured and unpaid activities.¹²

Impact on families

The Productivity Commission argued its recommended approach for child-based assistance would enable improvements in both child development and workforce participation, while remaining broadly within the Government's funding envelope. It implies a significant shift in taxpayer funded child care assistance toward those employed on low to middle level family incomes that may, in the longer term, provide savings for the community in terms of reduced transfer payments and reduced intervention to address child development problems.¹³

Consultations found the Commission's recommendations would have a number of benefits, including simplification of a complex and complicated system; easy to manage with fortnightly subsidy paid directly to services; increase care options and more flexibility; and potentially greater childcare affordability. However, most consultation participants did not believe a national benchmark price based on the median fee appropriately reflected the fee variations within suburbs, towns, cities, in growth corridors and across different states and territories, and would unfairly discriminate against families living in areas with high fees due to demand or operational costs. Families also considered the Productivity Commission's proposed minimum subsidy of 20 per cent to be too low.

The Productivity Commission's recommended activity test, while more stringent than the current system, has two steps to differentiate subsidy eligibility. In consultations most families considered the initial 'step' proposed by the Productivity Commission was too high and not consistent with the graduated manner in which many people return to work.

Affordability

The Productivity Commission estimated the average rate of assistance across all income groups would be around 65 per cent, largely unchanged from the average rate of assistance provided under the current CCB and CCR programmes. For those with a family gross income under \$130,000, mainstream child care services would likely be more affordable under the proposed scheme than under the existing combinations of CCB and CCR. For example, the average rate of assistance would be 65 per cent for those in the \$100,000 to \$130,000 income range under the proposed approach, compared with around 53 per cent under the current CCB and capped CCR.¹⁴

¹² Productivity Commission 2014, *Childcare and Early Learning* (p. 651), Inquiry No. 73, Canberra.

¹³ Productivity Commission 2014, *Childcare and Early Learning* (p. 31-32), Inquiry No. 73, Canberra.

¹⁴ Productivity Commission 2014, *Childcare and Early Learning* (p. 31-32), Inquiry No. 73, Canberra.

Workforce participation

The Productivity Commission analysis suggests for those parents who face lower out-of-pocket costs for child care, their demand for child care services and their willingness to work could be expected to expand and some may substitute formal child care services for informal care currently used. In contrast, for parents facing higher out-of-pocket costs, their demand for child care services and their willingness to work, could be expected to contract, unless they also have access to informal types of care (such as grandparents) which can substitute for higher cost formal care.¹⁵

The Productivity Commission emphasises that, given the broader tax and welfare settings, there is only so much that changes to child care assistance and accessibility can do to improve workforce participation.¹⁶ The Productivity Commission estimated:

- the changes in workforce participation would be relatively small in aggregate
- the number of mothers in employment would be expected to rise by around 1.2 per cent, or 16,000 mothers, on a full-time equivalent basis (or around 25,000 on a part-time basis). Most of this increase would come from low to middle income families with parents who are not working under the current CCB and CCR arrangements but are induced to work by assistance arrangements under the proposed Early Care and Learning Subsidy
- total hours worked would also be expected to rise for each family income group up to \$130,000. At higher income levels, hours worked may fall slightly in aggregate compared to the current situation, although the Productivity Commission stated its modelling does not take into account that many parents choose to work for little short term financial gain, in anticipation of greater longer term benefits from continued workforce attachment.¹⁷

Impact on services

The Productivity Commission's recommendations include expanding the scope of services to be approved for families to receive child care fee assistance payments (as detailed in Chapter 3 above). This includes a recommendation that the subsidy would be available to all services that meet the requirements of the National Quality Framework, which would require agreement by state and territory governments. Subject to this requirement, the Productivity Commission's recommendations would impact on:

- every family using approved child care services
- all child care services currently approved for CCB and CCR
- families currently using services that are not approved for CCB and CCR that may become eligible – some occasional care services (e.g. unapproved occasional care services and non-formula funded occasional care services), Budget Based Funded services and mobile services
- services that are not currently approved for the purposes of CCB and CCR that may become eligible in future
- in-home care services (the Productivity Commission recommended the Government should remove this category of approved care once nannies have been brought into the approved care system)
- registered carers (a service type that is proposed to be abolished)
- associated Government expenditure.

Expanding the scope of services to be approved for families to receive child care fee assistance payments would provide greater flexibility and accessibility around the operation and use of services for both families and services. This would:

¹⁵ Productivity Commission 2014, *Childcare and Early Learning* (p. 36), Inquiry No. 73, Canberra.

¹⁶ Productivity Commission 2014, *Childcare and Early Learning* (p. 36), Inquiry No. 73, Canberra.

¹⁷ Productivity Commission 2014, *Childcare and Early Learning* (p. 37), Inquiry No. 73, Canberra.

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- support parent's participation in the workforce
 - improve availability of flexible care arrangements to suit the needs of families including families in regional and remote locations
 - provide greater access and choice in care options from a broad range of early childhood education and care service types.

Under this option, all services seeking approval would be required to submit an application for approval and demonstrate they meet the specified criteria.

Linking service approval for fee assistance with regulation under the National Quality Framework means all families using an approved child care services would have access to care that is regulated under the National Law and the *Education and Care Services National Regulations* (National Regulations) and is potentially subject to a quality assessment which regulates measures to guard the health and safety of children. This would streamline and align the approval and regulation of services that are under the National Quality Framework with the assistance payment approval processes, reducing duplication and regulatory burden for these services and Government.

Expanding the range of services that could be approved for fee assistance would mean more families (and children) may potentially be eligible for fee assistance putting upward pressure on Government expenditure.

Currently, the National Quality Framework only applies to most long day care, family day care, preschool or kindergarten and outside schools hours care services. Occasional care services, Budget Based Funded services, mobile services and nannies are excluded from the National Quality Framework under the National Law and the National Regulations. Under the Productivity Commission's approach, these service types would need to be brought in scope of the National Quality Framework. The proposed expansion of service types under the National Quality Framework would require agreement by all governments and legislative change (noting the National Law and the National Regulations are state and territory legislation).

The expansion of the scope of services regulated under the National Quality Framework is currently being considered by the Australian and state and territory governments through the Council of Australian Governments' Education Council, as part of the 2014 review of the *National Partnership Agreement on the National Quality Agenda on Early Childhood Education and Care*. This is subject to a separate Regulation Impact Statement for consideration by the Education Council and decisions from the review will be available once agreed by all Ministers. State and territory governments have previously expressed reservations about regulating nannies under the National Quality Framework.

The service approval criteria, in particular changes to operating hours requirements, would have an impact on services that operate under block funding arrangements and provide a strong platform to encourage the transition of these services from service-based block funding to fee-based business models.

Removing the registered child care category would impact on all families currently using registered care.

Impact on communities and governments

Broader economy-wide benefits

The Productivity Commission analysis suggests there would be broader economy-wide benefits from regulatory and funding reforms as a result of:

- an overall increase in the workforce participation of parents
- an increase in the participation of children in formal child care (particularly any increases in preschool participation) and/or
- from distributional changes in the types of families that are participating in the workforce and child care.¹⁸

In its report, the Productivity Commission included analysis in relation to Gross Domestic Product and they estimate first-round Gross Domestic Product impacts (i.e. ignoring any flow-on impacts on wages or child care fees) associated with the workforce participation effects of the Early Care and Learning Subsidy to be around 0.1 per cent, or an additional \$1.3 billion in 2013-14.¹⁹

The Productivity Commission qualified this analysis by stating this estimate does not include a monetary value for any longer term benefits associated with improved child development outcomes. Nonetheless, the Productivity Commission expected that:

- in the longer term, the proposed changes in the child care system should result in additional benefits to the community associated with preschool attendance, better child development outcomes associated with early identification and intervention to address developmental delays, and increased uptake of child care by children from disadvantaged and lower socio-economic backgrounds
- increases in workforce participation are also likely to have flow on benefits for child development as evidence suggests outcomes are improved for children whose parents have some workforce attachment.²⁰

The Productivity Commission suggested such benefits are highly uncertain and contingent on the quality of both child care services and the education system.²¹

Cost to government

The Productivity Commission argued that under its proposed approach child-based child care assistance would be around \$5.9 billion per year, around \$266 million above the budgeted \$5.7 billion for 2013-14.

¹⁸ Productivity Commission 2014, *Childcare and Early Learning* (p. 38), Inquiry No. 73, Canberra.

¹⁹ Productivity Commission 2014, *Childcare and Early Learning* (p. 38), Inquiry No. 73, Canberra.

²⁰ Productivity Commission 2014, *Childcare and Early Learning* (p. 39), Inquiry No. 73, Canberra.

²¹ Productivity Commission 2014, *Childcare and Early Learning* (p. 39), Inquiry No. 73, Canberra.

The Productivity Commission argued there are aspects of its proposed recommendations that are likely to move Australian Government assistance to a more reliable and sustainable footing over the longer term. For example:

- using a benchmark price as the foundation for child-based assistance would mean Government is no longer subsidising the full cost of additional premium services that provide mostly private benefits to the child and family using them and little additional benefit to the community. The Productivity Commission argued this should dampen growth in total Australian Government expenditure on assistance, and enable its recommended approach to remain financially sustainable for taxpayers. However, there is a risk that current low fees could rise in response to the introduction of a benchmark price. That is, there is a risk the benchmark price could become the ‘floor’ price
- allowing centre-based providers to offer a broader range of care services, particularly for younger children, would also enable child care services to be more affordable to both families and taxpayers more generally
- the provider-based funding programmes — the Community Early Learning Programme, Inclusion Support Programme and the Viability Assistance Programme — would all have capped budget funding that could be adjusted to fit within budget constraints.²²

Regulatory impact

The net regulatory impact of the Productivity Commission recommendations is a decrease in regulatory costs in the order of \$26,987,000 to \$192,094,000 per annum and is itemised in the table below. ICT developments, particularly the streamlining the processes through the implementation of the child care ICT system, account for the majority of the regulatory savings. There would be significant regulatory costs with regard to the regulation of nannies under the Productivity Commission’s proposed approach.

Table 4: Regulatory impact of the Productivity Commission recommendations

Change in costs (\$million)	Business	Community Organisations	Individuals	Total change in cost
Nannies	\$62.370	\$62.370	\$0	\$124.740
Early Care and Learning Subsidy	In the order of -\$29.942 to -\$59.888	In the order of -\$29.942 to -\$59.888	In the order of -\$70.711 to -\$175.926	In the order of -\$130.595 to -\$295.702
Children with additional needs	\$10.41	-\$10.41	-\$0.312	-\$21.132
Total, by sector	In the order of \$42.838 to \$12.892	In the order of \$42.838 to \$12.892	In the order of -\$71.023 to -\$176.238	In the order of -\$26.987 to -\$192.094

²² Productivity Commission 2014, *Childcare and Early Learning* (p. 41), Inquiry No. 73, Canberra.

5. Implementation Options

5.1 Overview

The RIS process provides an opportunity for further consultation on specific design elements of the Child Care Assistance Package as well as settling other administrative arrangements, including more streamlined application processes for families and services.

Feedback is sought on how the following components of the Child Care Assistance Package will impact families and services:

- Child Care Subsidy
 - Family eligibility
 - Service eligibility
- Child Care Safety Net
 - Additional Child Care Subsidy
 - Community Child Care Fund
 - Inclusion Support Programme
- Changes to the ICT system to support the package.

Consultation questions have been provided for each of these components to help stakeholders frame their feedback.

5.2 Child Care Subsidy

Family eligibility for the Child Care Subsidy

Family eligibility for the Child Care Subsidy supports a number of Government policy objectives, including:

- supporting workforce participation
- supporting children's learning and development needs
- targeting child care fee assistance to those who need it the most including disadvantaged and vulnerable families and children.

The implementation of the Child Care Assistance Package provides an opportunity to review current eligibility requirements to ensure they meet the Government's policy objectives.

This section will explore family eligibility implementation options relating to the treatment of activities and exemptions under the activity test. Feedback is also sought on options relating to children's absences from care.

Family eligibility – Activity test for eligibility for the Child Care Subsidy – recognised activities

Option Number	Description
1.1	No change – aligned to recognised activities for the Child Care Benefit and Child Care Rebate work, training, study test.
1.2	Defined range of activities with some activity types having restricted access of only up to 18 hours per week (36 hours per fortnight).
1.3	Defined range of activities with some time limits on how long some activities are acceptable.
1.4	Combination of Options 1.2 and 1.3.

Existing arrangements

The Family Assistance Law provides a range of approved work, training and study related activities that families need to undertake in order to satisfy the activity test to access child care subsidies (CCB and CCR).

All families receive up to 48 hours of CCB per fortnight without having to meet the work, training and study test. Families are then entitled to up to 100 hours of CCB per fortnight if each parent participates in work related activities for at least 30 hours per fortnight.

There is no requirement for families to provide evidence of their recognised work or work related activity in their application for CCB. Families are asked to declare the type of work related activity they participate in and whether they participate in that activity for at least 30 hours per fortnight. To be eligible for CCR, both parents are required to participate in work related activities at some time during the week. There is no minimum number of hours required. Eligibility for CCR is automatically assessed when a family lodges a claim for CCB.

Child Care Subsidy

Family eligibility for the new Child Care Subsidy will be determined by a three-step activity test which aligns hours of subsidised child care with the amount of work, training, study or other recognised activity undertaken. The activity test has been designed to minimise regulatory burden and focus on supporting workforce participation. The new activity test aims to help parents stay in work and support parents' gradual return to work.

Step	Hours of activity (per fortnight)	Number of hours of subsidy (per fortnight)
1	8 to 16 hours	Up to 36 hours
2	More than 16 to 48 hours	Up to 72 hours
3	More than 48 hours	Up to 100 hours

Both parents, unless exempt, must meet the activity test to be eligible for subsidised child care. In the case where two parents are eligible for different steps, the parent with the lowest entitlement will determine the hours of subsidised care for the child. Individuals will be able to combine time spent undertaking approved activities.

