



# Pre-Budget Submission

Offering quality early learning for all children to ensure even the most disadvantaged have the best start in life.

January 2023



#BestStartInLife

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# Foreword

The Australian Early Childhood Education and Care (ECEC) sector has been the bedrock of the Australian economy through even the harshest lockdowns over the last two years.

As the national peak body for privately-owned early learning services, the Australian Childcare Alliance (ACA) represents more than **3,000 members** with over **4,500 early learning services**. Our members have worked around the clock to keep their doors open to safely educate and care for more than **360,000 families** throughout the worst of this terrible global health crisis and beyond.

The COVID-19 pandemic dramatically pulled the curtain back on the **essential role** the early learning sector plays in supporting the recovery and growth of our economy while allowing all working parents – essential and healthcare workers amongst them – to continue in the workforce.

At the same time the developmental benefits to our children are clear – children who enjoy quality early learning are likely to be well socialised, confident, inquisitive about the world, accepting of diversity, resilient to manage challenges and also to be life-long learners.

It is in this context that the sector is battling to meet the demands of local families, with the **single most pressing issue** facing our sector Australia-wide right now being the **critical workforce shortage of qualified educators**. Without adequate numbers of entrants into the sector, early learning service providers across the country are struggling to meet the demand for places and to meet the regulatory requirements for the educator-to-child ratios.

We need to ensure that **no child** is forced out of their early learning service, simply because there is a critical shortage of educators to care for them. This is happening to families today, right across Australia but is even more acute in regional, remote and disadvantaged areas of Australia. It is having a devastating impact on working mothers in particular and is exacerbating an overall worker shortage being experienced in all parts of the national economy.

The direct solution is to develop Government-funded policies that promote and foster staff retention whilst simultaneously widening the pipeline of qualified local candidates to the sector.

Meanwhile **affordability** of early learning (child care) is **one of the most serious issues facing working parents**.

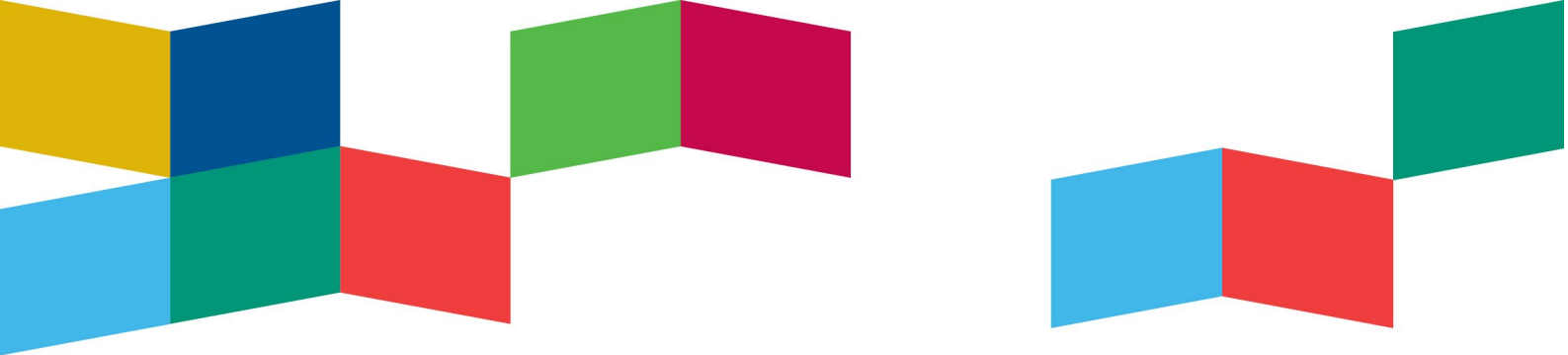
The Australian Government responded to these concerns with its election commitment to ensure greater affordability to families, via a broadened Child Care Subsidy (CCS). Given the immediate financial pressures facing so many young families, this is a really positive outcome.

However, we are deeply concerned that this significant investment by the Government could be negated, if early learning services can't meet the increase in demand for childcare due to a critical shortage of educators. Parents will also not be able to bear any increase in costs of any wage increase, unless it is funded by the Government.

Australia urgently needs immediate and long-lasting solutions to the workforce shortages to ensure that we maintain high quality, affordable early childhood education across the nation.

ACA is extremely proud of our work in protecting and nurturing our young children, enabling their parents to stay in the workforce and supporting the early learning sector through the COVID-19 pandemic.

We look forward to working with the Australian Government and contributing to the Early Years Strategy and National Summit, to support the economic recovery of Australia and ensure that all Australian families,



including those who are essential workers and/or from disadvantaged and vulnerable backgrounds, can continue to access our world class ECEC services.

ACA commits this Pre-Budget Submission for your consideration. With its adoption by the Australian Government, we can all ensure that **every child in Australia** has access to high-quality, affordable and sustainable early learning services, and therefore, every child will have the **best start in life**.

Paul Mondo  
President





# Executive Summary

If adopted, ACA's proposed solutions will ensure that **every child in Australia** has access to high-quality, affordable and sustainable early learning services and educated and nurtured by a well resourced and trained educator workforce. These initiatives will help provide every child with the **best start in life**.

## INVESTING IN AUSTRALIA'S EARLY LEARNING WORKFORCE

### Improve educator remuneration (wages & benefits)

We call on the Australian Government to:

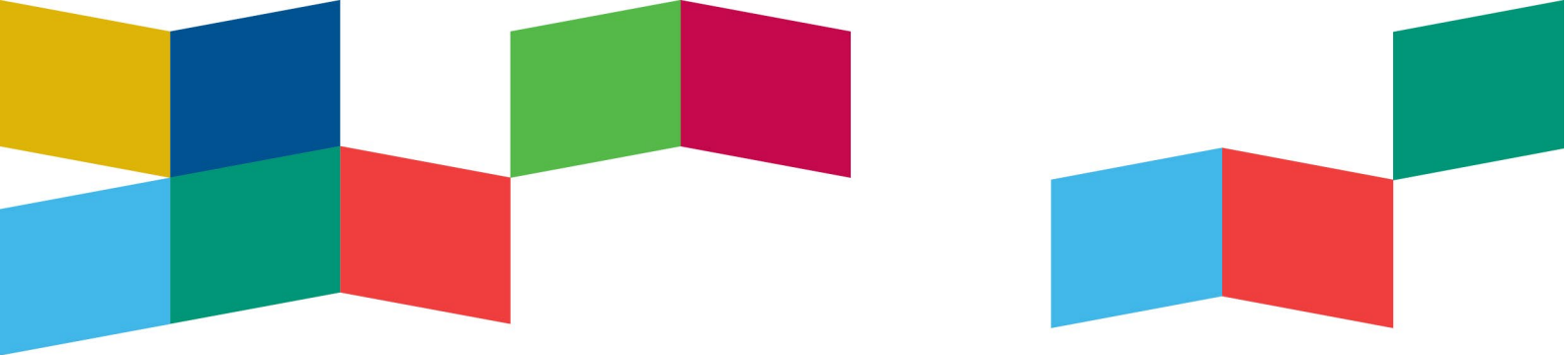
- Fund, co-design and co-ordinate an immediate national wage increase without affecting fees for families through a **two-stage process**:
  - Stage 1** - The Australian Government provides a **short-term** wage supplement grant for a 15% increase in wages.
  - Stage 2** – Following the Productivity Commission review of the ECEC sector, introduce a new subsidy system that covers the cost of delivering high-quality ECEC **including** anticipated wage increases. The new revised subsidy must provide long-term certainty and remove the need for the temporary wage supplement, without negatively impacting affordability for families.
- Fund a one-off \$3,000 'retention payment' to existing Early Childhood Educators and Teachers, similar to the one-off Healthcare Worker Winter Retention and Surge Payment in Victoria\*;
- Allow for a fringe benefits tax exemption for all service providers so they can offer fringe benefits to employees such as salary sacrifice in relation to early learning (child care), cars, electronic devices, etc.

\* <https://www.health.vic.gov.au/news/healthcare-worker-winter-retention-surge-payment>

## AFFORDABILITY – IMPROVING OUTCOMES WITH THE CHILD CARE SUBSIDY (CCS)

We call on the Australian Government to support **all families** by:

- Abolish the CCS 24 and CCS 36 activity test criteria and introduce a new category of CCS 48 for the financial period 2023/24 and 2024/25 for all families.
- Extend the exemption of the **Child Care Subsidy activity test** for children in their **two years before school**.
- Undertake a review of the CCS hourly cap rate to ensure it delivers its intended aim of maintaining affordability for families.
- Introduce a **new category** within Additional Child Care Subsidy (Child Wellbeing) which would allow an immediate, efficient response to local emergencies.
- Review the **ACCS Transition to Work** option to ensure that it is meeting its objectives and support wider promotion among eligible families.

- 
- Increase additional Allowable Absences by 20 days (totalling 62 days) for the 2023-2024 financial year.

#### REFINING INCLUSION SUPPORT PROGRAM FOR THE MOST VULNERABLE CHILDREN

We call on the Australian Government to support our **most vulnerable families** by:

- Immediately increasing the maximum number of hours for additional educator support from 5 to 8 hours per day.
- Immediately increasing the funding rate for additional educators to ensure it always aligns with/pays a Certificate III Level 3.2 casual rate plus superannuation (currently \$32.02 per hour plus 10.5% super).
- Conducting a thorough root and branch review of the Inclusion Support Program (ISP).