To minimise unnecessary regulatory burden, families will continue to self-declare the number of hours they participate in recognised activities to determine the amount of subsidised child care they will receive. However, it is anticipated that a new compliance framework will involve random spot checks for a proportion of families to ensure they are complying with the requirements of the activity test. Clear guidance on evidence requirements for these spot checks would be developed for families.

Some families who do not meet the activity test will be assisted through the Child Care Safety Net. For example, up to 24 hours of subsidised child care per fortnight will be provided to children from families with incomes less than around \$65,000 per year who do not meet the activity test, to ensure continued access to early childhood learning for the children in these low income families.

The definition of voluntary activity that would meet the activity test for the Child Care Subsidy will be aligned to that used for the purposes of meeting participation requirements for income support payments.

The table below sets out the proposed treatment of the range of recognised activities for each option:

Activity	No change (Option 1.1)	Option 1.2	Option 1.3	Option 1.4
Paid work, including self-employment	✓	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
On annual, long service, sick or other paid leave – including those who are self employed	✓	✓ Linked to hours of activity of job prior to leave	✓ Linked to hours of activity of job prior to leave	✓ Linked to hours of activity of job prior to leave
Jury duty, volunteering for the state emergency services	✓	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
On paid or unpaid parental leave	✓	✓ Linked to hours of activity before leave	✓ Linked to hours of activity before leave	✓ Linked to hours of activity before leave
Unpaid work in a family business	✗	✓ Broadly defined, linked to hours of activity	✓ Broadly defined, linked to hours of activity	✓ Broadly defined, linked to hours of activity
Setting up a business	✓	✓ Linked to hours activity	✓ Linked to hours of activity – restricted to 6 months	✓ Linked to hours activity – restricted to 6 months
Training or studying to improve work skills	✓	✓ Linked to hours of activity – some restrictions on attending same level course	✓ Linked to hours of activity	✓ Linked to hours of activity – some restrictions on attending same level course
Looking for work and not in receipt of income support	✓	✓ Eligible for up to 18 hours per week	✓ Linked to hours of activity if they are registered with a job agency – restricted to 12 months	✓ Eligible for up to 18 hours per week – restricted to 12 months
Voluntary work	✓ Encompasses voluntary work	✓ Eligible for up to 18 hours per	✓ Linked to hours of activity if	✓ Eligible for up to 18 hours per

Activity	No change (Option 1.1)	Option 1.2	Option 1.3	Option 1.4
	that does or does not improve work skills	week if through a recognised voluntary organisation	voluntary work is through a recognised voluntary organisation – restricted to 12 months	week if through a recognised voluntary organisation – restricted to 12 months
Receipt of Newstart Allowance with a participation requirement	✓	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
Receipt of Youth Allowance with a participation requirement	✓	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
Receipt of Parenting Payment with a participation requirement	✗	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
Receipt of Abstudy	✓	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
Receipt of Austudy	✓	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
Receipt of: - Disability Support Pension (DSP) and: - under 35 years of age, and - has an assessed work capacity of at least eight hours per week, and - youngest dependent child is 6 years of age or older. - Newstart Allowance with an assessed partial capacity to work	✓ Parents in receipt of DSP are currently treated as exempt regardless of whether they have capacity to work.	✓ Linked to hours of activity	✓ Linked to hours of activity	✓ Linked to hours of activity
Caring for an adult or another child with disability and in receipt of Carer Payment or Carer Allowance	✓	✓ Linked to activity Definition change: Carers must be caring for an adult or <u>another</u> child	✓ Linked to activity Definition change: Carers must be caring for an adult or <u>another</u> child	✓ Linked to activity Definition change: Carers must be caring for an adult or <u>another</u> child
Other Recognised Activity	No change	Determined on a case by case basis with limits on hours for some activities	Restricted range of activities with no limits on hours	Determined on a case by case basis with capacity to limit hours/duration

A key difference to existing arrangements is the proposed treatment of individuals in receipt of an income support payment with a participation requirement as these recipients will only have their participation requirements recognised as activity. Under existing arrangements, individuals in receipt of Newstart Allowance, Youth Allowance, Austudy and Abstudy are classified as meeting the activity test regardless of whether they have a participation requirement. In most cases, an income support recipient whose youngest child is aged 6 years or older, require 15 or more hours participation per week. These parents would therefore be entitled to up to 72 hours (step 2) or up to 100 hours of subsidised child care (step 3) per fortnight (depending on the hours of activity they undertake). If the youngest child is younger than 6 years old and the parent is not participating in any work-related activity, they will not be eligible for subsidised child care unless the family earns below \$65,000 per annum and is eligible for assistance under the Child Care Safety Net. If an individual in receipt of income support is participating in more work-related activity than required, their hours of subsidy will reflect the hours of participation.

Cost

Proposed changes to the range of recognised activities that will satisfy the activity test and their treatment in Options 1.2, 1.3 and 1.4 will not have a significant regulatory cost. However, these changes will impact on family eligibility for the Child Care Subsidy, which can affect families in terms of accessibility and affordability of child care.

Benefits

Having additional recognised activities will increase accessibility for families and may lead to more families being eligible for subsidised child care. This is particularly important for families who will no longer be entitled to a minimum amount of subsidised child care without meeting an activity test.

Options 1.2, 1.3 and 1.4 have a clear focus on workforce participation as they only recognise activities where individuals are engaged in the workforce or undertaking recognised activities that will help them transition into the workforce, and restrict the eligibility period for those who are not currently engaged in the workforce. These options recognise that activities such as voluntary work can assist those who are gradually returning to work; however, by limiting the number of subsidised hours individuals receive this also provides an incentive to get into work and stay in work.

Assessment of net benefit

Option 1.4 is more closely aligned with the Government's objectives to support workforce participation while not unnecessarily increasing regulatory burden.

Consultation questions

- ***What, if any, additional activities should be included as a 'recognised activity'?***
- ***What evidence of activity should families have to provide if asked, particularly for voluntary work?***
- ***How should short-term unpaid work experience in a business be treated?***
- ***Should volunteering at a school be included in the activity list? If so, how should it be defined and what evidence should families have to provide if asked?***
- ***Is the restriction of time periods for access to subsidised child care for those who are looking for work, in voluntary work or setting up a business appropriate? If not, how long should this be?***

Exemptions to the activity test

The Family Assistance Law provides for exemptions to the current work, training, study test for CCB so that individuals or families in some circumstances can access up to 100 hours of subsidised child care per fortnight without activity.

Existing exemptions to the current work, training, study test are as follows:

Exemption	Number of hours
Child is at risk of serious abuse or neglect	100 hours
Individual or their partner is disabled	100 hours Parents in receipt of DSP are currently treated as an exemption regardless of whether they have an assessed capacity to work.
Individual or their partner is the grandparent or great grandparent of the child	100 hours
Individual or their partner is living overseas	100 hours
Individual or their partner is in prison or otherwise lawfully detained	100 hours
Exceptional circumstances	Case by case basis

Under the new Child Care Subsidy, there will be exemptions to the activity test for parents who legitimately cannot meet activity requirements or for disadvantaged or vulnerable families so that their children can access early childhood learning.

In the case where one parent is exempt from the activity test and the other meets the requirements, the hours of subsidised child care will be determined by the parent without the exemption. For example, if one parent spends 35 hours per fortnight in paid work and the other parent is unable to work because of a disability, the family would be eligible for 72 hours (step 2) of subsidised child care per fortnight.

Stakeholder views are sought on what additional circumstances, if any, would warrant an exemption to the new activity test, while minimising regulatory burden for services and families.

Consultation questions:

- ***Should the current exemption categories continue and what evidence is needed to verify the exemption?***
- ***What other circumstances would warrant an exemption?***
- ***Should grandparents who are the primary carers of a grandchild be exempt from the activity test, irrespective of their circumstances or incomes?***
- ***Should exemptions be subject to a review, and if so, how frequently?***

Family eligibility – allowable absences

Option number	Description
2.1	No change – 42 days irrespective of usage with capacity to extend.
2.2	Align allowable absences to number of hours entitled to with an addition of up to 12 days for public holidays if care is provided on those days.
2.3	Align allowable absences to number of hours entitled to with an addition of up to 12 days for public holidays if care is provided on those days with capacity to approve additional days through an application process.

Under Family Assistance Law, families are entitled to receive CCB and CCR if their child is unable to attend approved child care and they are charged a fee, for up to 42 absence days in a year, representing around 30 standard absences and 12 public holiday days. State based regulatory requirements require children to be withdrawn from care for a variety of reasons including running a temperature and ‘gluey eyes’ which results in absence days over and above normal sick days, particularly when the child is first in child care.

In most cases, eligible parents do not need to obtain supporting documentation for the first 42 absence days. In addition, the Government may continue to pay CCB and CCR for additional absence days, including for reasons such as illness (with medical certificate).

The allowable absence provisions are designed to:

- ensure continuity of fee relief for families where they are required to pay for child care when their children are absent from care due to situations such as illness, family holidays and other absence reasons, including public holidays
- simplify administration for both individuals and child care services. For example, it reduces the burden on parents to obtain documentation for the first 42 days of absences, and consequently on services to maintain records of the absence reasons and supporting documentation in this period.

Analysis of information from 2013-14 highlights that nine out of 10 families use 25 days or less allowable absence days (with 2 out of three families using less than 10). Only three per cent of families use more than 40 allowable absences a year.

There is currently no difference in the number of allowable absences between families who use part-time or full-time care and no requirement that children be booked into days that are public holidays to benefit from the additional 12 days.

While noting the rationale for the allowable absence provisions, there is also a concern the number of allowable absences is not tailored to the individual needs of families. In some cases, the allowable absence limits may be too generous for some families and unnecessarily expensive for Government. This relates both to the number of initial allowable absences (42) and additional allowable absences that can be approved (as long as supporting documentation is provided). This arrangement is potentially open to abuse.

Under Option 2.2, the maximum number of allowable absences would be aligned to the maximum number of Child Care Subsidy hours the family would be entitled to according to the new activity test, as follows:

Activity test step	Hours of subsidy per fortnight	Percentage of allowable absences	Number of allowable absences (based on 30 allowable absences per year)	Total (adding 12 public holiday days ²³)
1	Up to 36 hours	36%	11	23
2	Up to 72 hours	72%	22	34
3	Up to 100 hours	100%	30	42

The aim of this option is to better match what child care allowable absences families may actually need by referencing that need to the number of hours of subsidised care to which they are entitled. Under this option, the additional allowable absences arrangements would cease.

Under Option 2.3, as with Option 2.1, the maximum number of allowable absences would be aligned to the maximum number of Child Care Subsidy hours the family would be entitled to according to the new activity test. However, unlike Option 2.2, once the allowable absence day limits have been reached, services would have the capacity to seek approval of additional absence days through an application process.

This option aims to better regulate the number of additional allowable absence days available through an application process that considers what families may actually need.

Cost

Under Option 2.2, some families with legitimate needs for additional absence days (beyond that indicated by their subsidy entitlement) would not be able to access those additional absence days.

In terms of regulatory costs, it is anticipated that a move to aligning the number of allowable absences to subsidy entitlement would increase complexity of assessing the number of entitled allowable absences under both Options 2.2 and 2.3.

However, if effectively implemented, Option 2.2 is unlikely to bring about any significant regulatory cost increases if its design can be effectively incorporated into the new ICT system. The ICT system would streamline processes, sharing information and creating efficiencies wherever possible. Some one-off costs associated with implementing such changes would be incurred and would require further investigation as part of the ICT system development.

Under Option 2.3, there is likely to be some additional regulatory burden for both families and services with the introduction of an application process for additional absence days. It is anticipated that the new ICT system could help streamline and ameliorate any such regulatory burden.

²³ The initial absence days were increased from 30 to 42 days in 2007 to take into account public holidays. As all families have access to the same number of public holidays, the number of public holidays have not been pro-rated for an allowable absence entitlement purposes.

Benefits

Both Options 2.2 and 2.3 better target Government assistance to child care need and better align maximum allowable absence entitlements according to family circumstances. This has the potential to reduce the number of allowable absences taken and may free up child care places for other families. Option 2.3 provides greater capacity and flexibility to adjust the maximum number of allowable absences according to need through an application process.

Assessment of net benefit

Under both Options 2.2 and 2.3, there is likely to be a net benefit, to the extent that ICT changes can draw on relevant data (including in relation to compliance, reconciliation and family income) to streamline allowable absence entitlements in a way that is seamless and easy to understand and implement for families and services. In particular, Option 2.3 is likely to result in the greatest net benefit as it aims to align available absence days according to Child Care Subsidy entitlement, while allowing an application process to assess the need for additional absence days.

Consultation questions

- ***What evidence should be provided to support absence days or applications for additional days?***
- ***What are the main reasons families draw on allowable absences?***

Service eligibility for the Child Care Subsidy

Under existing arrangements, for CCB to be payable for a particular session of care, families must use services approved under the provisions of the Family Assistance Law.

The operator of a service applies for approval of the service under the Family Assistance Law and must satisfy the eligibility rules for approval. Following approval, approved services must comply with conditions for continued approval. It is a condition of continued eligibility that services comply with the requirements of the National Law and other relevant laws (including state or territory and commonwealth) laws that applies to the service.

To become CCB approved, services must meet certain standards and requirements. For example, the applicant for approval must be a suitable person to operate a service. There are also requirements concerning the provision of care including the operating hours of a service and compliance with all applicable laws, including the National Law.

Service approval requirements will continue for the Child Care Subsidy – along with meeting family eligibility requirements, families must use approved services to be paid the subsidy.

Service approval requirements support a number of Government policy objectives, including supporting workforce participation and the integrity of the payments made to services on behalf of families.

In considering whether these objectives are being met, there are concerns around whether current service eligibility requirements are generating unintended policy consequences. For example:

- different approval processes under the Family Assistance Law and National Law result in duplication in the provision of information by providers and services
- services may not be able to be viable in some locations where a part-time service may better support the needs of local families
- families may pay for child care that is not used in order to retain a place or as a result of service charging practices
- requirements for giving priority of access to a child care place for certain children may displace existing enrolled children.

Implementation options to address these issues and further Government policy objectives are set out below.

Service eligibility for the Child Care Subsidy – approval process

Option number	Description
3.1	No change – each service is approved for the purposes of the Child Care Benefit.
3.2	Align process with National Quality Framework with an Approved Provider assessment and Approved Service assessment including ability to impose conditions on approvals.
3.3	Same as Option 3.2 with the addition of being able to apply a probationary period for new providers and services.

Currently, under Family Assistance Law there is only provision for assessment of service approval to receive and administer child care payments (CCB) on behalf of families. As part of the approval process consideration is given to the suitability of the applicant, which is usually the provider (operator), but there is not a separate provider approval process for the provider. The relevant criteria are considered every time an application for service approval is made, including when an approved service is sold or taken over by an existing provider. Services are essentially treated as if they are brand new irrespective of the history of the provider or service.

Under the National Quality Framework there are separate provider and service approvals. The provider approval is nationally recognised and enables the provider to apply for one or more service approvals. Once granted, the provider approval is ongoing unless suspended, cancelled or surrendered and is valid in all states and territories. The National Law also includes the capacity for a state or territory regulatory authority to impose conditions on the provider and/or service approval(s). An approved service can be transferred to another approved provider without going through a new application process.

Options 3.2 and 3.3 would align the approval process for the Child Care Subsidy under the Family Assistance Law with that required for the National Quality Framework, by introducing a separate assessment of provider approval and service approval for the purposes of administering the new Child Care Subsidy.

As far as possible and subject to information sharing protocols and requirements, this could be supported with streamlined application processes and improved sharing of supporting information between the state and territory regulatory authorities and the Australian Government (for example, ICT enabled). This streamlining would reduce red tape for applicants seeking to operate more than one service.

Option 3.3 also introduces a probationary period of at least six and up to 12 months for new providers and services following initial assessment of approval by the Australian Government. During the probationary period providers and services would need to meet the eligibility criteria for approval and providers would be 'on-notice' that where concerns about compliance with child care laws emerge during the probationary period there would be power for the Australian Government to take appropriate action including placing additional conditions on an approval, or for serious non-compliance, suspending or cancelling an approval.

Cost

Option 3.1 maintains the status quo, that is, a separate approval is required for each service. For the larger child care providers this means they are required to put in a new application each time they wish to acquire a new service. Maintaining the status quo would mean little change (or additional regulatory burden) for the majority of single-service providers.

Neither Option 3.2 nor Option 3.3 involves any significant additional regulatory costs for applicants. Option 3.2 may initially increase regulatory costs for new providers, but would see a reduction in red tape over time for multi-service providers as the scope of the service approval is likely to be narrower than under existing arrangements. The provider approval would not need to be reconsidered each time an application for service approval is sought, so the range of information required to be provided with an application would be narrower as eligibility requirements related to the provider (the applicant) would have been established as part of the provider approval.

Under Option 3.3 there would be little or no extra burden on compliant providers during or following a probationary period.

Benefits

Options 3.2 and 3.3 will assist in aligning the approach to assessment of providers by state and territory regulators and the Australian Government, including assessment of business entities. This would also help to streamline and improve information sharing between the levels of government. Larger providers with multiple services are likely to experience a reduction in regulatory burden as a result of any streamlining of service approval requirements that may result from not having to re-demonstrate provider approval requirements if they seek to have additional services approved.

Probationary periods would not add any administrative burden and will help ensure that the Australian Government is able to be responsive to emerging risks in new providers and services.

Assessment of net benefit

Option 3.2 is likely to have the greatest net benefit for applicants in terms of reducing regulatory burden.

Consultation Questions

- ***What criteria should be considered under Provider Approval for the purposes of receiving Child Care Subsidy noting that not all services may be covered by the National Quality Framework?***
- ***Where an existing service moves from one approved provider to another what sort of notification period would be appropriate and should there be a separate application for transfer of the service?***
- ***What criteria would inform whether a probation period should be imposed?***

Service eligibility for the Child Care Subsidy – suitability to operate a service

Option Number	Description
4.1	No change – maintain existing eligibility criteria for assessment of suitability to operate a child care service.
4.2	Strengthen eligibility requirements including capacity to require additional information, particularly with respect to financial management capability.
4.3	Same as for Option 4.2 with the introduction of the ability to apply a probationary period.
4.4	Same as for Option 4.2 with the ability to reassess suitability at any time.
4.5	Both Options 4.3 and 4.4.

All options seek to address Australian Government concerns to safeguard payment integrity and the need for appropriate assessment of a child care provider's suitability and capability to operate and manage a child care service in order to effectively and accurately administer the new Child Care Subsidy.

Under existing arrangements, families can nominate a service to which their subsidies are paid to be passed on as a fee reduction (the majority of instances) or nominate to receive the subsidy themselves. The new Child Care Subsidy will be paid directly to the service, to be passed on to families as a fee reduction.

The Australian Government's current eligibility criteria for approval and continued approval of a service for the purposes of CCB provide for assessment of the suitability of the applicant to receive and administer the payment. Where the applicant is an individual, the applicant must be a suitable person to operate a child care service. Where the applicant is not an individual, the applicant's key personnel must be suitable people to operate a service. This includes experience in the child care sector, knowledge of and record of compliance with child care laws, record of financial management (including instances of bankruptcy, insolvency or external administration and any debts due to the Commonwealth in relation to the operation of child care services), criminal history, insurance and capacity to use electronic interface.

Under existing arrangements there is limited capacity to review a service's ongoing approval status without formal compliance action being undertaken.

Option 4.2 proposes to strengthen the range of approval criteria by specifically enabling the Delegate to require additional information in relation to an application, particularly with respect to an applicant's financial management capability. For example, further information may be sought on an applicant's financial backers or business partners.

This would be accompanied by strengthened provisions enabling the refusal of approval of an applicant who cannot adequately demonstrate suitability to administer the subsidy (including in relation to financial management) or who has a demonstrated history of non-compliance with applicable laws.

Options 4.3 and 4.4 seek to strengthen the assessment of suitability of the applicant and the approval process with the introduction of either the ability to apply a probationary period to a provider and/or service, or the power to reassess suitability at any time (for example, based on evidence of non-compliance with requirements or concerns with on-going suitability or capability). Option 4.5 would strengthen the approval process by the inclusion of both these powers.

Under Option 4.3 and 4.5, the probationary period would be up to 12 months. Where concerns about compliance with applicable laws, or on-going suitability or capability emerge during the probationary period there would be power for the Australian Government to take appropriate action including placing additional conditions on an approval, or for serious non-compliance, suspending or cancelling an approval.

Cost

Options 4.2, 4.3, 4.4 and 4.5 may involve minor additional regulatory costs for services through the provision of additional information on financial management capability in an application for provider and service approval, or in responding to concerns raised through a reassessment of suitability in Option 4.4 (for example, through providing submissions).

There would also be costs to the Australian Government in additional compliance monitoring during the probationary period proposed in Options 4.3 and 4.5, as well as in any reassessment of suitability in Option 4.4 or 4.5. Compliance monitoring of services would be assisted by improved data analytics under the new child care ICT system.

Benefits

Better assessment of suitability and capability of child care providers will benefit families using child care services through increased confidence in payment integrity, as well as the Australian Government and state and territory regulatory authorities. Better supporting the integrity of the payment system would also protect taxpayers more broadly.

Assessment of net benefit

Option 4.5 would provide the greatest net benefit as Australian Government payment integrity is more likely to be assured if there is better screening of applicants' suitability to manage a child care service and remain compliant with child care laws and there is appropriate power to intervene post-approval to mitigate issues.

Consultation Questions

- ***What requirements over and above those required for state or territory approval to operate, and associated evidence, would best demonstrate suitability to own and operate a child care services, for the purposes of the Child Care Subsidy?***
- ***Under what circumstances should a probationary period be imposed on a service?***
- ***Under what circumstances should a reassessment of suitability occur?***

Service eligibility for the Child Care Subsidy – operating requirements

Option number	Description
5.1	No change – retain hours, days and weeks per year requirements.
5.2	No restrictions on hours or days per week but services must operate for 48 weeks per year unless providing outside school hours care for predominantly school age children which must operate for at least seven weeks per year.
5.3	Same as Option 5.2 with the capacity for services in rural and remote locations to apply for exemptions to the number of weeks required.

The *Child Care Benefit (Eligibility of Child Care Services for Approval and Continued Approval) Determination 2000* prescribes, among other things, certain operating requirements for services seeking approval under Family Assistance Law.

The following requirements were introduced to support workforce participation by ensuring the availability of child care and early learning. Providers of the following types of services must undertake that:

- long day care, in-home care and family day care services will operate on all normal working days in at least 48 weeks of the year and be available to provide care for any particular child for at least 8 continuous hours on each normal working day on which it operates
- occasional care services will operate for a maximum of nine hours per day
- outside school hours care services will, if they provide before or after school care, operate on each school day. If providing vacation care, services will be available to provide care for at least eight continuous hours on each normal working day for at least seven weeks of school holidays in a year.

As far as Family Assistance Law is concerned, only occasional care services have a maximum operating hours per day requirement imposed, with a minimum operating hour requirement set for all other service types.

The current operating requirements have forced some services to operate in a business model that may not be viable in some locations, particularly rural and remote locations where it may not be viable to operate a service five days per week. Additionally, parents are no longer working standard '9 to 5' hours and need a more flexible child care system to support their participation in the workforce.

The Productivity Commission recommended the Government abolish operational requirements that specify minimum or maximum operating hours for all services approved to receive subsidies:

- services for children under school age (such as long day care and family day care) should be operational for at least 48 weeks per year
- services for school age children (such as outside school hours care) should be operational for at least seven weeks per year. The requirements for before and after school care to operate on every school day should also be abolished.

Costs

Options 5.2 and 5.3 are unlikely to have significant regulatory costs. However, they could have a significant impact in terms of service eligibility to attract the Child Care Subsidy, flexibility for services and accessibility for families.

Option 5.1 would continue to adversely impact on flexibility for services and accessibility for families by retaining minimum operating periods for long day care, in-home care, family day care and outside school hours care services. This option also limits the number of hours occasional care services can operate each day.

Under Options 5.2 and 5.3 some services may decrease their operating periods to the most profitable times. This may have an adverse impact on accessibility for families if they are unable to access care when required.

Currently occasional care services are not subject to operating weeks requirements. This would be a new requirement for these services under Options 5.2 and 5.3.

Benefits

Option 5.1 would continue to provide certainty to families that their service (with the exception of occasional care) will operate for a minimum number of hours, days and weeks per year.

Option 5.2 would provide services with the flexibility to respond to the needs of families by changing operating hours and days. This may improve accessibility for families and also improve service viability, particularly where it is not viable for services to operate five days per week.

Option 5.2 includes an operating weeks requirement to support workforce participation by providing families with certainty that their service will operate for a minimum number of weeks per year. This requirement would also exclude standalone preschools and preschools operating in schools from becoming eligible to attract the Child Care Subsidy as they generally operate for less than 48 weeks per year.²⁴ However, under all options there will be provisions in the new legislation to explicitly exclude standalone preschools and preschools operating in schools from eligibility for the Child Care Subsidy.

In addition to the benefits outlined for Option 5.2, Option 5.3 would provide additional flexibility for services in rural and remote areas by allowing them to apply for exemption if they are unable to operate for the minimum number of weeks per year. This may improve service viability in locations with fluctuating populations (for example due to seasonal harvests) and help services that traditionally operate under service-based block funding transition to the Child Care Subsidy.

Assessment of net benefit

Option 5.3 is likely to have a greater net benefit as it provides flexibility for services by removing operating hours and day requirements. It supports workforce participation through the weeks per year requirement, while allowing services in rural and remote areas to apply for an exemption if they are unable to meet this requirement.

Consultation questions

- ***What impact would more flexible operating requirements have on increasing workforce participation?***
- ***What impact would more flexible operating requirements have on new and existing services?***
- ***In what circumstances should rural and remote services be granted an exemption?***

²⁴ The Australian Government provides funding for preschool through the *National Partnership Agreement on Universal Access to Early Childhood Education* (refer to page 14).

Service eligibility for the Child Care Subsidy – Priority of Access (POA) requirements

Option number	Description
6.1	No change – maintain existing POA requirements associated with service eligibility.
6.2	Remove POA requirements, but work with states and territories to ensure access to places for children at risk of serious abuse or neglect (e.g. temporary exemption from capacity restrictions).
6.3	Change POA to focus only on children at risk of serious abuse or neglect (who attract the Additional Child Care Subsidy) and children whose parents are working.

POA Guidelines (established through the *Child Care Benefit (Eligibility of Child Care Services for Approval and Continued Approval) Determination 2000*) stipulate families with the greatest need for child care are given priority access. The Guidelines require services “...to allocate available child care places where there are more families requiring care than places available”.

There are three levels of priority:

- Priority 1 – a child at risk of serious abuse or neglect
- Priority 2 – a child of a single parent who satisfies, or parents who both satisfy, the work, training study test
- Priority 3 – any other child.

Within each of the levels, priority is to be given to:

- Indigenous families
- families with a disabled person
- families who are on the maximum rate of CCB or who (or whose partner) is in receipt of income support
- families from a non-English speaking background
- socially isolated families
- single parent families.