# Improving educator remuneration with direct government funding

## THE ISSUE

It is now well-recognised that the **single most pressing issue** facing the early learning sector Australia-wide right now is the **critical workforce shortage of qualified educators**.

Due to the undersupply of entrants into the sector, **over 12,500 early learning service providers** across the country are struggling to meet the demand for places and to meet the regulatory requirements for the educator-to-child ratios. As a result, families are being forced out of their beloved services and out of the workforce.

As the backbone of the Australian economy, the early learning sector's viability and sustainability are critical components of achieving the Australian Government's objectives of full employment and productivity growth for the benefit of all Australians, along with women's economic participation and equality.

This has been clearly recognised by the Albanese Government, with **affordable** and **accessible** childcare being one of the cornerstones of its election commitment and its signature legislation enshrining this amongst the first to be passed by a new Parliament.

However, we know that well ahead of 1 July 2023 - when the increase in Child Care Subsidy takes effect - the demand for our ECEC services will surge to a level that we simply **will not be able to accommodate**, unless more is done by the Australian Government to help us retain and attract quality educators.

Improving wages for early childhood educators will play a critical role in addressing the workforce crisis. However it is critical that this is done **without our families bearing additional costs** that will negate the impact of the government's new affordability measures. These competing priorities must be disentangled to ensure that families can afford the care they need whilst ensuring that our valued educators and teachers can benefit from an increase in remuneration.

ACA proposes a **direct wage supplement** to immediately address this urgent problem and momentarily shift the narrative for the retention of our existing workforce and the attraction of new educators and teachers well into the future. This is the most urgent action needed to ensure that our ECEC services can remain the safe and reliable harbour of education and nurture that our children deserve.

At the same time the Productivity Commission has been tasked with conducting a comprehensive review of the sector with the aim of implementing a universal 90 per cent subsidy for all families. It is imperative that terms of reference for this inquiry include ensuring that any resulting long-term subsidy adequately covers the cost of delivering high-quality ECEC including any increase in wages or conditions.

ACA's [Employment White Paper Submission](#) to Treasury in December 2022 outlined the seven key recommendations which we believe would go a long way to mitigating the current educator shortage, with the aim of protecting families from being forced out of their beloved service, safeguarding parents' economic livelihoods as well as risking the economy from further disruption. Whilst we will not re-prosecute these asks in this paper further detail on these recommendations is provided at *Appendix A - ACA Employment White Paper Submission December 2022*.





## SOLUTIONS

### IMPROVE EDUCATOR REMUNERATION (WAGES & BENEFITS)

We call on the Australian Government to:

- co-ordinate an immediate national wage increase without affecting fees for families through a **two-stage process**:

**Stage 1** - The Australian Government provides a **short-term** wage supplement grant for a 15% increase in wages, including a transparent mechanism that ensures accountability that the wage supplement has been directly passed on to the workforce.

The mechanism must include consideration to the consequential impact of superannuation, workers compensation insurance, Award-associated replacement staff to meet ratios and payroll tax (a cost only borne by for-profit providers). The proposed wage supplement grant would need to be co-designed by all relevant stakeholders to ensure there are no unintended consequences.

**Stage 2** – Following the Productivity Commission review of the ECEC sector, introduce a new subsidy system that covers the cost of delivering high-quality ECEC **including** anticipated wage increases.

The new revised subsidy **must** provide long-term certainty and remove the need for the temporary wage supplement, without negatively impacting affordability for families.

- fund a one-off \$3,000 'reward payment' to existing Early Childhood Educators and Teachers, similar to the one-off Healthcare Worker Winter Retention and Surge Payment in Victoria\*;
- Allow for a fringe benefits tax exemption for service providers in the context of providing fringe benefits to employees such as salary sacrifice in relation to early learning (child care), cars, electronic devices, etc.

This initiative could help attract jobseekers to the sector by lowering their income tax threshold and therefore boosting their income.

## BENEFIT TO FAMILIES/CHILDREN

Funding the payrise for the early learning sector will ensure greater, reliable access to high-quality ECEC services which means a better start in life for our youngest generation and both parents being able to return to the workforce sooner.

## BENEFIT TO TAXPAYERS

Greater participation from parents in the workforce means a stronger economic recovery from the COVID years.

Greater, reliable access to high-quality early learning for all families will result in generations of better socially-adjusted children with better academic outcomes and less requirement for government welfare years down the track.





## COSTS

ACA is undertaking research via an external consultancy to calculate the estimated cost of introducing these recommendations.

Preliminary data suggests costings of approximately \$650 million per annum.

We will present clearer estimations in an upcoming report to Minister Ann Aly within the next six-eight weeks.



# Affordability – ensuring no child falls through the cracks

## THE ISSUE

Affordable access to early learning (child care) services is of **fundamental need** for all Australian families with young children, as well as those planning to have children. Along with the rental and housing markets, the cost of child care continues to be a key focus for many families as well as the media.

ACA commends the Albanese Government for its first ever Federal Budget, which prioritised affordability of early learning services and set the financial foundation for the increased Child Care Subsidy (CCS) rates for many families under the *Family Assistance Legislation Amendment (Plan for Cheaper Child Care) Bill 2022*.

Despite this landmark change to the CCS, sadly some barriers to affordability still remain which must be addressed by the Australian Government.

## Remove the barriers in the activity test

The activity test was designed by the Coalition Government with the aim of incentivising workforce participation through more affordable childcare for those who work. This model automatically disadvantages the children of parents who may not be working or undertaking other eligible activities, and unfairly denies these children of the best start in life via adequate access to high-quality early learning.

Lifting the maximum rate of Child Care Subsidy to 90 per cent of the hourly fee cap for families earning up to \$80,000 is an important policy change that will improve equitable access to early learning services for many working families.

However, without an additional amendment which increases the number of hours available to families with low incomes and less than 16 hours of work, study or training, those families that are most in need of lower child care costs will miss out, due to the current design of the activity test which only provides them with limited hours of subsidy.

At a time when the Government is trying to increase productivity as part of the skills shortage across the economy, the activity test criteria will exacerbate existing inequity and increase financial disincentives and barriers to work, study and training for parents of young children.

This is an outcome that perpetuates disadvantage, excluding too many vulnerable families with young children who do not qualify for a minimum level of subsidised access due to their work/life situation. These children are already disadvantaged. They need to be better supported not further discriminated against by being denied the same equity of access to quality care and education.

To improve equity of access and remove financial and administrative barriers to participating in work, study and job search activities for parents of young children, we recommend removing the bottom two steps of the activity test (ie CCS-24 and CCS-36) and replacing them with a new category of CCS 48 for the financial period 2023/24 and 2024/25 for all families. This should then be replaced by a minimum of CCS 72 for all families from 2025/26

Further detail on these recommendations is provided at [Appendix B - Equity measure Joint Proposal](#) - a joint proposal from ACA and nine other key sector stakeholders.



## Out of pocket child care costs

These additional costs create a financial disincentive for parents across all family income levels to increase their work hours or return to work, with women's workforce participation suffering the most.

The CCS hourly rate has not been reviewed, as planned, due to the unforeseen circumstances of the COVID-19 pandemic. The current rate introduced in 2018 has not been increased beyond minor CPI increases and we believe is no longer adequate at maintaining affordability.

## Financial support for emergencies is not timely enough

When service providers are directly impacted by local emergencies such as bushfires, floods or other unpredictable circumstances that force closure, they have to wait for the Australian Government to declare a period of emergency for their local area before they can access emergency funding support.

This process can take weeks and means there is a long delay before service providers can receive the support they need.

Introducing a **new category** within ACCS (Child Wellbeing) would allow an immediate, efficient response to local emergencies such as bushfires, floods or other relevant circumstances in a targeted way.

## ACCS Transition to Work initiative

The Additional Child Care Subsidy (ACCS) Transition To Work helps families with the cost of early learning services (child care) if they are transitioning to work from income support by engaging in work, study or training activities. The ACCS provides families with a 95% CCS subsidy for a 6-month period, allowing families to access care even if they don't yet meet the activity test.

Whilst this is a valuable initiative with the potential to help many eligible families, this particular support option is not widely known about among those families who need it.

This is a policy fail and a lost opportunity, as many of these families may withdraw their child from early learning services without being aware of this support resource.

## Supporting families & services through broader health impacts

During 2022 the early learning sector experienced unprecedented levels of child absences due to general illness (i.e. sick leave was taken for a range of reasons including viruses and illnesses **other than** COVID-19).

The Federal Government's 2022-2023 budget allowed for an additional 10 allowable absences for children and has provided financial relief to many families with absent children due to illness.

In preparation for facing similar absence rates due to general illnesses next year, we recommend increasing additional Allowable Absences by 20 days (totalling 62 days) for the 2023-2024 financial year.



## SOLUTIONS

We call on the Australian Government to support **all families** by:

- Abolishing the CCS 24 and CCS 36 activity test criteria and introduce a new category of CCS 48 for the financial period 2023/24 and 2024/25 for all families. This should then be replaced by a minimum of CCS 72 for all families from 2025/26
- Extending the exemption of the **Child Care Subsidy activity test** for children in their **two years before school**. This will further enhance early learning opportunities for more Australian children and build on the benefits of access to high-quality kindergarten-preschool programs.
- Undertaking a review of the CCS hourly cap rate to ensure it delivers its intended aim of maintaining affordability for families:
  - Ensure any recommendations from the ACCC price inquiry into childcare costs take into account the CCS hourly rate cap so that it adequately supports the upcoming increase in wages and ongoing inflation issues impacting the economy.
  - Ensure the Productivity Commission Inquiry into the comprehensive review of the sector (with the aim of implementing a universal 90 per cent subsidy for all families) reviews the CCS hourly rate cap so that it adequately supports the upcoming increase in wages and ongoing inflation issues impacting the economy.
- Introducing a **new category** within ACCS (Child Wellbeing) which would allow an immediate, efficient response to local emergencies such as bushfires, floods or other relevant circumstances in a targeted way.
- Reviewing the **ACCS Transition to Work** option to ensure that it is meeting its objectives and support wider promotion among eligible families.
- Increasing additional Allowable Absences by 20 days (totalling 62 days) for the 2023-2024 financial year.

## BENEFIT TO FAMILIES/CHILDREN

Families, and particularly women returning to the workforce, need predictable access to ECEC to be able to participate in the workforce. Removing the CCS24 and CCS36 categories would remove the significant barrier of high out-of-pocket cost for unsubsidised ECEC and would provide much needed predictability for families, especially women, to get back into the workforce.

It is estimated that this would benefit up to 80,000 families. This includes approximately 20,000 – 30,000 families currently locked out of the system, around 12,000 accessing CCS24 and a further 41,000 accessing CCS36, which they are eligible to depending on their activity test.



## BENEFIT TO TAXPAYERS

Employers and the economy would also benefit from increased supply of a casual and part time workforce who will be more available to fill shortages through the flexibility and predictability that this measure will delivery.

Enhancing workforce participation and earnings also serves to support women's safety and wellbeing over the long term, building economic security and increasing their capacity to make decisions if they find themselves in an unsafe domestic relationship.

Greater, reliable access to high-quality early learning for all families will result in generations of better socially-adjusted children with better academic outcomes and less requirement for government welfare years down the track.

The cost of this change would likely be returned in increased tax revenues from parents working more and potentially administrative savings for Services Australia. Administrative data shows families only use the subsidised hours they need – the co-contribution ensures that utilisation is closely aligned to hours of paid work.



# Refining Inclusion Support program for the most vulnerable children

## THE ISSUE

The Early Childhood Education & Care (ECEC) framework in Australia is underpinned by the objective that **all children** have access to high quality early childhood education that meets their particular needs. ECEC service providers, Early Childhood Teachers and Educators rely on receiving adequate support to ensure that each child receives equitable access to the support they need in each setting.

The current Inclusion Support Program (ISP) was implemented in 2016 to build on the previous program in place and build on the sector's capacity to provide the best of tailored care for the benefit of all children.

Five years after its initial implementation, the current ISP needs urgent improvements to ensure that it meets the needs of children and the sector more broadly.

In particular, the current limits of 5 hours a day/25 hours a week, during which an additional educator is funded to support the child, means that the child will only receive that tailored support for a certain portion of the day. Beyond those hours, the child is expected to fit in with the usual adult to child ratio settings, which generally isn't sufficient support to meet their specific needs.

This has resulted in significant limitations on the child's capacity to participate at their early learning service, and limits the parent's capacity to participate in the workforce.

The ISP is mired in an unnecessary burden of excessive administration.

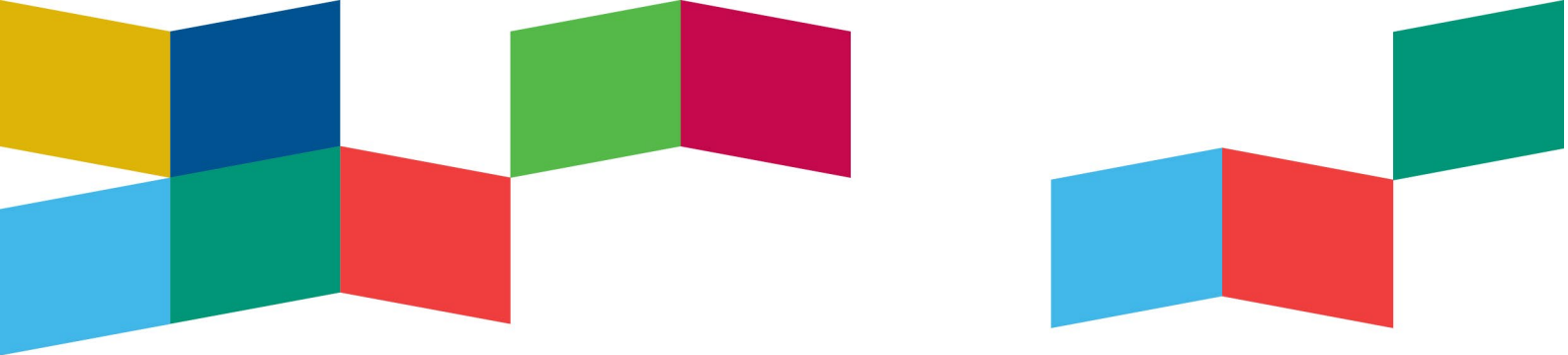
Moreover, the total pool of funding available has not kept up with the ever-increasing participation rates in ECEC across the country and the impacts of COVID-19 on children from disadvantaged and vulnerable backgrounds in Australia.

Inclusion Agencies responsible for administering the system, are struggling to deal with an excessive backlog of applications. In the end, it is the most vulnerable of young children who are missing out on the appropriate level of care and support.

## SOLUTIONS

We call on the Australian Government to support our **most vulnerable families** by:

- Immediately increasing the maximum number of hours for additional educator support from 5 to 8 hours per day.
- Immediately increasing the funding rate for additional educators to ensure it always aligns with/pays a Certificate III Level 3.2 casual rate plus superannuation (currently \$32.02 per hour plus 10.5% super).
- Conducting a thorough root and branch review of the Inclusion Support Program (ISP). This should be led by the Australian Government in close consultation with the sector and families.



This review must include the following objectives:

- Ensure that the ISP is **demand driven** to ensure that the benefits of the program are delivered to as many children as eligible.
- Allocate funding for additional educator requirements for children who qualify for Inclusion Support to ensure that the needs of all children are met.
- Reduce the need for annual Strategic Inclusion Plans for the service.
- Review the administrative processes in place to apply for Inclusion Support funding to ensure they are not overly burdensome.





## BENEFIT TO FAMILIES/CHILDREN

Children with special needs and their families would have access to high-quality, tailored care with adequate supports that meet the needs of each individual child and offer vastly improved learning outcomes.

With over 360,000 families in our care, ACA believes **all** of Australia's children have the right to the **best start in life**.

## BENEFIT TO TAXPAYERS

Employers and the economy would also benefit from increased workforce participation.

Greater, reliable access to high-quality early learning for all families will result in generations of better socially-adjusted children with better academic outcomes and less requirement for government welfare years down the track.



# Conclusion

The health and developmental benefits of early learning to Australia's young children are now needed more than ever, and we need to ensure that every child in Australia has the best start in life, regardless of their parents' circumstances or where they live.

The sector also plays a critical role in supporting the recovery and growth of our economy while allowing all working parents – essential and healthcare workers amongst them – to continue in the workforce. It is therefore vital that policy makers focus on settings that support the viability of the early learning sector and guarantee this long-term benefit to our economy.

With the right policy and financial frameworks in place, Australia could be a world leader in the delivery of high quality ECEC within 10 years.

ACA will continue to work directly with the Australian Government on policies that support accessibility and affordability for families, while at the same time providing the critical support needed to build a strong supply of highly skilled early childhood educators and teachers.

## ATTACHMENTS

- [Appendix A - ACA Employment White Paper Submission December 2022](#)
- [Appendix B – Equity Measure Joint Proposal](#)



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# Solving the ECEC Workforce Crisis

for cost effective, long-term benefits

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ACA Submission to Employment White Paper