Children can be asked to leave a service in order to enable higher priority children to attend, but only where the service has advised a parent on first enrolling their child that under the Guidelines they could be requested to surrender their place for a higher priority child.

The Productivity Commission recommended removing the POA Guidelines, arguing that a more targeted subsidy system that delivers more assistance to children with additional needs, coupled with a tighter activity test, will help to facilitate access to child care for children who are likely to benefit most from attending.

Under existing arrangements information is not collected on the application of the POA Guidelines and there is little evidence the POA Guidelines are effective in ensuring children with the greatest need for care are given priority access. There is also no monitoring of compliance with the POA Guidelines.

Option 6.2 would remove the POA requirements, but the Government would work with states and territories to ensure access to places for children at risk of serious abuse or neglect.

The National Regulations allow centre-based services (long day care and outside school hours care services) to accommodate extra children in an emergency situations (for example, in circumstances where a child is in need of protection under a child protection order or if the parent of a child needs

urgent health care that prevents them from caring for the child). Services are permitted to care for one extra child, or two or more children if they are from the same family, for up to two consecutive days. Any changes to this provision to give effect to Option 6.2 would require the agreement of the states and territories and the Australian Government.

Option 6.3 would change the POA requirements so that there are only two priority categories:

- Priority 1 – a child at risk of serious abuse or neglect
- Priority 2 – a child of a single parent who satisfies, or parents who both satisfy the activity test through paid employment.

The current requirement to give priority to children from certain families within each level of priority would be removed for both Options 6.2 and 6.3.

Cost

There may be costs associated with both Options 6.2 and 6.3 because removing or simplifying the POA Guidelines (as a regulatory tool) could have adverse effects on access to child care for certain groups of children. In contrast, current rules make additional / special needs children an explicit priority.

Benefits

Under Option 6.2, there is likely to be a decrease in regulatory costs as POA requirements would be removed. Similarly, though to a lesser degree, there would be decreases in regulatory costs under Option 6.3 as the POA Guidelines would be simplified and would be easier for parents to understand and for services to implement.

Assessment of net benefit

Options 6.2 and 6.3 are likely to reduce regulatory costs as a result of the removal or simplification of the POA requirements. However, both options may result in reduced access to child care for some disadvantaged children.

Consultation Questions

- ***How could POA Guidelines be applied to achieve the desired outcome of supporting workforce participation and supporting those children at risk of serious abuse or neglect?***
- ***Should POA requirements apply to vacancies only or should services require a parent to surrender their place in order to give a place to a high priority child?***
- ***If POA requirements are retained, how should they be enforced?***

5.3 Child Care Safety Net

The Child Care Safety Net will provide targeted additional support to genuinely disadvantaged families through a number of specific measures that facilitate access to quality early learning for children who need it most. The Child Care Safety Net has three components, namely:

- *Additional Child Care Subsidy* – which will provide targeted additional fee assistance to children and families who are genuinely disadvantaged
- *Community Child Care Fund* – competitive grants programme to assist services to reduce barriers to accessing child care
- *Inclusion Support Programme* – to assist services to be more inclusive and improve access for children with additional needs.

Additional Child Care Subsidy

The Additional Child Care Subsidy will provide additional support to children and families who are genuinely disadvantaged, to minimise barriers to participation and provide access to early learning. It will provide:

- a subsidy equal to the actual fee charged (up to 120 per cent of the hourly fee cap) for child care to assist children at risk of serious abuse or neglect irrespective of their families' income or the activity of the parents
- a subsidy equal to the actual fee charged (up to 120 per cent of the hourly fee cap) for families experiencing temporary financial hardship, for up to 13 weeks per event
- a subsidy equal to 95 per cent of the actual fee charged up to the hourly fee cap for families transitioning from income support to work
- access to 24 hours per fortnight of early learning for children from low income families, where both parents do not meet the activity test.

The support provided under the Additional Child Care Subsidy is greater than that proposed by the Productivity Commission, which recommended a payment capped at the median benchmark price to assist children at risk of serious abuse or neglect, no assistance in terms of supporting transition to work or families experiencing temporary financial hardship, and access to 20 hours of subsidised child care per fortnight for families in receipt of Parenting Payment. It also recommended that the current Grandparent Child Care Benefit should be abolished and replaced by an exemption for grandparents to the activity test.

The Productivity Commission found the current system is complicated with many of the child care programmes poorly targeted, resulting in resources designed to address genuine disadvantage being wasted.

There have been a range of issues with the current programmes in terms of payment integrity and program sustainability, particularly in relation to assistance to support children at risk of serious abuse or neglect and families experiencing financial hardship. There are instances of services using this assistance as a mechanism for retrospectively recovering unpaid fees, or charging rates that far exceed the average fees charged in each care type. While the current assistance is intended to facilitate access or maintain engagement with mainstream child care, there are also instances where it is being utilised to fund non-mainstream services including those that are more health-related or respite care in nature.

Children at risk of serious abuse or neglect

There are a range of definitions as to what constitutes at 'risk of serious abuse or neglect', and these have evolved over time.

In terms of what constitutes abuse, in general terms it is where children would experience physical assault, sexual assault, psychological/emotional abuse (including witnessing or being exposed to domestic violence) and neglect (e.g. malnutrition, lack of medical care). 'At risk' would encompass those whose current circumstances or environment leaves them in a situation where they are likely or probably going to experience one or more forms of the above types of abuse. In contrast, children who are not in such an environment (e.g. circumstances such as a parent is being hospitalised, or the family is on a low income), or who may have been previously exposed but are no longer (e.g. the perpetrator no longer is in contact with the children and/or the child has been placed with other carers) may not be considered to be 'at risk'.

One option to guide services and departmental decision making could be using relevant state and territory definitions which would result in child care providers being consistent with the definitions and practices used in their locality. However, this may result in some inconsistencies from a national perspective in terms of granting of assistance as there is variance across jurisdictions, and some public officials being required to be familiar with all state/territory definitions and applying them to different cases.

A more general definition might provide greater consistency on a national basis in terms of granting of assistance, but could lead to inconsistencies with local child protection systems in terms of their arrangements, practices and procedures.

Temporary financial hardship

The nature of 'temporary financial hardship' assistance is to provide short-term support to families who are experiencing significant financial stress due to exceptional circumstances.

Such circumstances could include the sudden and unexpected death of a spouse/partner or child; involuntary unemployment (e.g. suddenly made redundant); or being affected by a disaster event that has been formally declared by the Australian Government, and where the families concerned would be eligible for disaster assistance.

Transition to Work

The 'transition to work' assistance will be linked to approved activities that will support a parent's return to or increased participation in the workforce. Amongst these will be study activities, and for this support to be effective, a parent should be progressing through the study/training. What would be defined as acceptable progression still needs to be determined and could include bi-annual or annual confirmation of enrolment or evidence of results.

Consultation questions

General consultation questions on the Additional Child Care Subsidy

- ***Should any other groups be considered for a higher level of assistance under the Additional Child Care Subsidy? If so, why?***
- ***What level of evidence should be provided by families or services to access the Additional Child Care Subsidy and support programme integrity?***

Children at risk of serious abuse or neglect

- *Should ‘at risk of serious abuse or neglect’ be defined as a child who is at risk of experiencing physical assault, sexual assault, psychological/emotional abuse (including witnessing or being exposed to domestic violence) or neglect (e.g. malnutrition, lack of medical care)?*
- *Are there other circumstances that should be included in this definition?*
- *Where exposure to such risk has ceased, at what point should the child no longer be considered to be at risk?*

Temporary financial hardship

- *Should ‘temporary financial hardship’ be defined as families experiencing significant financial stress due to exceptional circumstances (e.g. sudden and unexpected death of a spouse/partner or child, unexpected loss of employment or natural or other disaster)? If so, how should exceptional circumstances be defined?*
- *Are there other circumstances that should be included in this definition?*
- *Given the range of issues covered by ‘temporary financial hardship’ what guidance would assist services to provide a proportionate response to level of hardship with respect to the timeframe of additional assistance?*

Transition to work

- *What evidence should be available to confirm parents who receive transition to work assistance are satisfactorily progressing in their studies?*

Community Child Care Fund

Getting children into early childhood learning improves a family’s ability to break a cycle of poverty and intergenerational welfare dependence. This is one of the most effective early intervention strategies available.

The Community Child Care Fund (CCCF) will encompass four elements:

- **Community support in disadvantaged areas** – to increase participation of children in child care particularly children from disadvantaged communities.
- **Sustainability support** – to provide time-limited support for services experiencing viability issues.
- **Capital support** – to assist with capital costs in areas of high unmet demand to increase child care places.
- **Access to affordability support** – to provide access to child care for lower income families who live in regions where cost is a barrier to participation.

The CCCF will also support the integration of child care, maternal and child health and family support services in a number of disadvantaged communities, as recommended by the Forrest Review of Indigenous Jobs and Training, *Creating Parity*.

The CCCF is not simply a replacement of existing programmes; it is larger and more sophisticated in its design. It is designed to complement and supplement the other elements of the Child Care Safety Net and the Child Care Subsidy on the following basic principles:

- **targeted** to services that need assistance most
- **time limited** to improve programme responsiveness over time
- **competitive** to ensure value for money

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- **flexible** to promote innovative, community driven solutions.

There is likely to be a net benefit, to the extent that increased access to quality education and care by children from disadvantaged backgrounds (through a greater focus on supporting services cater to these children) and increased sustainability of services outweighs the preliminary cost to services of transitioning to mainstream funding sources and to more efficient business models and operating practices.

Element 1 – Community support in disadvantaged areas

Children from disadvantaged backgrounds face a range of additional barriers in accessing child care and yet research has confirmed they have the potential to benefit most. While the higher subsidy rates provided through the Child Care Subsidy (and the Additional Child Care Subsidy for eligible families), will go some way to addressing affordability issues, there are also potentially community-level barriers which will remain, including:

- lack of community engagement
- low perceived value of child care and/or early education
- dispersed and/or disadvantaged populations, creating higher cost service delivery and/or difficulties in accessing the service
- fragmented service delivery – services in the community are operating in ‘silos’ impacting on awareness and access to child care.

The overarching objective of this element is to increase participation in child care of children from disadvantaged communities.

Under this element grants, for up to three years, would be provided and linked to a business plan outlining how the service would improve access for children from disadvantaged communities and how the funding would improve the long-term sustainability of the service.

The funding would be provided for community driven innovative solutions which could include some or all of the following:

- **Engage staff to do outreach**
 - Build relationships with families and support families to access child care
- **Open days/ promotions**
 - Build community engagement and value in child care
- **Community liaison/Integration**
 - Build relationships with complementary community services
- **Transport assistance**
 - Capped annual amount
 - Not tied to assets.

The following eligibility criteria are proposed:

- all service types would be eligible for transport assistance
- centre-based services would be eligible for promotions funding due to this service type needing high participation for ongoing sustainability
- centre-based services would be eligible for integration and outreach funding due to this service type needing high participation for ongoing sustainability.

Applicants would also need to:

- demonstrate that they are servicing a disadvantaged area or community (possible data sources that may be used to confirm this could include the Australian Early Development Census, Socio-Economic Indexes for Areas and the ABS Census)
- have completed a business plan prior to application, outlining how grant funding will improve their long-term sustainability
- provide evidence of how the grant funding would help address community-level barriers to increase participation in the child care service.

Consultation questions

- ***Are there other activities that have proven effective in increasing participation of vulnerable children?***
- ***Apart from an increase in children attending child care – what other outcomes would you expect?***
- ***Are increased awareness and greater integration acceptable interim outcomes for some services?***

Element 2 – Sustainability support

There are circumstances in which services may face difficulties establishing or maintaining their viability. Factors that can influence viability include fluctuating demand, low population or other issues, such as the closure of a large employer. In areas of limited supply, service level uncertainty and/or closure has the potential to increase child care access barriers and reduce workforce participation.

The overarching objective of this element is to provide time-limited support for services experiencing viability issues to help them improve child care access and to support the service to improve their long-term sustainability. Proposed changes to service operating requirements, which are outlined on page 60, may assist services operating in areas with fluctuating or low populations. Under this element grants would be made available for up to three years, linked to a business plan outlining a pathway to sustainability, to assist services that are not currently viable without additional support due to factors such as fluctuating demand, low population in the area or other issues.

As part of the broader establishment of the Community Child Care Fund, the Australian Government would work with sector peak bodies to develop business planning templates specific to each eligible care type. All services seeking grant funding would be required to use these documents to prepare plans outlining their current financial situation and likely future position with and without Australian Government funding (the business planning templates could also be made available to other services to assist with general capacity building in the sector).

Once assessed for support, services may be eligible to receive operational funding or project-based funding to allow them to operate while they transition to a more sustainable business model. The amount of funding and the length of the funding agreement will be dependent on the specific requirements of each service.

The following service eligibility criteria are proposed:

- centre based services would be eligible
- family day care services may be eligible in exceptional circumstances
- in-home care services would be ineligible.

Applicants would also need to:

- demonstrate that they provide the only suitable service operating in the area (where appropriate)
- have completed a business plan prior to application
- provide evidence of demand for service
- have a demonstrated strategy for transitioning to a more sustainable business model beyond the grant period.

Consultation Questions

- ***What viability issues do services face other than issues arising from low or fluctuating enrolments?***
- ***What strategies do you think services could apply, with assistance, in order to improve their viability?***
- ***How should the department best determine the area in which a service operates? How far is a reasonable and realistic distance for families to travel to access care?***
- ***What would the definition of sole provider be?***
- ***Under what circumstances could exceptions be made for services operating in viable markets?***

Element 3 – Capital support

Supply-side limitations are one of the barriers that impact on child care accessibility. In some instances services may not have the capacity to fund the necessary infrastructure adjustments required to meet unmet demand for child care places.