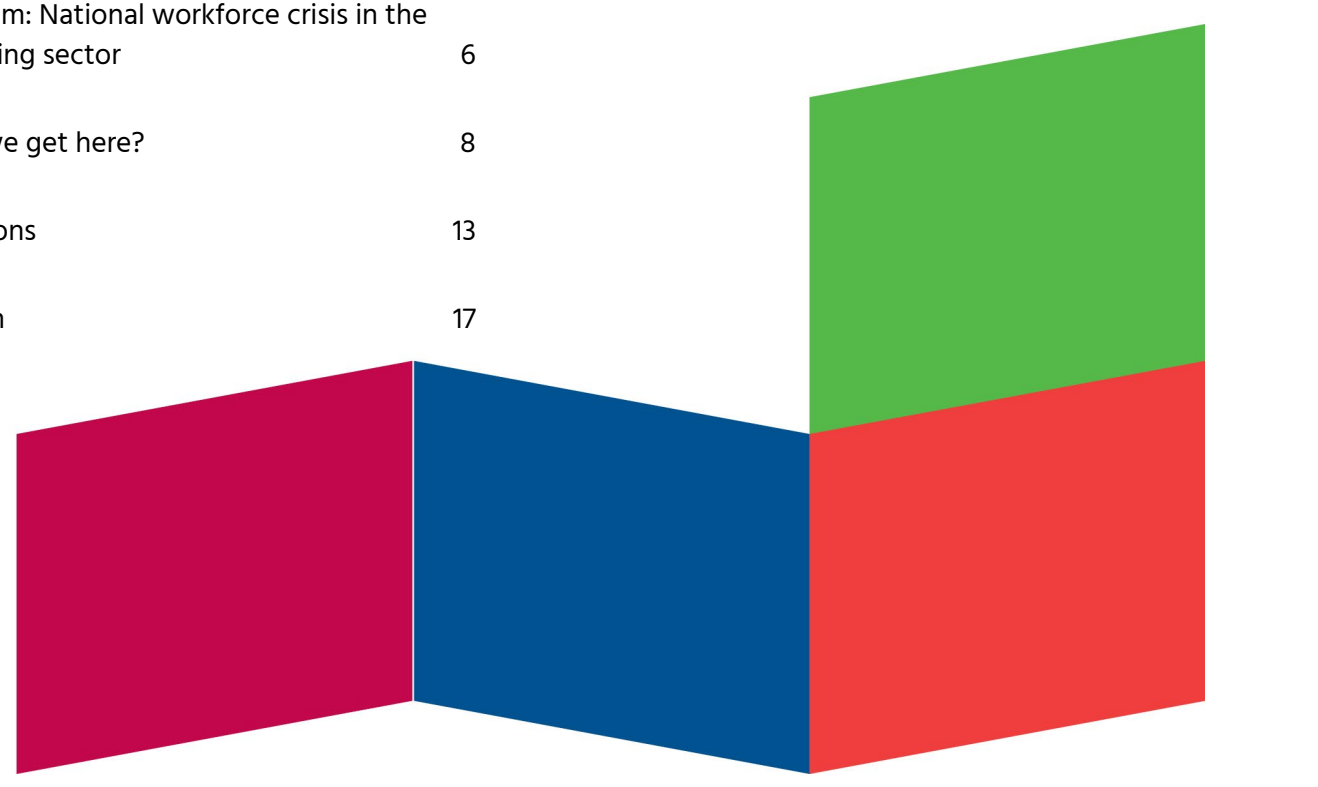


DECEMBER 2022



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# Summary Outline of Submission

This submission focuses primarily on the Labour Force Participation component of the White Paper's Scope and Themes, with an emphasis on the Early Childhood Education and Care (ECEC) sector. It talks to the objectives of full employment and increasing labour productivity growth and incomes, including the approach to achieving these objectives.

The **single most pressing issue** facing the early learning sector Australia-wide right now is the **critical workforce shortage of qualified educators**. Without adequate numbers of entrants into the sector, **over 12,500 early learning service providers** across the country are struggling to meet the demand for places and to meet the regulatory requirements for the educator-to-child ratios.

As the backbone of the Australian economy, the early learning sector's viability and sustainability are critical components of achieving the Australian Government's objectives of full employment, productivity growth for the benefit of all Australians, along with women's economic participation and equality.





# Executive Summary

This submission was put together in response to the Federal Treasury's call for submissions to the Employment White Paper.

The Australian Childcare Alliance (ACA) appreciates the invitation to provide a submission. We are gratified that the Early Childhood Education and Care (ECEC) sector was identified as central to the government's roadmap to build a bigger, better-trained and more productive workforce – to boost incomes and living standards and create more opportunities for more Australians. ACA welcomes the opportunity to contribute our lived experiences to this important policy discussion.

As the backbone of the Australian economy, the early learning sector's viability and sustainability are critical components of achieving the Australian Government's objectives of full employment, productivity growth for the benefit of all Australians, along with women's economic participation and equality. This has been clearly recognised by the Albanese Government as affordable and accessible childcare was the cornerstone of its election commitment and its signature legislation enshrining this amongst the first to be passed by a new Parliament.

But we know that well ahead of 1 July 2023 - when the increase in Child Care Subsidy takes effect - the demand for our ECEC services will surge to a level that we simply will not be able to accommodate, unless more is done by the Australian Government to help us retain and attract quality educators. It is critical that this is done without our families bearing additional costs that will negate the impact of the government's new affordability measures.

We recommend the following suite of seven cost effective, sensible, policies and regulatory changes, which if implemented as intended, will go a long way to mitigating the current educator shortage to protect families from being forced out of their beloved service, to protect the economy from further disruption and to ensure our ECEC services can remain the safe and reliable harbour of education and nurture our children deserve.

As a priority, we call on the Australian Government to:

- Improve educator remuneration via a government-funded wage increase and other sector-specific benefits
- Widen the pipeline of qualified local candidates
- Widen the pipeline of qualified international candidates (skilled migration)
- Promote the ECEC sector and job opportunities to jobseekers
- Differentiate employment support for Australia's Critical Workers
- Introduce an international exchange program for the sector
- Revise Mid-Career Transition Programs





# Who we are & what we do

As the national peak body in the Australian Early Childhood Education and Care (ECEC) sector, the Australian Childcare Alliance (ACA) represents more than **3,000 provider members** who employ **more than 75,000 educators**, who, in turn, care for more than **360,000 families** throughout Australia. We are laser focussed on ensuring all families have an opportunity to access affordable, quality ECEC and that no child is left behind.

The ACA has existed in various forms for more than 30 years. Our experience means that we understand the critical role a quality ECEC program plays in the life of children and their families and the importance of a viable long day care sector in preparing children for the best start in life and learning. We are the key enabler of women returning to the workforce and our services supply the bedrock of a functioning economy.

ACA has been closely monitoring the early learning workforce shortage over the past ten years. What was a challenge before the pandemic is now a crisis. Right now, we need 10,000 educators.

The gap between sector workforce needs and supply has continued to widen, with many early learning service providers across the country currently unable to attract and retain adequately qualified, experienced and capable Early Childhood Educators.

This situation is now impacting the ability of many services to offer places for children on a daily basis, with families struggling to find consistent care. We know the cause of this is complex and there is no simple solution.

On behalf of members, ACA offers a suite of cost effective short and long-term policies. This includes improved direct targeted funding and associated funding models as well as industrial options that might better balance wages and operational efficiency without forcing parents to face any increased costs. It might also include bargaining or changes to the industry's modern award. As part of this, we remain open to engaging with all sector stakeholders including government, peak associations, unions and larger employers.

The underpinning challenge will always be the question of funding for the sector. All service types are struggling to maintain financial viability, so any increase in employee costs will currently result in an increase in fees to families. A 10% increase in wages – if not funded by the government – will lead to fee increases for families.\*

This is not fair on families who are already doing it tough with increasing interest rates and an unprecedented rise in inflation.

We need to know that families won't face further financial burden whilst we support our educators. There are many different ways the government could provide funding support in our sector to support educators, and we are working with it to determine the best return on investment for taxpayers.

ACA will continue to work closely and collaboratively with the Australian Government, and all sector stakeholders, as we move forward to find sustainable and effective solutions that allows us to continue to ensure every child has the best start in life.

*\* ACA have engaged with external consultants Dandolo Partners Pty Ltd to undertake research to quantify the likely fee increase as a result of a wage rise at various increments. ACA will present the findings of this report to the government early in 2023.*



# The problem: National workforce crisis in the early learning sector

Workforce shortages exist across all industries and sectors of employment in Australia. A workforce crisis in the early learning (child care) sector, creates a disastrous flow on effect for the rest of the Australian economy.

It is now well recognised that the early learning sector is an important lynchpin in ensuring that working parents can continue in the workforce for every other industry or sector. The ECEC sector is pivotal to delivering true economic security for women.

A viable, sustainable early learning sector is critical in order to provide the opportunity for Australian parents of young children to participate in the economy, expand their employment, undertake further training and study and help build a pipeline across the broader workforce. They can do this, knowing their child is being nurtured and educated in a world-class ECEC service.

However, none of these objectives can be achieved, without urgently resolving the serious workforce issues embroiling the Early Childhood Education and Care (ECEC) sector.

The early learning (child care) sector is experiencing a **nation-wide workforce crisis**. There are simply not enough entrants into the sector to meet the demand for educators and to meet our regulatory requirements for the educator-to-child ratios. Right now, we urgently need at least 10,000 well-trained, competent Early Childhood Educators and Early Childhood Teachers to fill vacancies.

An already dire situation has been further amplified by the impacts of COVID-19, the growing demand for places for children, the growing issue of new centre builds and increased population sizes in rural and remote areas. Sourcing Early Childhood Teachers (ECTs) is an increasingly urgent challenge Australia-wide.

The Department of Education, Skills and Employment (DESE) has predicted that Australia will need around 39,000 additional educators, including 9,000 additional ECTs, by 2023<sup>1</sup>. Meanwhile the National Skills Commission's Labour Market Insights indicate a national shortage of both Early Childhood Educators and Early Childhood (Pre-primary School) Teachers, with overall employment in Education and Training projected to grow by 149,600 (or 13.4%) over the five years to November 2026<sup>2</sup>.

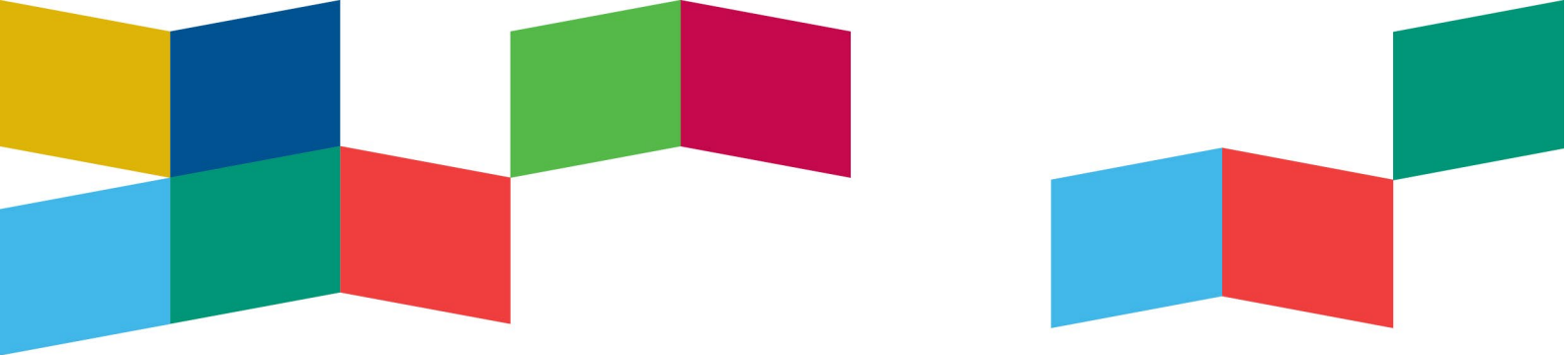
A recent report<sup>3</sup> produced by CELA (Community Early Learning Australia), ELAA (Early Learning Association Australia) and CCC (Community Child Care Association) revealed that over 4,500 job vacancies (minimum) were advertised in the Early Childhood Education and Care (ECEC) sector in the first six months of 2021 and nearly half of all vacancies remained unfilled during that period. In 2022 the problem has grown exponentially for the sector, compounded by low unemployment rates

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<sup>1</sup> Page 18, ACECQA Workforce Report 2019 - <https://www.acecqa.gov.au/sites/default/files/2022-01/ProgressingNationalApproachChildrensEducationCareWorkforce.pdf>

<sup>2</sup> <https://labourmarketinsights.gov.au/industries/industry-details?industryCode=P>

<sup>3</sup> <https://bit.ly/CELAWorkforceReportNov2021>



and the lasting economic and social impacts of COVID-19. The latest National Skills Commission data shows there were over 7,000 ECEC roles advertised nationally at the end of September 2022.<sup>4</sup>

The Australian Government's 'Cheaper Child Care' legislation to improve affordability for families was successfully passed through Parliament in late November and is set to take effect in July 2023. Once implemented, these affordability measures are expected to increase demand for children's places in early learning services by 37,000 extra places nationally.

However, this welcomed additional support for families was voted into law at the same time as the *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Bill 2022* (the Bill).

We applaud the Government's objective to 'get wages moving' but, like many other ECEC peak bodies, ACA is concerned that the multi-employer bargaining provisions of this new legislation could result in the imposition of higher wages across the whole sector without government planning or financial support.

This substantial investment to deliver greater affordability under the 'Cheaper Child Care' legislation will be negated if parents are forced to bear the increase in costs from wage rises.

Other state-based initiatives for pre-school and kindergarten will also create extra demand. Together, these initiatives will exacerbate the workforce crisis in long day care services as they are collectively rolled out in 2023.

Across the board, there is already a critical shortage of Certificate III in Early Childhood Education and Care, Diploma of Early Childhood Education & Care and degree-qualified ECEC candidates. We know wage increases – amongst many other training and retention initiatives – are a central pillar to attracting and retaining the educators we urgently need.

But without government funding any wage increase, the resulting cost impacts on families will be unbearable.

A timely and sufficient investment, by Government, to remedy the critical workforce shortages in the ECEC sector will ultimately contribute to the whole economy and our national wellbeing.

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<sup>4</sup> <https://www.nationalskillscommission.gov.au/insights/2022-skills-priority-list>



# How did we get here?

## THE BIG PICTURE

- The early learning (child care) sector is regulated by the Australian Children Education & Care Quality Authority (ACECQA) which administers the National Quality Framework (NQF). The NQF applies to Early Childhood Education and Care (ECEC) as well as Outside School Hours Care (OSHC) services.
- Over 16,500 children's education and care services operate as approved providers under the NQF - **over 8,000 long day care services**, 3,000 preschools/kindergartens, 500 family day care services and 4,500 outside school hours care services.<sup>5</sup>
- Of these, 1% are large operators (owning 25 or more services), 19% are medium-sized (2-24 services) and **80% are small-sized (owning 1 service)**.
- Over 216,619 educators working across the five key ECEC settings – long day care (LDC), family day care (FDC), outside school hours care (OSHC), in home care and vacation care – with a **70% rise since 2013** <sup>6</sup>.
- **Rapid growth in Long Day Care (LDC)** - Since the last census LDC has seen an influx of workers, who now account for an enormous 68% of all educators in ECEC
- Growth in the sector will be expected to continue to increase over the five years to November 2025, with employment expected to increase by around 16,000<sup>7</sup>.

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<sup>5</sup> <https://www.acecqa.gov.au/sites/default/files/2021-10/ShapingOurFutureChildrensEducationandCareNationalWorkforceStrategy-September2021.pdf>

<sup>6</sup> <https://www.education.gov.au/child-care-package/resources/2021-early-childhood-education-and-care-national-workforce-census-report>

<sup>7</sup> <https://www.nationalskillscommission.gov.au/reports/job-openings-and-replacement-rates-occupation>



## WORKFORCE DEMOGRAPHICS

- The majority of the total ECEC workforce (92.1%) is female, with the median age being 36 years for female workers and 27 years for male workers<sup>8</sup>.
- The average age of all ECEC workers was 37 for females and 32 years for males.
- 2.9 per cent of the total staff in the ECEC workforce are Indigenous Australians.

### Hours of work

- Across the ECEC sector the distribution of hours worked were fairly even between short part-time (1 to 19 hours, 29.1 per cent), long part-time hours (20 to 34 hours, 33.4 per cent) and full-time hours (35 to 40 hours 33.4 per cent), with a small proportion of the workforce working long hours (41 or more hours 4.1 per cent).<sup>9</sup>

### Staff turnover

- In Australia, the percentage of job turnover amongst early childhood education and care (ECEC) employees each year has been estimated to be more than 30% for over a decade<sup>10</sup>.
- “For many Early Childhood Educators, alternatives of better paid and less challenging sources of employment are available in other employment sectors, a fact that explains turnover rates as high as 30%.”<sup>11</sup>
- Retention, in particular, has been identified as a significant challenge for the sector in Australia and across the developed world. International research indicates that Early Childhood Educator retention rates continue to be poor compared to other occupational groups.<sup>12</sup>

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<sup>8</sup> <https://www.nationalskillscommission.gov.au/reports/job-openings-and-replacement-rates-occupation>

<sup>9</sup> 2021 Early Childhood Education and Care National Workforce Census report - <https://www.education.gov.au/child-care-package/resources/2021-early-childhood-education-and-care-national-workforce-census-report>

<sup>10</sup> [Community Services Ministers’ Advisory Council, 2006](#); United Voice, 2011a, [2014](#).

<sup>11</sup> University of QLD – Low pay but still we stay: Retention in early childhood education & care

[https://www.researchgate.net/publication/328376512\\_Low\\_pay\\_but\\_still\\_we\\_stay\\_Retention\\_in\\_early\\_childhood\\_education\\_and\\_care](https://www.researchgate.net/publication/328376512_Low_pay_but_still_we_stay_Retention_in_early_childhood_education_and_care)

<sup>12</sup> Gable et al., 2007; Rolfe, 2005; Whitebook and Sakai, 2003



## WORKFORCE EDUCATION SNAPSHOT

- In terms of the mix of qualifications among workers in the sector, the number of people who undertook and completed Diplomas of Early Childhood Education and Care has increased since 2016, with Bachelor Degrees flat lining and Certificate IIIs in Early Childhood Education and Care facing a slight decline<sup>13</sup>.
- Strong growth is required in all three qualifications to address staff shortages across the sector.
- Registered Training Organisations (RTOs) also report a substantial number of drop-outs mid-course. There is no data to clearly indicate the individual students' reasons for abandoning their studies.

## WHAT HAS CAUSED THIS DEFICIT OF QUALIFIED CANDIDATES IN THE ECEC SECTOR?

The shortage of ECEC staff is a problem that has been accumulating over the last decade, with a combination of factors contributing to what is now a workforce crisis.

These factors may vary from service provider to service provider, depending on their geographic location.