The objective of this element is to assist with capital costs to increase child care places in areas of high unmet demand.

Under this element grant co-contributions of up to \$500,000 (with exceptions) would be made available to assist with capital costs and increase the number of child care places.

The funding would be provided for community driven innovative solutions which could include some or all of the following:

- new buildings
- refurbishments to increase places in existing buildings
- extensions to increase places in existing buildings
- mobile solutions for dispersed populations with high unmet demand.

As part of their grant funding, services would be able to apply for funding to proceed with the preparatory phase of their infrastructure project, such as engaging an architect to develop plans. However, it is expected that this aspect would be a relatively small component of the overall grant allocation.

The following service eligibility criteria are proposed:

- centre-based services would be eligible
- family day care and in-home care services would be ineligible.

Applicants would also need to:

- demonstrate they have high unmet demand (as evidenced by waiting lists, demographic data etc.)
- have arranged co-contributions for the project, either financial or in-kind (e.g. land, building, waiver of application fees)
- have community support/buy-in for the project
- demonstrate value for money to government (e.g. number of places being made available)
- have a comprehensive business/project plan
- have identified and assessed the level of risk for the project (e.g. the level of risk may be different if the service is currently approved or is a new provider).

Priority would be given to those applications that can demonstrate additional child care places will benefit vulnerable and disadvantaged communities.

Consultation questions

- ***What evidence should services provide to demonstrate they have arranged co-contributions for the project?***
- ***What evidence should services provide to demonstrate community support / buy-in?***
- ***Should there be differential support based on the service type or whether the service has for profit or not for profit status?***

Element 4 – Access and affordability support

Some child care services are located in areas of relatively higher cost inputs, such as rents, which can translate into higher fees for families.

For low to middle income families living or working in these areas this may create additional access and affordability barriers. While the higher subsidy rates provided through the Child Care Subsidy (and the Additional Child Care Subsidy for eligible families), will go some way to addressing these barriers, there may be circumstances where additional support is required. In particular, this would apply for access to services located in areas with fees substantially above the hourly fee cap for that service type.

The objective of this element is to provide access to child care for low to middle income families who live and/or work in areas with high fees resulting in child care costs being a barrier to workforce participation.

Annual grants would be available to centre-based services located in regions where the average or median fee for the area is at least 20 per cent higher than the fee cap (\$13.85 for centre-based long day care and \$12.10 for outside school hours care in 2017-18). The grant would be available to:

- support current (or potential) lower income families attending the service who are not already in receipt of the Additional Child Care Subsidy 'at risk' or financial hardship assistance
- cover the gap between the fee cap and up to 20 per cent over the fee cap
- be reconciled based on actual usage by the lower income families.

Services that apply will be required to undergo a detailed examination of their service, including the financial circumstances, to confirm they are operating efficiently, and random checks of lower income families will be undertaken to confirm the additional fee reduction has been passed on.

In terms of eligibility, only centre-based services located in identified regions will be eligible to apply.

Applicants would need to satisfy the following criteria:

- be able to confirm that they are operating an efficient service (i.e. confirm that there are no additional extras that are driving up the costs and provide the rate of fees that were charged over a period of 12 months or more)
- demonstrate how they are promoting access to the service for lower income families.

Consultation questions

- ***How long should the grant be available for and what review mechanisms would best ensure the objectives of the element are met?***
- ***What evidence of 'efficient business practice' should be available?***

Inclusion Support Programme

The Productivity Commission found that children with additional needs participate in child care at a lower rate than their representation in the broader population. Additionally, it found that while the existing Inclusion and Professional Support Program (IPSP) was effective in building inclusion capability, the rate of the Inclusion Support Subsidy is too low.

The Productivity Commission also found that the current Inclusion Support Subsidy application process is complex for services to undertake and the Inclusion Support Portal (which supports the application /approval /claiming of the Inclusion Support Subsidy) is not user-friendly and is administratively burdensome for IPSP providers and child care services.

The new Inclusion Support Programme, which commences on 1 July 2016, will assist child care services to improve their capacity and capability and increase inclusive practices to include children with additional needs.

Funding for professional development will be discontinued in order to strengthen inclusion support for services.

Under the new Inclusion Support Programme:

- Inclusion Consultant Offices in each state and territory will deliver practical inclusion advice and support to services. Support will be tailored to the individual needs of the service depending on its capacity to include all children, and the strategies and actions needed to build their capacity. This includes supporting services to:
 - build relationships with families and local communities, including Indigenous organisations and organisations which support families of children with disability or from culturally and linguistically diverse/refugee and humanitarian intervention backgrounds
 - identify and develop inclusive strategies and practices specific to an individual service's needs
 - access other supports available through the Inclusion Support Portal such as specialist equipment and bicultural support.
- The Inclusion Development Fund will provide additional funding to services where there is a barrier that prevents the inclusion of a child with additional needs. Approved purposes will include:

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- funding for the employment of an additional educator in centre-based services to increase the staff to child ratio
 - providing intensive inclusion support for services unable to recruit additional educators due to workforce shortages
 - additional resources such as culturally appropriate assistance to benefit children from Indigenous, cultural and linguistically diverse and refugee and humanitarian intervention backgrounds.

It is anticipated that a more user-friendly Inclusion Support Portal will be developed to improve the accessibility of the Inclusion Support Programme for child care services. It will also provide the ability for Inclusion Consultants to concentrate on their delivery of inclusion advice and support to services, rather than assist services with the administrative burden of the current Inclusion Support Portal.

Stakeholder views are sought on how the new Inclusion Support Programme can increase the participation of children with additional needs in child care, while minimising regulatory burden for services and families. The Department is also seeking views on how to reduce the complexity of the application process to access the programme.

Consultation questions

- ***In a streamlined programme, what evidence would be required to access additional support, and what are the circumstances that would warrant an exemption from these evidence requirements?***
- ***How could the programme better engage with new families to increase the participation of children with additional needs in child care?***
- ***What activities could better help to embed inclusive practices in child care services?***
- ***What outcomes should be identified to ensure inclusion support is contributing to inclusive practices?***
- ***To what extent should funds within the Inclusion Development Fund be quarantined for specific purposes (e.g. inclusion of children from culturally and linguistically diverse backgrounds)?***

5.4 Child Care ICT System to Support Child Care Reforms

The child care sector has changed significantly since the existing child care ICT systems were developed. The timing of the proposed child care reforms provides an opportunity to develop a robust and technologically advanced ICT system to support the reforms and provide a solid investment for any future changes in child care arrangements. The changes also provide an opportunity to enhance the ways in which services and families interact with the child care system.

To provide further context, the proposed child care ICT system aims to resolve the following business problems impacting families and services.

Complex Child Care System

The current technical environment is complex with many stakeholders and systems required to interact. Currently the process to implement policy and programme changes is unwieldy due to the nature of the different systems needing to be modified. This results in added cost and administrative burden for child care services and families, as well as lengthy timeframes for change implementation.

Vacancy Data

Families find it difficult to access information regarding child care vacancies, as data provided through the MyChild website is not in real-time and is outdated by the time it is published.

Compliance

The current child care ICT system does not provide the systematic identification of errors and unusual practices, making it difficult to systematically identify non-compliance with Family Assistance Law. The current ICT system does not have sufficient preventative mechanisms to restrict inappropriate claims.

Information Management

Access to timely, accurate and complete data to inform evidence based policy, improve the government's accountability for government outlays and improve compliance is compromised, largely due to the limitations of the current child care ICT system.

Deregulation

The current system also does not provide effective sharing of information between relevant government agencies, therefore requiring families and service providers to provide information more than once. State and territory government's licencing requirements and the current application for CCB approval are two separate processes, but require similar information which results in increased administrative burden for services providers. In addition, updates to changes to circumstances or following the occurrence of notifiable events (for example, changes in staff personnel (including staff contacts and other organisation information) needs to be reported separately to both the Department of Social Services and the state and territory regulators.

Attendance Recording

In accordance with state and territory legislation, services are required to record children's attendance times.

Most services do this by asking parents to manually record their child's attendance times in a log book. This is time consuming and prone to error, either due to genuine misreporting, fraudulent reporting or parents forgetting to record attendances. Services must correctly transfer this

information to their software. Recording attendance via a log book means it is costly for service providers to re-enter information into systems, follow up with parents who did not record attendance either at all, or incorrectly, and can potentially leave services at increased risk of breaching state and territory government legislation or the Australian Government requirements if attendance cannot be substantiated through compliance activities.

Proposed new ICT Child Care System

A new ICT system for child care is being proposed that will positively impact child care services, families and all levels of government with streamlined processes, reduced administrative and regulatory burden and increased information sharing.

Proposed Benefits

It is anticipated a number of high level benefits would result from a new ICT system implementation. Some of these include:

- improved system usability for service providers and families, including self service capabilities, improved reconciliation and electronic recording of child attendance information
- improved access and visibility of child care vacancies, review of claims and financial assistance received (either through service providers or directly)
- reduced complexity and greater transparency of government subsidies for families and service providers, including reduced red tape as a result of simpler application, help desk and complaints processes
- improved services provided by Government to families, child care services and service providers by automating payment and processes
- simplified and streamlined administration of programmes and payments which results in reduced administrative and regulatory burden
- improvements to compliance, reporting and monitoring capabilities
- improved information sharing between government agencies, including states and territories
- improved policy design through timely and cost-effective access to relevant data
- increased automation of child care operations, reducing departmental workload and improving efficiency of service provider operations
- support for the Government's Digital Transformation Agenda by promoting the use of innovative and smart technologies.

Consultation Questions

- ***What processes may be able to be improved (for families and for services) through the use of new technology such as smart phones, tablets, apps, and Wi-Fi with respect to managing the Child Care Subsidy or grants to services?***
- ***What information would families like to have ready access to about their entitlements?***
- ***What should be available through the system to facilitate information exchange and support services?***

6 Consultation

6.1 Overview

Throughout the last 18 months, there has been significant consultation with the child care sector, including with child care peak organisations, child care service providers and their staff and educators, families, communities and state and territory governments.

This consultation has primarily occurred through the Productivity Commission Inquiry into Childcare and Early Childhood Learning and the 2014 review of *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*. Both of these processes involved extensive public consultation.

Additionally, consultations were undertaken in early 2015 by the Department of Social Services on the Productivity Commission recommendations, with further consultations planned in 2015, to seek stakeholder views on implementation of the Child Care Assistance Package.

An overview of the consultations undertaken as part of the Productivity Commission Inquiry and more recent consultations is provided below.

It is worth noting there have also been two recent Senate inquiries that sought submissions from the child care sector:

- The delivery of quality and affordable early childhood education and care services
- The immediate future of the child care sector in Australia.

Reports of these inquiries were tabled on 16 July 2014 and are available from the [Education, Employment and Workplace Relations Committee website](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/Completed_inquiries) at: www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/Completed_inquiries.

The Department of Social Services also engages regularly with key stakeholders through the following forums:

- **Ministerial Advisory Council for the Child Care and Early Learning Sector** – the Ministerial Advisory Council provides advice and expertise on matters affecting the child care and early learning sector as well as recommendations on proposed or current legislation or policies. Membership consists of representatives of national peak bodies and experts in early childhood development and pedagogy and the child care and early learning sector. Membership was agreed by the Prime Minister.
- **Stakeholder Reference Group for the Child Care and Early Learning Sector** – the Stakeholder Reference Group complements the Ministerial Advisory Council by providing grass roots perspectives on the practical implications of child care and early learning policies and programmes and impact on services. This dual approach ensures debate and input from a cross section of the sector on major issues. Membership encompasses organisations from across the sector with experience in the operation of child care and early learning services.

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- **Australian Education, Early Childhood Development and Youth Affairs Senior Officials Committee** – the Australian Education, Early Childhood Development and Youth Affairs Senior Officials Committee supports and provides advice to the Council of Australian Governments' Education Council. Membership consists of senior officials with responsibility for school education, early childhood and youth affairs from Australian, state and territory government departments.
 - **Early Childhood Policy Group** – the Early Childhood Policy Group provides high-level strategic policy advice to the Australian Education, Early Childhood Development and Youth Affairs Senior Officials Committee on early childhood education and care matters. Membership consists of senior officials with responsibility for early childhood from Australian, state and territory government departments.

6.2 Productivity Commission Inquiry into Childcare and Early Childhood Learning

The Productivity Commission undertook a full public consultation process as part of its inquiry into child care and early childhood learning.

The Productivity Commission released an issues paper on 5 December 2013, and invited stakeholders to provide their views online or to provide written submissions.

The Productivity Commission released a consultation draft report on 22 July 2014 which included 41 draft recommendations, 10 draft findings and 19 information requests.

The Productivity Commission undertook extensive public consultations, including public hearings and online submissions and comments. Public submissions closed on 5 September 2014.

The Productivity Commission received 908 submissions and 1,173 online comments throughout the Inquiry process. This feedback has been considered by the Department of Social Services to inform the Government's response and the development of the Child Care Assistance Package.

6.3 2014 Review of the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*

A consultation process was undertaken by Woolcott Research to seek feedback on the implementation and operation of the National Quality Framework, and on how it might be improved. Initial public consultations took place in mid-2014. Over 1,300 people attended 55 consultation sessions. In addition, 187 submissions, 280 online comments, 638 sector surveys and 132 family surveys were received.

The public were given an opportunity to provide feedback on the Consultation RIS, which was released on 7 November 2014. The Consultation RIS was also made available on the Deloitte Access Economics website. Consultation RIS consultations took place in mid-November 2014 to mid-January 2015. Over 1,700 people attended 58 consultation sessions. In addition, 113 submissions, 106 online comments and 670 survey responses were received.

6.4 Consultations in early 2015

Following the release of the Productivity Commission's final inquiry report, the Department of Social Services undertook consultations with the sector, including focus groups with parents, on the models recommended by the Productivity Commission.

The Department of Social Services undertook a total of 14 consultation sessions with child care stakeholders.

These sessions were attended by key stakeholders, service providers, the Ministerial Advisory Council, the Stakeholder Reference Group and state and territory regulatory authorities.

Approximately 200 people attended the sessions which were held in Canberra, Brisbane, Melbourne and Sydney.

The consultations were held to test reactions to some of the recommendations put forward by the Productivity Commission, particularly around child care fee assistance, supporting disadvantaged or vulnerable children and nannies.

An external agency, ORIMA Research, was engaged to undertake qualitative (parent focus groups) and quantitative (online questionnaire) research with families. This research involved a total of 2,188 parents.

Twenty one parent focus groups were held across the country, both in metropolitan and regional areas, and included a wide variety of demographic profiles. A total of 167 parents attended face-to-face sessions where the Productivity Commission's recommendations and alternative policy approaches were discussed. In addition, an online survey was used to seek parents' views.

6.5 Future consultations on the Child Care Assistance Package

The Department of Social Services will continue to engage with stakeholders through consultations with established stakeholder groups and open consultations with the sector.

The purpose of consulting with the sector is to pose questions on key elements of the Child Care Assistance Package as set out in this RIS. Consultations will allow the Department to test operational policies that will underpin the reforms.

Consultations will:

- ensure that the early childhood sector is fully and accurately informed about the package and the reforms it contains
- address the different needs of professionals working across a diversity of roles in the sector including educators working directly with families, educational leaders and service managers, senior executives and people serving on governance bodies such as boards
- engage the sector on areas of decision-making or implementation still being considered by Government
- identify areas of complexity and concern that may need to be more fully explained or developed prior to changes coming into effect.

Consulting with a range of stakeholders ensures that the views of profit and not-for-profit service providers, peak bodies, early childhood development experts and Australian and state and territory governments on the options outlined in this RIS are captured. It also allows the Department to test operational policies that underpin the reforms.

The Department also intends to consult more broadly with the sector on the components of the Child Care Safety Net and about the transition of services in ceasing programmes to the new child care system. Particular attention will need to be given to engaging with Indigenous services and the representative bodies that support them, given the level of change required for these services over the next two to three years.

As the Child Care Subsidy will provide assistance to support families, a range of mechanisms will be used to engage with families to seek their views on the implementation of the Child Care Assistance Package.

Consultations will commence on release of this RIS on 1 July 2015 and run until 31 July 2015.

There will be three approaches – stakeholder meetings, forums and online engagement:

- key stakeholders meetings including the Ministerial Advisory Council, Stakeholder Reference Group and state and territory governments.
- consultation forums, targeting profit and not-for-profit service providers, peak bodies and early childhood development experts, will be conducted across the country in major cities and regional centres.
- online engagement will include online submission of comments on the draft RIS, a series of webinars with a mix of day and evening time slots to enable people who cannot attend a consultation forum. A series of online surveys will also be developed to gather input and feedback from the sector on particular issues.

Chapter 7 of this document outlines implementation activities which include a communications campaign and engagement with stakeholders at critical points of changes to the current child care system to ensure smooth transition to the new child care system. Transition from ceasing programmes will be handled with sensitivity to ensure stakeholders are aware of the changes and whether they will be eligible to access the new programmes.

7 Implementation and evaluation

7.1 Implementation activity

The activities necessary to implement the Child Care Assistance Package include the development of legislation, an ICT system, and a communications strategy and stakeholder engagement.

Legislation

The introduction of a new child care system requires significant legislative changes.

The Department of Social Services is responsible for preparing drafting instructions for the Child Care Assistance Package reforms, with the Office of Parliamentary Counsel responsible for drafting the required bill.

To ensure service providers have sufficient time to implement necessary changes to their ICT and administration systems, legislation will be prepared for introduction in the 2015 Spring sitting of Parliament. The aim is to have legislation and associated regulations in place by 30 June 2016 to enable full implementation by 1 July 2017. This will ensure service providers have sufficient time to implement the necessary changes to their ICT and administration systems.

ICT System

Significant ICT system development work will be necessary to support the large scale payment and other child care programme reforms the Government is likely to implement through the Child Care Assistance Package.

Irrespective of policy decisions around the specific design of payments, significant ICT development will be required to support a range of functions, including:

- determining family eligibility
- service approvals
- calculating and making payments to services
- contract and programme management for supply side programmes
- compliance monitoring and data and reporting capabilities.

The ICT system will be used to support the Government's deregulation agenda by streamlining processes, sharing information and creating efficiencies wherever possible.

Given the likely cost and risk involved, the ICT development will be subject to both the ICT Two Pass Review and Gateway processes.

Communications and stakeholder engagement

Ensuring stakeholders have the necessary information to engage with the new system is a critical component of success. The Department of Social Services will ensure stakeholders affected by the reforms are engaged and informed by:

- undertaking market research to inform information packages for services and families to help them transition to the new system
- establishing a helpline
- undertaking a communications campaign, including a targeted television, social media and advertising campaign and a direct mail out to services

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- continuing to engage with stakeholders through the Department's existing stakeholder groups at critical stages of implementation.

7.2 Transitional arrangements

A governance system, including an internal steering committee, will oversee the implementation and transition to the new child care system. The governance system will ensure that decisions are informed by well-developed research, accurate data analysis and consultation with key stakeholders in order to respond to the Productivity Commission Inquiry in an appropriate and responsive manner.

A Transition Plan will ensure all impacted stakeholders, including families, governments, services, the sector and communities, are supported through the change process to transition from the current complex payment system to the new single subsidy payment and access new targeted programmes.

The transition of the entire system requires consideration of establishment costs associated with the new system including the legislative framework, ICT training and resources for staff and services and research and evaluation to establish baseline data that can be used to model the impacts of change in the future.

Ensuring families have early and accessible information that informs and increases awareness of the new system is a critical element to success of the new system. A core component of the Transition Plan will be a comprehensive communication and stakeholder strategy.

The process of preparing services and families for the change to the new system will commence from July 2015. Services will experience the most significant change, particularly those moving from demand driven programmes to competitive processes. It is proposed that transition effort be concentrated on this component of the sector to minimise business disruption and lessen the impact on families.

Transitional arrangements, may in some cases, require ceasing and new programmes operating in parallel for a period of time.

The following programmes will cease:

- CCB, including Grandparent Child Care Benefit, Special Child Care Benefit , Registered Care and Enrolment Advance
- CCR
- JETCCFA
- Community Support Programme
- Inclusion and Professional Support Program
- Budget Based Funded Programme including the Improved Standards Initiative.

The following programmes, policies and functions will commence:

- Nanny Pilot Programme – from January 2016
- Extending Immunisation Requirements – from 1 January 2016
- Universal Access – from 1 January 2016
- Inclusion Support Programme – from 1 July 2016

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- Service Integration (Forrest Review) – from 1 July 2016
 - Child Care Subsidy – from 1 July 2017
 - Additional Child Care Subsidy – from 1 July 2017
 - Community Child Care Fund – from 1 July 2017
 - ICT System – from 1 July 2017.

7.3 Transition risks

Changes to the child care system have the potential to impact on over one million families and children as well as some 16,000 services. In addition, there are a range of providers that assist services through training and administrative support that may be affected by new arrangements (e.g. software providers that currently support services to interact with government administration systems).

The largest risk in the implementation of the new system is for errors relating to the roll-out of the new payments system that result in a service not receiving payment (on behalf of a family) or an incorrect payment. Any error relating to payments will also impact families.

There are additional sensitivities relating to the transition from existing programmes to new and replacement programmes that support vulnerable and disadvantaged or at risk families and children. There is supporting evidence that confirms these children have the greatest benefit to gain from access to child care and early learning environments. It will be imperative that those children and families are not disadvantaged during transition.

Without clear communication to parents and services of the changes well in advance, risks of issues with transition increase. Furthermore, extensive training would be required for services with varying expertise in ICT and administration across the diverse sector. The following would be required to manage these risks:

- extensive Government exposure through mainstream media
- targeted social media campaign to services and educators
- training in regions making it simple for services to access
- a well-resourced help desk.

7.4 Evaluation

To ensure the proposed policy and programme changes arising from the Government's response to the Productivity Commission Inquiry remain relevant and effective over time, there would be ongoing monitoring and review of the implemented changes by the Government.

In line with the Government's framework for evaluation, an evaluation framework underpinned by a number of discrete evaluation plans for the suite of reforms would use relevant evidence and data collections to establish an initial baseline to identify relevant outcomes of the child care system (e.g. in terms of parents' workforce participation and children's learning and development) and the performance of the programme delivery processes (e.g. in terms of efficient delivery of payments and programmes), against which the progress of the changes over time would be assessed.

As an integral part of this strategy, a post implementation review would commence in 2017-18 with a subsequent impact evaluation planned to commence in 2020 and finish in 2022. The impact evaluation would build on the previously undertaken activities of monitoring, data collection, baseline data and the post implementation review to assess the effect of the changes on the community.

Table 5: Activity Timeline

Activity	Timing	Key tasks
Legislation	May 2015 to 30 June 2016	<ul style="list-style-type: none"> • Working with the Office of Parliamentary Counsel to draft legislation and associated regulations • Liaising with other impacted government departments and relevant stakeholders • Regulation Impact Statement and policy decision • Fulfilling other requirements of legislation such as human rights impacts
ICT development and transition	1 July 2015 to 30 June 2017	<ul style="list-style-type: none"> • Development and endorsement of ICT Second Pass Business Case • Significant development of the ICT system • Consultation with sector on impacts of change • Identifying and securing legacy issues • Data transfer and ongoing data collection • Rollover / transition of records and bank details
Communications and training	1 July 2015 to 30 June 2017	<ul style="list-style-type: none"> • Raising awareness with stakeholders of the changes to child care payments • Ensuring services have sufficient support during the transition system impacts • Providing communication material directly to stakeholders • Web based and social media • Training (self-paced not face to face) and helpdesk assistance for services
Evaluation and special projects	1 July 2015 to 31 December 2016	<ul style="list-style-type: none"> • Development of evaluation procedures and engagement of an external evaluation consultant • Targeted research to address regulations into future policy • Identifying potential transition issues for non-CCB approved services such as Budget Based Funded services

Attachments

Attachment A – Productivity Commission Terms of Reference

Attachment B – Australian Government funded child care programmes

Attachment C – High level comparison of options

Attachment D – Full list of recommendations from the Productivity Commission Inquiry

Terms of reference

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

Background

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

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

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

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

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

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

Scope of the inquiry

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

1. The contribution that access to affordable, high quality child care can make to:
 - a) increased participation in the workforce, particularly for women
 - b) optimising children's learning and development.
2. The current and future need for child care in Australia, including consideration of the following:
 - a) hours parents work or study, or wish to work or study
 - b) the particular needs of rural, regional and remote parents, as well as shift workers
 - c) accessibility of affordable care
 - d) types of child care available including but not limited to: long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care
 - e) the role and potential for employer provided child care
 - f) usual hours of operation of each type of care
 - g) the out of pocket cost of child care to families
 - h) rebates and subsidies available for each type of care
 - i) the capacity of the existing child care system to ensure children are transitioning from child care to school with a satisfactory level of school preparedness
 - j) opportunities to improve connections and transitions across early childhood services (including between child care and preschool/kindergarten services)
 - k) the needs of vulnerable or at risk children
 - l) interactions with relevant Australian Government policies and programmes.
3. Whether there are any specific models of care that should be considered for trial or implementation in Australia, with consideration given to international models, such as the home based care model in New Zealand and models that specifically target vulnerable or at risk children and their families.
4. Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances.
5. The benefits and other impacts of regulatory changes in child care over the past decade, including the implementation of the National Quality Framework (NQF) in States and Territories, with specific consideration given to compliance costs, taking into account the Government's planned work with States and Territories to streamline the NQF.
6. In making any recommendations for future Australian Government policy settings, the Commission will consider options within current funding parameters.

Process

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

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

J. B. Hockey
Treasurer

[Received 22 November 2013]

Australian Government funded child care programmes

Child Care Services Support Programme

Child care services are categorised as either mainstream or non-mainstream. Mainstream services are those that are approved to receive Child Care Benefit (CCB) on behalf of families. Mainstream services account for over 95 per cent of all child care services (approved for CCB or funded by the Australian Government).

Non-mainstream services are those services that do not generally meet these requirements, but receive funding from the Department of Social Services under the Budget Based Funded programme or other sub-programmes in order to operate locations where CCB approved services would not be viable, or where historically there have been unique child care needs. These services are generally not CCB approved.

Community Support Programme

The objective of the Community Support Programme is to 'assist child care providers to establish or maintain viable services in parts of the country where they might not otherwise be viable or able to meet the unique requirements of the community, such as in disadvantaged or regional and remote areas'.

Under the Community Support Programme, eligible long day care, outside school hours care, family day care, in-home care and occasional care services can apply for establishment or ongoing operational funding.

Eligibility requirements, payment rates and payment frequency vary depending on the type of service, but generally take into account factors such as the relative remoteness of a service, level of socio-economic disadvantage and how much the service is utilised by the community.

All Community Support Programme funding is delivered through funding agreements (grants), with durations of between one and three years depending on the type of care and/or the type of support being provided.

- **Set Up Assistance** targeting family day care, in-home care and outside school hours care, this payment provides a one-off payment to help a service provider establish a service. The amount is dependent upon the care type and what services the provider may already operate.
- **Sustainability Assistance** targeting long day care and outside school hours care, this payment provides a contribution to the day to day costs of operating a child care service. The amount and frequency of payments depend on the service's location and its utilisation rates.
- **Capital Funding (Exceptional Circumstances)** this payment provides capital funding up to \$500,000 to support the creation of new long day care services in regional and remote communities where a clear demand has been identified.