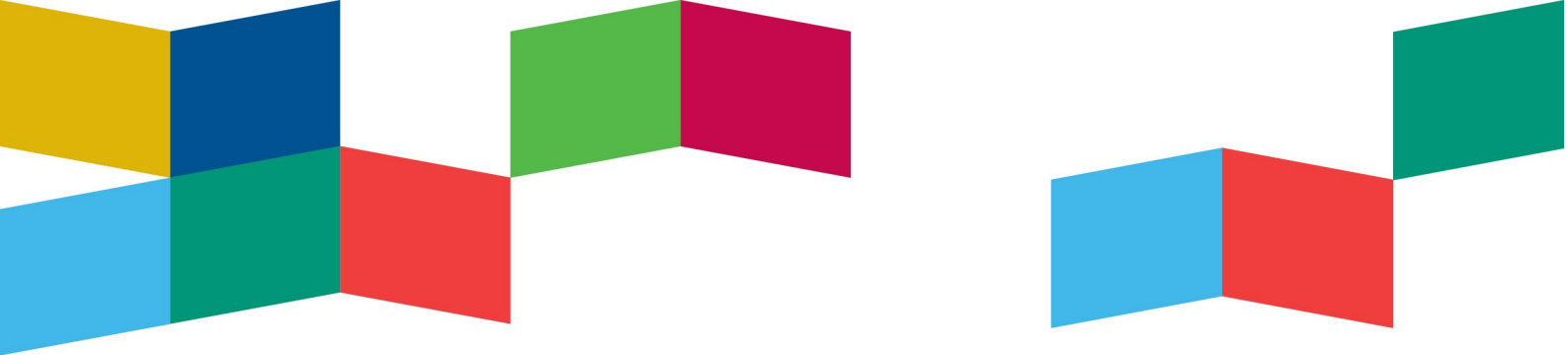
However, overall we have identified the following key issues that have contributed to national workforce shortage:

- the rapid growth of the sector over the last decade (ie. new centre builds).  
This growth simply hasn't been matched by the number of people being trained up to enter the sector;
- the introduction of the National Quality Framework mandating qualification requirements and reducing educator-to-child ratios;
- the impacts of the COVID pandemic:  
These have included staff losses due to vaccine mandates, ever-changing regulatory and safety processes with additional layers of administration, increases in staff taking sick leave and remaining staff feeling over-worked;
- a perceived lack of career recognition<sup>14</sup>;

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<sup>13</sup> <https://www.education.gov.au/child-care-package/resources/2021-early-childhood-education-and-care-national-workforce-census-report>

<sup>14</sup> University of England study into professionalism in early childhood education settings.  
<https://theconversation.com/covid-chaos-has-shed-light-on-many-issues-in-the-australian-childcare-sector-here-are-4-of-them-174404>

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- lower staff wages in comparison to other career options;
  - a strained workplace culture where the senior staff are not sufficiently trained in leadership;  
Whilst a positive work culture is often cited as a reason for staff retention, a poor or strained work culture from exhausted staff can contribute to staff turnover.
  - a perceived lack of career progression opportunities;
  - the opportunities for ECTs to gain higher salary conditions, teaching at schools;
  - qualification requirements, including length and cost of studies, people dropping out of courses; and
  - challenging work conditions.
- The ECEC sector is one of most regulated sectors, which means there is a substantial amount of administration for ECEC staff to carry out. Working with children is rewarding but can be exhausting, particularly working with children with special needs or behavioural difficulties.

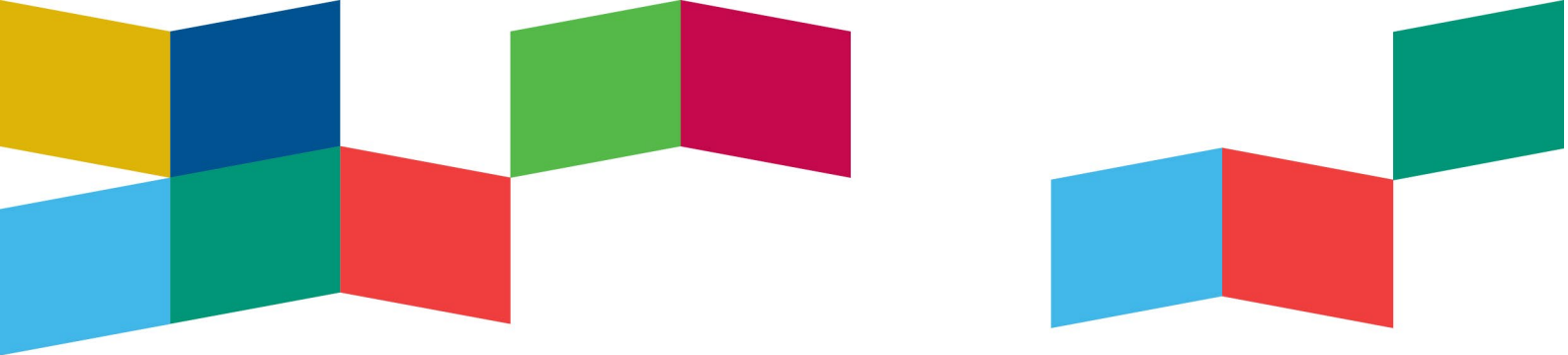
## CONFIDENCE LEVELS AMONG ECEC SERVICE PROVIDERS

In a recent survey of ACA members:

- **75% said they were not at all confident or not very confident** about being able to successfully recruit and maintain staff at their early learning service.
- **Over 74%** cited workforce shortages as the **biggest issue** facing the early learning (child care) sector.
- **86%** said they thought a wage increase would improve the attraction and retention of their staff.

Survey respondents ranked staff wages as the most important factor in relation to the attraction and retention of staff, with a positive workforce culture ranked second, structure of work & flexibility of hours ranked third (unfortunately this is difficult in offering due to National Regulations and Law), career development and promotion opportunities ranked fourth and other workplace benefits such as a wellbeing plan, an Employee Assistance Program (EAP), discounts with local suppliers, onsite medical check-ups, etc ranked last.





Below are some of the comments from our recent survey of ACA members:

*"Workforce planning is always on the back of our minds. We have very little contingency."*

*"Across our 4 centres, we currently have approximately 9 vacancies, many of which we have been trying to fill for 6 months. Our major concern here is the additional pressure it puts on our remaining staff to 'pick up the slack' and that this will result in even further resignations."*

*"Much harder to find Cert III and Diploma trained educators than before the pandemic. Also the service location in a higher socio-economic area is a huge disadvantage because staff cannot afford to live in the area and have to travel from afar."*

*"Responses to ads and hiring efforts have fallen through the floor in the last two years. This is despite being the most attractive employer in the sector in our area."*

*"Finding new staff is a disaster – it's been 10 months of no shows for interviews."*

*"It's really, really hard to get educators. They apply, come for the interview and we never hear from them. They doing it for Centrelink."*

*"We are finding there are not enough staff available in the industry."*

*"After 25 years in the sector I have never, ever, seen a workforce crisis like this, finding educators is just about impossible"*

According to the Government own Census 2022, more than 50% of ECEC educators are paid over the award rate. Clearly this alone is not sufficient to attract the quality candidates our services need and our families deserve.

## IMPLICATIONS OF NEW INDUSTRIAL RELATIONS LEGISLATION

The landmark IR reforms introduced via the Fair Work Legislation Amendment (Secure Jobs, Better Pay) Bill 2022 by the Federal Government in October were passed through Parliament at the end of November, which means they will soon become law and take effect incrementally in 2023.

Along with the many other sectors, ACA is concerned that the multi-employer bargaining provisions could result in the imposition of higher wages across the whole sector without government planning or financial support.

Without government financial support for wage rises, sadly parents will bear the brunt of these changes through increased costs. The resulting affordability issues may limit the ongoing participation of parents in the workforce.

Wage rises forced upon small operators may even force them out of business, reducing access to high-quality early learning services for families and reducing job vacancies across the sector.



# The Solutions

We urge the Australian Government to support the retention of qualified, experienced educators already working in the sector as well as attracting qualified and experienced candidates back to the sector by maximising workplace benefits as outlined in the recommendations below.

## RECOMMENDATIONS

### IMPROVE EDUCATOR REMUNERATION (WAGES & BENEFITS)

We call on the Australian Government to:

- co-ordinate an immediate national wage increase without affecting fees for families through a **two-stage process**:
  - Stage 1** - The Australian Government provides a **short-term** wage supplement grant for a 15% increase in wages, including a transparent mechanism that ensures accountability that the wage supplement has been directly passed on to the workforce. The mechanism must include consideration to the consequential impact of superannuation, workers compensation insurance, Award-associated replacement staff to meet ratios and payroll tax (a cost only borne by for-profit providers). The proposed wage supplement grant would need to be co-designed by all relevant stakeholders to ensure there are no unintended consequences.
  - Stage 2** - The terms of reference for the Australian Government's planned Productivity Commission inquiry should include establishing a subsidised rate for the implementation of the government's 90% universal subsidy, which adequately covers the cost of delivering high-quality ECEC including wages and conditions that recognise the essential role of Early Childhood Educators and teachers.
- It should also consider the relevant on-costs incurred as a result of any increase to wages, in order to ensure that the government's intended benefit of affordability to families is maintained under all circumstances.
- The new revised subsidy would provide long-term certainty and remove the need for the temporary wage supplement, without negatively impacting affordability for families.
- fund a one-off \$3,000 'reward payment' to existing Early Childhood Educators and teachers, similar to the one-off Healthcare Worker Winter Retention and Surge Payment in Victoria\*;
- Allow for a fringe benefits tax exemption for service providers in the context of providing fringe benefits to employees such as salary sacrifice in relation to early learning (child care), cars, electronic devices, etc. This initiative could help attract jobseekers to the sector by lowering their income tax threshold and therefore boosting their income.