- **Operational Support** targeting family day care, in-home care and occasional care, this payment provides a contribution to the day to day costs of operating a child care service. To be eligible for this payment, family day care services must meet eligibility criteria that take into account the location of the service and the socio-economic status of the surrounding area. In-home care and occasional care services receive this payment by virtue of being an approved service and are not affected by any other eligibility criteria.
- **Regional Travel Assistance Grant** targeting family day care and in-home care, this payment provides a contribution to the travel costs incurred by coordination staff in supporting a network of educators in regional and remote areas.

Budget Based Funded (BBF) Programme

The BBF programme shares the same objective as the Community Support Programme, but with an emphasis upon supporting services predominantly located in rural, remote and Indigenous communities. Generally, the focus is on areas where the market may not adequately support the viable operation of mainstream services, or where there has historically been an additional need for culturally competent services for Aboriginal and Torres Strait Islander children and families and therefore the BBF service is the sole provider in such communities.

Services funded under the BBF Programme are not generally approved to administer CCB on behalf of families.

The BBF programme provides a contribution to the operational costs of approximately 304 early education, child care and school age care services in approved locations. A range of service types are funded including, long day care, before and after school care, playgroups, centre-based crèches, mobile services, Multifunctional Aboriginal Children's Services and a smaller range of flexible services such as toy libraries and nutrition programmes.

The annual allocation for the BBF programme is capped and the programme is closed to applications for the establishment of additional services in new locations. Budget based funding is delivered through a funding agreement (grant) of one year.

BBF Quality Measure

In recognition of the differences in quality that have historically existed between BBF services and those approved to administer CCB, since 2010-11 there has been additional support provided through the BBF Quality Measure for centre-based BBF services to move towards the National Quality Standard, a key component of the National Quality Framework.

The Quality Measure is supporting BBF services to improve against three key areas of the National Quality Standard:

- improving the quality of their facilities
- improving the qualifications of staff
- strengthening governance and administrative capacity.

Inclusion and Professional Support Program (IPSP)

The objective of IPSP is to promote and maintain high quality, inclusive education and care, for all children, including those with additional needs, in eligible early childhood education and care settings. This is achieved by increasing the knowledge and skills of educators, and the capacity of education and care services, through providing professional development, advice and access to additional resources as well as inclusion support.

The IPSP provides a range of support to increase the quality of the child care sector and its capacity to include children with additional needs. The support is provided by funding organisations including: Inclusion Support Agencies, a National Inclusion Support Subsidy Provider, Professional Support Co-ordinators and Indigenous Professional Support Units to support child care services. Support and funding is provided directly to services in the form of practical advice, subsidies and professional development.

Broadly speaking, the support, professional development and subsidies are available to eligible CCB approved services and those receiving funding under the BBF Programme. There are additional eligibility criteria to access the different types of support available under IPSP.

High level comparison of key elements of the Child Care Assistance Package against other options

Element	Child Care Assistance Package	No change	Productivity Commission recommended reforms
Main fee assistance payment	<ul style="list-style-type: none"> Single means tested subsidy based on a percentage of the actual fee, up to a maximum hourly cap. The cap will vary by service type. Subsidy amount: 85% of actual fee (up to the hourly cap) for family incomes up to around \$65,000, tapering to 50% of actual fee for families incomes of around \$170,000 and more. Maximum number of hours of care is capped at 100 hours per fortnight. For families earning around \$185,000 or more, an annual cap of \$10,000 per child will apply. Subsidy paid fortnightly directly to services. 	<ul style="list-style-type: none"> Two payments – Child Care Benefit (CCB) and Child Care Rebate (CCR). CCB is means tested and rates are limited per hour. Different loadings are applied to the standard CCB rate depending on family circumstances. CCR covers 50% of out-of-pocket costs and has a non-means tested annual cap (\$7,500) per child. Maximum number of hours of care is capped at 100 hours per fortnight per child. Subsidy is paid to parents or providers as fee reduction (on election of the parent). 	<ul style="list-style-type: none"> Single means tested subsidy based on a national benchmark price. The benchmark price would vary by service type and the age of the child. Subsidy amount: 85% of the benchmark price for family incomes up to \$60,000, tapering to 20% of the benchmark price for families incomes of \$250,000 and above. Maximum number of hours of care is capped at 100 hours per fortnight. Subsidy paid fortnightly directly to services.
Activity requirements	<ul style="list-style-type: none"> Eligibility for the Child Care Subsidy will be determined by an activity test that closely aligns the hours of subsidised care with the amount of work, training, study or other recognised activity. Up to 24 hours of subsidised care per fortnight will also be provided to children from families with incomes less than around \$65,000 per year who do not meet the activity test to ensure continued access to early childhood learning. Income support recipients with a participation requirement will have their participation count as eligible activity to determine their subsidy entitlement. 	<ul style="list-style-type: none"> Families can receive up to 24 hours per week of CCB without any activity. A family that has 15 hours of activity per week or 30 hours a fortnight is eligible for 50 hours of CCB. To be eligible for CCR a family must have work, training or study-related commitment at some time during a week or have an exemption. No minimum number of hours is required. 	<ul style="list-style-type: none"> Parents must engage in 24 hours per fortnight of work, study or training unless exempt. Exemptions include income support recipients and those on parenting payment who are entitled to 20 hours per fortnight without activity.

Element	Child Care Assistance Package	No change	Productivity Commission recommended reforms
Nannies	<ul style="list-style-type: none"> • A pilot programme of 4,000 nannies will be introduced from January 2016 and run until 31 December 2017. • The programme will be evaluated to inform future Government policy. • Services would not need to be approved under the National Quality Framework to ensure existing nannies and services can be part of the programme. 	<ul style="list-style-type: none"> • Nannies are not an eligible care type and families using a nanny are not financially supported by Government. 	<ul style="list-style-type: none"> • Nannies become an eligible care type if they belong to a service that is covered by the National Quality Framework.
Additional targeted support	<ul style="list-style-type: none"> • The Child Care Safety Net will assist vulnerable, disadvantaged and additional needs children. <ul style="list-style-type: none"> ○ The Additional Child Care Subsidy will provide extra assistance for vulnerable children ○ The Inclusion Support Programme will assist parents who have children with additional needs access child care. ○ The Community Child Care Fund will increase access to child care in disadvantaged communities. 	<ul style="list-style-type: none"> • Special Child Care Benefit – rate covers the full cost of child care for at-risk and financial hardship families. • Inclusion and Professional Support Program – provides services with access to professional development and supports the inclusion of children with additional needs. • Programmes providing assistance to services in disadvantaged communities or in unviable markets (e.g. Community Support Programme, Budget Based Funded Programme). 	<ul style="list-style-type: none"> • Free child care up to 100% of the benchmark rate for at risk families. Cease financial hardship assistance • Retain inclusion support for services through a streamlined programme. • Replace existing programmes with a streamlined number of targeted programmes providing assistance to services in disadvantaged communities or in unviable markets.

Full list of recommendations from the Productivity Commission Inquiry

Rec No.	Productivity Commission Recommendation
5.1	Australian Government Early Childhood Education and Care (ECEC) funding should be limited to funding approved ECEC services and those closely integrated with approved ECEC services, and not be allocated to fund social services that largely support parents, families and communities. Any further Australian Government support for the Home Interaction Program for Parents and Youngsters should be outside of the ECEC budget allocation.
5.2	Early intervention programs to address the development needs of children from disadvantaged backgrounds should be underpinned by research. Their impact on the development outcomes of the children attending ECEC should be subject to ongoing monitoring and evaluation, including through the use of longitudinal studies.
6.1	The proposed White Paper on the Reform of Australia's Tax System should include consideration of how taxation and the design of family income support and transfer payments impact on effective marginal tax rates.
6.2	Employer and employee associations, the Fair Work Ombudsman, the Australian Human Rights Commission and the Workplace Gender Equality Agency should all trial innovative approaches to: <ul style="list-style-type: none"> • increase awareness about legal rights and obligations with respect to flexible work. • promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements.
7.1	To simplify the National Quality Standard, governments and Australian Children's Education and Care Quality Authority (ACECQA) should identify elements and standards of the National Quality Standard that can be removed or altered while maintaining outcomes for children.
7.2	Governments and ACECQA should remove educational and child-based reporting requirements for outside school hours and vacation care services, and consider other ways to tailor the National Quality Standard to suit different service types.
7.3	Where all children are aged 25 months and over, educator-to-child ratios for home-based care services should be amended such that a ratio of 1 educator to 5 children is permitted for children aged from 25 months up to school age.
7.4	Requirements for educators in centre-based services should be amended by governments such that: <ul style="list-style-type: none"> • all educators working with children aged birth to 35 months are, as a minimum, required to hold or be working towards at least a certificate III or equivalent and be under the supervision of at least a diploma qualified educator. • services may determine the number of diploma qualified educators sufficient to supervise and support certificate III qualified educators, as is currently the case in family day care services. • the number of children for which an early childhood teacher must be employed is assessed on the basis of the number of children in a service aged over 35 months.
7.5	Differences in educator-to-child ratios and staff qualification requirements for children under school age across jurisdictions should be eliminated and all jurisdictions should adopt the national requirements.
7.6	Governments should develop and incorporate into the National Quality Framework a nationally consistent set of staff ratios and qualifications for those caring for school age children in outside school hours and vacation care services. <ul style="list-style-type: none"> • The minimum staff ratio for school aged care should be no stricter than 1:15. • At most one-third of staff should be required to hold or be working towards an approved qualification. Approved qualifications may be a certificate III and could also include those from other

Rec No.	Productivity Commission Recommendation
	<p>relevant disciplines such as sport and recreation.</p> <ul style="list-style-type: none"> • Outside school hours and vacation care service directors should be required to hold or be working towards at least a diploma level qualification.
7.7	<p>To provide services with greater flexibility to meet staffing requirements:</p> <ul style="list-style-type: none"> • all governments should amend the <i>Education and Care Services National Law</i> and any other relevant legislation to allow ACECQA further flexibility in the way it approves qualifications — in particular to allow ACECQA to approve qualifications on a conditional or restricted basis. • all governments should allow a diploma qualified educator to be replaced by a certificate III qualified educator for short irregular absences of up to half a day per week. • ACECQA should continue to explore ways to make the requirements for approving international qualifications simpler and less prescriptive in order to reduce obstacles to attracting appropriately qualified educators from overseas. • the New South Wales and South Australian governments should allow a three month probationary hiring period in which unqualified staff may be included in staff ratios before beginning a qualification, as was recently adopted in all other jurisdictions.
7.8	<p>Governments should:</p> <ul style="list-style-type: none"> • urgently reconsider the design of the assessment and ratings system, giving particular consideration to finding ways to increase the pace of assessments. • explore ways to determine services' ratings so they are more reflective of overall quality. • abolish the 'Excellent' rating, so that 'Exceeding National Quality Standard' is the highest achievable rating.
7.9	<p>Governments, ACECQA and regulatory authorities, as applicable, should:</p> <ul style="list-style-type: none"> • abolish the requirement for certified supervisor certificates. • give providers more detailed and targeted guidance on requirements associated with Quality Improvement Plans, educational programming, establishing compliant policies and procedures and applying for waivers. • identify and eliminate potential overlaps between the National Quality Framework and state and local government requirements. • review ways that services with higher ratings ('Exceeding National Quality Standard') could be relieved of some paperwork requirements, where these are less important to ensuring quality given the service's compliance history. • remove the requirement for outside school hours care services operating on school facilities to provide site plans as a condition of service approval.
7.10	<p>Governments should extend the scope of the National Quality Framework to include all centre and home-based services that are eligible to receive Australian Government assistance.</p> <p>National Quality Framework requirements should be tailored towards each care type, as far as is feasible, and minimise the burden imposed on service providers. In particular, child-based educational reporting should not be required where children only attend services irregularly.</p>
7.11	<p>The quality standards in state and territory education legislation which apply to dedicated preschools should recognise those standards that are required to be satisfied under the National Quality Framework and any sources of inconsistency or duplication of requirements should be removed from the education legislation applying to preschools.</p>

Rec No.	Productivity Commission Recommendation
7.12	<p>State and territory governments should, within two years, harmonise background checks for ECEC staff and volunteers by either:</p> <ul style="list-style-type: none"> • advancing a nationally consistent approach to jurisdiction-based ‘working with children checks’ as proposed in the National Framework for Protecting Australia’s Children, including mutual recognition of these checks between jurisdictions, or • implementing a single, nationally recognised ‘working with children check’.
7.13	<p>Where there is an overlap with existing state and territory food safety requirements, Governments should exempt services from, or preferably remove, those requirements in the <i>Education and Care Services National Regulations</i>.</p> <p>State and territory governments, in conjunction with Food Standards Australia New Zealand, should explore the possible exemption of childcare services from Standard 3.3.1 of the Australian food safety standards, as in New South Wales.</p>
7.14	<p>Local governments should adopt leading regulatory practices in planning for ECEC services. In particular, local governments should:</p> <ul style="list-style-type: none"> • use planning and zoning policies to support the co-location of ECEC services with community facilities, especially schools. • use outcomes based regulations to allow services flexibility in the way they comply with planning rules, such as in relation to parking. • not regulate the design or quality of any aspect of building interiors or children’s outdoor areas within the service property, where such regulation unnecessarily duplicates or extends the requirements of the <i>Education and Care Services National Regulations</i> or other standards such as the Building Code of Australia. • not impose regulations that interfere with the operation of the ECEC market, such as by restricting the maximum number of permitted childcare places in a service. • provide clear guidelines for the assessment of development proposals in relation to ECEC services, and update these guidelines regularly.
7.15	<p>State planning departments should, as in Victoria, develop flexible standard planning provisions that can be applied across local governments to ensure some level of consistency; and scrutinise amendments to local planning schemes that might seek the introduction of different standards, to guard against potentially costly requirements being imposed.</p>
8.1	<p>Governments should ensure, through regulatory oversight and regular audits by the Australian Skills Quality Authority, that Registered Training Organisations maintain consistently high quality standards in their delivery of ECEC-related training.</p>
8.2	<p>ECEC employers should accept primary responsibility for the funding and support of ongoing professional development.</p> <ul style="list-style-type: none"> • Funding for Professional Support Coordinators should be discontinued. That part of their function which relates to assisting services in the inclusion of children with additional needs should be provided through the inclusion support programme. • Funding for the Long Day Care Professional Development Program should not be extended once the current funding arrangements have expired.
8.3	<p>To retain skills and experience in those services being brought within the scope of the National Quality Framework, staff employed in the service at the time of transitioning to the National Quality Framework who have a minimum of five recent years of relevant practical experience should be considered as meeting the National Quality Framework minimum qualification and be included in the staff ratio requirements.</p>
9.1	<p>In line with the broad level recommendations of the Productivity Commission’s 2010 study into the Contribution of the Not for Profit Sector, the Australian Government should remove eligibility of</p>