## WIDEN THE PIPELINE OF QUALIFIED LOCAL CANDIDATES

We call on the Australian Government to:

- Establish an efficient Recognition of Prior Learning (RPL) process:
  - For holders of Certificate III in ECEC who were qualified prior to 2013 to enter into a Diploma qualification if they can demonstrate that they have the skills and knowledge equivalent to the more recent Certificate III in ECEC.  
Eg. At least three years of experience at an Approved Service since 1 January 2012.
  - For holders of non-recognised tertiary qualifications with transferable curriculum content  
Eg. Teachers, speech therapists, education support, etc) who may be interested in joining the sector without the need to undertake a full ECEC qualification.
  - For students who have withdrawn from their teaching degree having completed at least 50% of study units, to be able to reframe their qualifications and be granted a Diploma-level equivalent.
  - For qualified primary school teachers to be recognised as Early Childhood Teachers in an ECEC service to enable a micro-skills course to transition into the sector
- Engage with State and Territory Governments to ensure school-based ECEC Cert III apprenticeships are promoted via career advisors and seen as a viable pathway to complete their Year 12 school qualification (HSC, VCE or equivalent). This would provide students with ready-made employment options at the completion of school, with an immediate pathway to a Diploma in ECEC qualification via a traineeship at approved early childhood education and care services.
- Establish a micro-credential targeted at educators who already hold a recognised ECEC qualification but have not worked in the system for a number of years to encourage a return to working in ECEC. This would be a formalised version of professional development via a small number of targeted course units to supplement their existing qualifications. This could include updates on legislative changes, pedagogical practice, best practice, safety & first aid requirements, etc.
- Ensure that ACECQA and all jurisdictions recognise the transfer of aligned qualifications to work in the early childhood/child care sector. Eg. Diploma in Outside School Hours Care, Diploma of School Age Education. These qualifications could be recognised with an accompanying skills-set that addresses early childhood programming and planning components.
- Modify the degree qualification requirements for the second Early Childhood Teacher (and in NSW, for the second, third and fourth Early Childhood Teacher where applicable) to include other non-teaching degrees which align with the Early Childhood Teacher skillset. Eg. Degrees in Nursing, Occupational Therapy, Speech Pathology, Psychology, Musical Therapy and Fine Arts (Reggio Emilia approach).
- Work with all jurisdictions and Teacher Registration Boards to ensure national consistency in recognising the Birth-to-Five Early Childhood Teaching Degree via mutual recognition. (Currently some jurisdictions do not recognise this.)

- Engage with universities to structure their degree courses such that the student cohort on rotation can work at approved early learning services at least 2 days per week. These students would be paid commensurate to how much of their degree they have completed.
- Incentivise applicants for the Bachelor of Education (Birth to Five Years) by further reducing the cost to students.
- Immediately provide the funding and resources to create a nationally available skills-focused degree program to rapidly upskill Early Childhood Educators to the degree qualification level of early childhood teacher in a period of **18 months**, instead of the usual three years.
- Incentivise educators to take on a teaching (ECT) degree through a conditional waiver of HECS-HELP fees. This can be tested through a two-year pilot project across key areas of need.

#### **WIDEN THE PIPELINE OF QUALIFIED INTERNATIONAL CANDIDATES (SKILLED MIGRATION)**

- Accelerate the application process for the Skilled Visa program to allow already-qualified candidates from overseas to enter the country and commence working.

This includes:

- Engaging with the National Skills Commission to rank Early Childhood Educators as a priority group on the Skills Priority List.
- Providing the required resources to the relevant Government Departments to allow for skilled migration applications to be processed in a timely manner.
- Engaging with ACECQA to ensure a smooth qualification assessment (translation of international vocational and tertiary qualifications to recognised qualifications here), including reinstating the automatic public listing of overseas qualifications as accepted once such qualifications become approved for the first time, instead of having the same overseas qualifications reassessed for acceptance for each and every subsequent applicant with the same degree).

#### **PROMOTE THE ECEC SECTOR & JOB OPPORTUNITIES TO JOBSEEKERS**

- Implement an immediate national education campaign to promote the career path of working in the sector
  - Coordinate a multi-channel, multi-year communications program initially promoting the societal value of children's early learning and care, followed by promoting careers within the sector, featuring a call to action to a centralised communications asset with a jobs board.
  - The campaign must target beyond the entry role and encourage unemployed Australians to consider working in the early learning sector through an entry-level Traineeship or to enrol in an Early Childhood Teaching Degree.



## **DIFFERENTIATE EMPLOYMENT SUPPORT FOR AUSTRALIA'S CRITICAL WORKERS**

During the COVID pandemic, Australian State and Territory Governments invoked a category of workers that were critical to the ongoing function of the state's society. Such categories were described as Authorised Workers or Critical Workers within the context of their respective Public Health Orders, and included health care professionals, transport personnel, food production and distribution as well as Early Childhood Educators and Early Childhood Teachers.

There is growing recognition that Australia should support and retain its Critical Workers as a priority above other employment categories. There will always be a critical need to have adequate numbers and skillsets of such Critical Workers - not just during a global health crisis.

While considering practical solutions for wages, we recommend the following options:

- increase the tax-free threshold for Critical Workers including Early Childhood Educators and Early Childhood Teachers;
- convert the next tier of the Critical Workers' taxable income range such that instead of tax, their employers are required to contribute that amount towards their nominated superannuation funds; and
- enable Critical Workers to have their before-tax super contribution to attract a lower tax rate if not 0%.

### **INTRODUCE AN INTERNATIONAL EXCHANGE PROGRAM**

- Implement an international exchange program, similar to the New Colombo Plan Scholarships program\*, for Early Childhood Educators and Early Childhood Teachers, allowing them to travel to and from Australia to other countries for a 12 month or more period with qualifications recognised
  - This would require collaboration between the Federal Department of Education and the Federal Department of Foreign Affairs and Trade.
  - As Early Childhood Educators and teachers tend to be young and toward the lower of 20-40 years old age range, they are in an age range that is most likely to travel and experience new overseas environments.

The benefits would include building public and peer respect and appreciation of educators and teachers and creating exciting opportunities and reasons to join the sector.

\* <https://www.monash.edu/study-abroad/overseas/financial/new-colombo-plan>

## **REVISE MID-CAREER TRANSITION PROGRAMS**

The previous Federal Government funded the Mid-Career Checkpoint program (\$75 million over four years to 2023-2024) which supports eligible carers, predominantly women, to return to paid work, or advance or change their career.

We recommend the government

- revises this program into specific Mid-Career Transition Programs via grant funding awarded to industry peak bodies to facilitate industry-specific programs to assist with:
  - their reform advocacies with regulatory authorities to remove unnecessary regulatory barriers to assist mid-career individuals to transition to early childhood education and care sector; and
  - their recruitment of eligible mid-career individuals to the early childhood education and care sector.



# Conclusion

A strong and sustainable early learning sector is vital to the economic health of this nation and improving our early learning system is a fundamental economic reform, as reflected in Prime Minister Albanese's Cheaper Childcare pledge<sup>15</sup>.

It was further emphasised by the new Minister for Early Childhood Education and Youth, the Honourable Dr Anne Aly MP, who told Parliament in June 2022 *"those early years are critical to development. If a child has good foundations in the early years, it carries on to later life and improved outcomes. Investing in early years means better outcomes for education, fewer challenges for children born into challenging circumstances, [less] antisocial behaviour and youth crime."*<sup>16</sup>

We need to ensure that all families – including those with only one child in early learning and those with additional needs – have ongoing, equitable and affordable access to our world-class early learning services.

ACA respectfully requests the Australian Government's careful consideration of the recommendations set out in this Policy Proposal.

With their adoption by the Australian Government, we can ensure that all families, including working mothers, can participate in Australia's workforce whilst all children, including our most vulnerable, can have the best start in life.

We look forward to supporting the commitments of the new Albanese Government to support the economic recovery of Australia and ensure that all Australian families, including those who are essential workers and/or from disadvantaged and vulnerable backgrounds, can continue to access our world class ECEC services.

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<sup>15</sup> <https://anthonyalbanese.com.au/my-plan/cheaper-child-care>

<sup>16</sup> <https://www.theguardian.com/australia-news/2022/jun/14/the-aspiration-of-universal-childcare-anne-aly-on-what-drives-labors-ambitious-plans>



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## Removing barriers to affordable early childhood education and care for the children who need it most – an equity measure

### The Opportunity

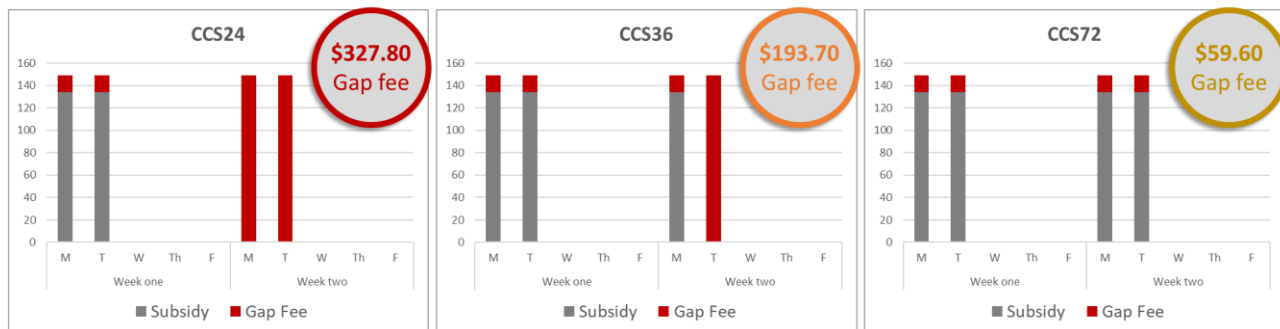
The Government's commitment to lifting the maximum rate of Child Care Subsidy to 90 per cent of the hourly fee cap for families earning up to \$80,000 will improve equitable access to early childhood education and care. This is an important policy change.