Rec No.	Productivity Commission Recommendation
	not-for-profit ECEC providers to Fringe Benefits Tax exemptions and rebates. State and territory governments should remove eligibility of all not-for-profit childcare providers to payroll tax exemptions. If governments choose to retain some assistance, eligibility for a payroll tax exemption should be restricted to childcare activities where it can be clearly demonstrated that the activity would otherwise be unviable and the provider has no potential commercial competitors.
10.1	The Australian Government should remove the 'Priority of Access' Guidelines once the proposed means and activity test requirements have been introduced.
10.2	State and territory governments should proactively encourage the provision of outside school hours care on school sites. At a minimum, this should involve: <ul style="list-style-type: none"> • ensuring outside school hours care services receive high priority on any guidelines on access to school facilities in non-school time. • placing the onus on school principals to take responsibility for ensuring there is an outside school hours care service for their students on and/or offsite if demand is sufficiently large for a service to be viable.
10.3	The Australian Government should abolish the Community Support Programme.
10.4	The Australian Government should remove caps on the number of occasional childcare places and abolish operational requirements that specify minimum or maximum operating hours for all services approved to receive child-based subsidies. ECEC services to children under school age should be operational for at least 48 weeks per year in order to be approved to receive child-based subsidies. ECEC services for school age children should be operational for at least 7 weeks per year in order to be approved to receive child-based subsidies. The requirements for before and after school care services to operate on every school day should be abolished.
10.5	Governments should allow approved nannies to become an eligible service for which families can receive ECEC assistance. Assistance would not be available for use of nannies who do not meet the National Quality Standard. National Quality Framework requirements for nannies should be determined by ACECQA and should include a minimum qualification requirement of a relevant (ECEC related) certificate III, or equivalent, the same staff ratios as are currently present for family day care services, and be linked to an approved coordinator, as occurs in family day care. Assessments of regulatory compliance should be based on both random and targeted inspections by regulatory authorities.
10.6	The Australian Government should remove the In-Home Care category of approved care once nannies have been brought into the approved care system.
10.7	The Australian Government should simplify working holiday visa requirements to make it easier for families to employ au pairs, by allowing au pairs to work for a family for up to the full 12 month term of the visa, rather than the current limit of six months per family.
11.1	The Australian Government should remove the registered childcare category under CCB.
12.1	Payment of a portion of the Family Tax Benefit Part A to the parent or carer of a preschool aged child should be linked to attendance in a preschool program, where one is available.
12.2	The Australian Government should ensure that any requirements on the age of children able to attend an outside school hours care service be sufficiently flexible as to enable an outside school hours care service to include, or operate primarily for, preschool age children.

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13.1	The Australian Government should remove the category of 'financial hardship' as a justification for receiving fully subsidised ECEC services.
13.2	The application process for the Inclusion Support Subsidy should be streamlined through: <ul style="list-style-type: none"> • sharing of information across government agencies to reduce the administrative burden on families and ECEC services. • an upgraded and more user friendly IT portal.
13.3	Governments should consider greater use of integrated ECEC and childhood services in disadvantaged communities: <ul style="list-style-type: none"> • to improve accessibility for families of ECEC and other childhood services. • to help identify children that are at risk of abuse or neglect or have additional needs. • ensure that the necessary support services, such as health, family support and any additional early learning and development programs, are available. • to improve the efficiency of related service provision.
14.1	The Australian Government should amend the Fringe Benefits Tax Act 1986 (Cth) to remove section 47(2), that is, the eligibility for Fringe Benefits Tax concessions for employer provided ECEC services. Section 47(8), which enables businesses to purchase access rights for children of their employees without this being considered an expenditure subject to the Fringe Benefits Tax should be retained but better publicised.
15.1	The Australian Government should combine the current funding for Child Care Benefit, Child Care Rebate and Jobs and Education Training Child Care Fee Assistance (JETCCFA) to support a single child-based subsidy, to be known as the Early Care and Learning Subsidy. The Early Care and Learning Subsidy would be available for children attending all mainstream approved ECEC services, whether they are centre-based or home-based.
15.2	The Australian Government should fund the Early Care and Learning Subsidy to assist families with the cost of approved centre-based care and home-based care. The program should assist families with the cost of ECEC services: <ul style="list-style-type: none"> • supplied by approved providers that satisfy the requirements of the National Quality Framework. • with a means tested subsidy rate between 85 per cent (for family incomes at or below \$60 000) and 20 per cent (for family incomes at or above \$250 000), with annual indexation of the thresholds. • which is applied to an hourly benchmark price based on the median fees charged for the type of service, and differentiating by age of child for long day care. • for up to 100 hours of care per fortnight for children aged 13 years and under of families that meet an activity test of 24 hours of work, study or training per fortnight, or are explicitly exempt from the activity test (recommendation 15.3). • paid directly to the service provider of the family's choice on receipt of the record of care provided. • be conditional on the child being fully immunised, unless care occurs in the child's home.
15.3	The Australian Government should exempt families from the activity test in the following circumstances: <ul style="list-style-type: none"> • parents are receiving an income support payment, with those who receive only a Parenting Payment being exempt from the activity test for up to 20 hours only of ECEC use per fortnight. • the primary carer is a grandparent or other non-parent primary carer. • exceptional circumstances, including when a family has experienced a sudden change in employment circumstances that would mean they no longer satisfy the activity test, with the exemption to apply for a period of three months following this change in circumstances. • the child has been assessed as 'at risk', with those who have had at least 26 weeks of being assessed as at risk exempt from the activity test for a further 18 months.

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	<ul style="list-style-type: none"> • the child is attending a service funded (in full or part) by the Community Early Learning Program. • the child is attending a preschool program in an ECEC service, with the exemption to apply for the period of the preschool program (15 hours a week for 40 weeks a year). <p>Unless otherwise stated, these families should still be subject to the same means test as applied to other families in determining the subsidy rate that applies to their use of the ECEC service. These activity test exemptions would replace the current Special Child Care Benefit, Grandparent Child Care Benefit, and JETCCFA arrangements and these programs should be abolished.</p>
15.4	<p>The Australian Government should establish a capped Viability Assistance Program to assist ECEC providers in rural, regional and remote areas to continue to operate under child-based funding arrangements (the Early Care and Learning Subsidy), should demand temporarily fall below that needed to be financially viable. This funding would be:</p> <ul style="list-style-type: none"> • accessed for a maximum of 3 in every 7 years, with services assessed for viability once they have received 2 years of support. • be limited to funding the fee gap that arises from a decline in the number of children using the service relative to the previous 3 years. • prioritised to centre-based and mobile services that are viable in most years. • be available to new services on the condition that they can demonstrate a business plan to be financially viable within two years.
15.5	<p>The Australian Government should continue to provide support for children who are assessed as ‘at risk’ to access ECEC services, funding an at risk children program that provides:</p> <ul style="list-style-type: none"> • a 100 per cent subsidy for the benchmark price of ECEC services. • up to 100 hours a fortnight, with exemption from the activity test. • support initially for 6 weeks then in blocks of up to 26 weeks, on application by the relevant state or territory department and approval by the Department of Human Services. • automatic extensions are to be provided for children for whom there is a current child protection order. <p>Families who have had a child assessed as ‘at risk’ for a period of 6 months or more would be exempt from the activity test for on-going ECEC services for this child for a further period of up to 18 months.</p>
15.6	<p>States and territories should nominate an agency for ECEC providers to contact where the provider has identified a child as at risk and applied for the initial six weeks at risk subsidy. This state or territory agency should be responsible for assigning a case worker to the child. If assistance is required beyond the initial period, this agency should also be responsible for making any applications for extensions for assistance on behalf of the child to support their attendance at the ECEC service. The application would require approval by the Department of Human Services. ECEC providers should be required to contact the designated state or territory department contact agency within one week of applying for the six week at risk assistance. Continuation of access to the subsidy would be based on ongoing involvement by a state or territory agency with the child and their family, and approval by the Department of Human Services.</p> <p>The processes for providers to notify the nominated state or territory agency, and for the agency to apply for an extension of the full subsidy on behalf of a child, should be trialled to establish an effective process before being fully rolled out.</p>

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15.7	<p>The Australian Government should retain the Inclusion Support Agency, ISS, Bicultural Support, and Specialist Equipment Support elements from the Inclusion and Professional Support Program to form the core of a new Inclusion Support Programme. The National Inclusion Support Subsidy Provider should also be retained.</p> <p>The budget should be increased for:</p> <ul style="list-style-type: none"> • the Inclusion Support Agencies to allow for ‘value for money’ contracting based on the number of services and child populations, with an adjustment for level of disadvantage in the communities in their allotted district • the Inclusion Support Subsidy to allow for up to 7 hours of funding a day for up to 10 days a fortnight and paid at the certificate III award rate • Bicultural Support to allow services access to at least 20 hours of support to settle new culturally and linguistically diverse families and their children into an ECEC service. <p>The ongoing need for Inclusion Support Agencies should be reviewed in five years.</p>
15.8	<p>The Australian Government should establish a Community Early Learning Program to fund ECEC services for communities where the children in the community are at a high risk of development vulnerabilities. The Community Early Learning Program would fund the:</p> <ul style="list-style-type: none"> • establishment of new services that have a five year business plan to transition to mainstream funding. • operation of these and current Budget Based Funded (BBF) Programme services as they transition to mainstream funding, with a declining share of funding being provided by the Community Early Learning Program over time. • on-going support to Community Early Learning Program services to meet any unavoidable higher costs of supply to children after transition. • activities undertaken by an ECEC service to organise and manage integration of the ECEC service with other family and child services. • Indigenous Professional Support Agencies to assist Community Early Learning Program services in Indigenous communities in the establishment and transition of these services. The Inclusion Support Agencies are to provide these services for those CELP services that target refugee communities. These agencies would also provide advice to mainstream ECEC services on culturally relevant inclusion planning strategies.
15.9	<p>BBF Programme services that are unable to transition even with on-going assistance should be reviewed every three years and closed if there are better alternatives available to provide ECEC services to the children attending the service. Activities (such as playgroups) in the BBF Programme that do not involve non-parental care do not fit within the ECEC non-parental care and early learning objectives and should find alternative non-ECEC sources of funding.</p>
15.10	<p>The Australian Government should continue to provide per child payments to the states and territories for universal access to a preschool program of 15 hours per week for 40 weeks per year. This support should be based on the number of children enrolled in state and territory government funded preschool services, including where these are delivered in a long day care service. A condition placed on the per child payments is that they should be directed by the state or territory to the approved preschool service nominated by the family.</p> <p>The Australian Government should reduce the benchmark price for the hours of preschool provided by a long day care service by an equivalent amount to the per child preschool funding.</p>
17.1	<p>The Australian Government should establish a program to link information for each child from the National ECEC Collection to information from the Child Care Management System, the Australian Early Development Census, and the National Assessment Program – Literacy and Numeracy (NAPLAN) testing results to establish a longitudinal database. Where possible, this should also be</p>

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	<p>linked to other key administration data sets and Censuses.</p> <p>A confidentialised file should be made available for statistical, research, policy analysis and policy development purposes. The ability of researchers to access unit record information should be permitted subject to stringent privacy and data protection requirements.</p> <p>The Australian Government agency that is the custodian of the Child Care Management System should provide a publicly available extract from the database each year for interested parties at a sufficiently detailed geographic level for planning purposes.</p>
17.2	<p>Centrelink and the Department of Human Services should clarify in the claim form for the Early Care and Learning Subsidy that parents have the ability to authorise ECEC providers to enquire or act on their behalf in relation to their claim.</p>
17.3	<p>The Department of Education should establish a complaints mechanism for parents to lodge a complaint about an approved ECEC provider with regard to pricing, accessibility, and any other ECEC matter. The mechanism should include a referral of the complaint to the appropriate Australian Government or state and territory government agency.</p>
17.4	<p>The Australian Government should review the operation of the new ECEC funding system and regulatory requirements after they have been implemented. In particular:</p> <ul style="list-style-type: none"> • within 2 years of introducing subsidies based on a benchmark price, any adverse unintended outcomes of the approach should be identified and resolved. • within 3 years of extending the coverage of the National Quality Framework (including to current block funded services and to nannies), ACECQA should prepare a report identifying any legislative, regulatory or procedural difficulties arising from the wider coverage of the National Quality Framework. • within 5 years of implementing the new ECEC funding system and regulatory requirements, the Australian Government should undertake a public review of the effectiveness of the revised arrangements