However, the families that are most in need of improved affordability will miss out on these benefits because **they don't have access to enough hours of subsidy** due to the current design of the activity test. Credible independent and Government commissioned evaluations and sector analysis have shown that structural design of the activity test for low-income families prevents families from accessing enough affordable early learning and care to support child development or promote workforce participation (outlined in the subsequent pages).

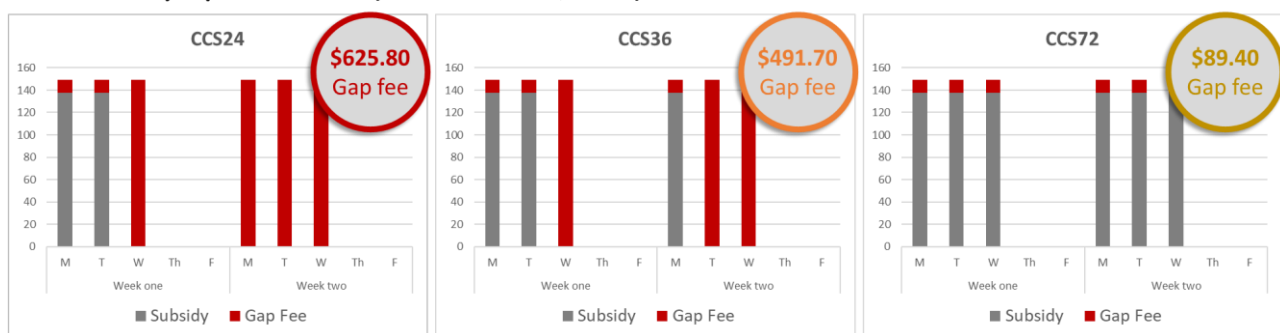
An increase in the rate of the Child Care Subsidy (CCS), without a complementary measure to increase the number of hours available to families with low incomes and less than 16 hours of work, study or training **will exacerbate existing inequity and widen attainment gaps for children in families with low incomes and insecure work**. It will also tangibly increase financial disincentives and out-of-pocket costs and barriers to work, study and training for parents of young children at a time when the Government is trying to increase productivity as part of the skills shortage across the economy.

The charts below demonstrate the current inequity built into the system by comparing the gap fee for families accessing CCS for 24 hours per fortnight (CCS24), CCS for 36 hours per fortnight (CCS36) and CCS for 72 hours per fortnight (CCS72) over two days per week and three days per week patterns of attendance over a fortnight.

### Two days per week (under \$80,000)



### Three days per week (under \$80,000)



<sup>1</sup> Based on \$149 cost per day and 90% subsidy

## A simple solution

A simple legislative amendment to remove the bottom two steps of the activity test (ie CCS-24 and CCS-36) would deliver three crucial and urgent benefits:

1. Improve equity of access for children from low-income households who are yet to meet the activity test threshold and as such are currently excluded from early education and care and amplify the benefits of the Governments election commitment
2. Remove financial and administrative barriers to participating in work, study and job search activities for parents of young children by ensuring ongoing access to affordable child care and early learning
3. Reduce complexity and unnecessary red tape with Centrelink – a key complaint of thousands of Australian families who must report to Centrelink fortnightly if their activity changes.

We estimate that this would benefit up to 80,000 families. Approximately 12,000 accessing CCS24 and a further 41,000 accessing CCS36, which they are eligible to depending on their activity test. We estimate there are a further 20,000 – 30,000 families currently locked out of the system. The majority of families, around 622,000, are accessing Child Care Subsidy for 100 a fortnight, meaning that this proposal will make a significant impact for a smaller proportion of families accessing fewer approved hours of CCS.

The cost of this change would likely be returned in increased tax revenues from parents working more and potentially administrative savings for Services Australia. Administrative data shows families only use the subsidised hours they need – the co-contribution ensures that utilisation is closely aligned to hours of paid work.

It is also technically feasible to introduce this change with the CCS rate change legislation and is a relatively simple systems change for Services Australia.

Current		
Activity test step	Hours of recognised activity per fortnight	*Hours of subsidised child care per CCS fortnight –
1	Up to 8 hours + means test	24 hours
1 a	Exemptions for preschool	36 hours
2	8 hours to 16 hours	36 hours
3	More than 16 hours to 48 hours	72 hours
4	More than 48 hours	100 hours

Proposed		
Activity test step	Hours of recognised activity per fortnight	*Hours of subsidised child care per CCS fortnight –
1	Up to 48 hours	72 hours
2	More than 48 hours	100 hours

*\*Note Government admin data shows families only use what they need & can afford*

## The details and evidence

### The issues

In 2018, the previous Government's Jobs for Families Package, halved the minimum Child Care Subsidy (CCS) entitlement for families that do not meet the activity test, effectively cutting access to early learning from two days a week to only one day a week for many of the most vulnerable children in the community.

The minimum CCS entitlement of 24 hours a fortnight for families that do not meet the activity test effectively limits children's access to subsidised early childhood education and care (ECEC) to one day per week because the majority of early childhood education and care services operate daily sessions of 11 hrs. Very few services offer 6 or 9 hour sessions that would enable a child with only 24 hrs per fortnight of subsidy to attend 2 days/week. As a result, many of these children miss out.

There is a robust dual purpose to this proposal:

The first is to ensure that families get at least two days a week of access to ECEC, if needed, to promote child development, especially for disadvantaged children from the age of 2 years, for whom the evidence is clear that early learning programs provide a protective factor against developmental vulnerability and other forms of disadvantage.

The second is to enable sufficient flexibility and incentives to promote workforce participation especially for low-income families – one cannot look for work without sufficient ECEC. For families, this significantly limits the level of flexibility available to them, particularly women, to participate in the economy. One of the most significant impact for families, particularly women, is on those who have insecure, casual or short-term work opportunities. Families find themselves unsure about which activities count towards their eligibility and become stuck in a cycle of not being able to accept work that is available because they do not have predictable access to care. They cannot afford to pay high out-of-pocket cost for unsubsidised access and are concerned about over-estimating their activity.

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*Case Example: Vrushali is a single mum to Ravi who is 2 years old. Ravi attends Happy Days long day care centre one day a week - usually Tuesdays. The daily fee at Happy Days is \$126.50; Vrushali pays \$25.30 and claims \$101.20 CCS. Vrushali works as a casual retail assistant at Coles; she is offered shifts at short notice and often has to turn them down when she does not have care for Ravi. The team at Happy Days try to be flexible but they cannot always offer a spot for Ravi on other days and Vrushali cannot afford to send Ravi to Happy Days for 2 days/week because she doesn't qualify for the subsidy – it would cost \$126.50 and she usually only earns \$116 per shift. If she wasn't limited to 24hrs/fortnight, Ravi could attend Happy Days more frequently and Vrushali could take more shifts.*

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Children benefit from high quality early childhood education and care – this is particularly true for vulnerable groups. Yet, a recent AIFS evaluation of the Child Care Package found that the reduction in the minimum hours of subsidised ECEC from 24 hours per week to 24 hours per fortnight 'disproportionately impacted on children in more disadvantaged circumstances' and recommended that it be reviewed (p. 346). In addition, data provided to Senate Estimates show 31,440 families (2.9%) were entitled to CCS24 in 2018-19, which by June 2021 had dropped to just 12,110 families (1.3%) – there has been an overall reduction of 42,000 families since 2018.

### Proposed solution: No one left behind—no one held back

There is an opportunity to address this by **abolishing the CCS24 and CCS36 categories, as part of the legislative changes planned this financial year to change the CCS rates**. This change would deliver better equity gains for children and families, increase productivity, and cut red tape.

Abolishing the CCS24 and CCS36 categories will ensure that children in low-income households, including many children at risk of poor education outcomes, would have access to at least 2 days of early learning each week. This would be a significant start to undoing the disadvantage that was baked into Australia's early learning and care system by the previous government. It is also a step towards the Government's commitment to universal

early education for all children without the need to wait for the final recommendations which may still be 2 years away. In other words, we could act now.

This proposal responds directly to the AIFS evaluation of the CCS, released in March 2022, which recommended that the adequacy of CCS24 be reviewed, finding:

*“there are significant challenges in the provision of early childhood education and care, including the balance between childcare as an enabler of parental workforce participation and the role of early childhood education and care in child development and as an instrument to address disadvantage”*

### Workforce Benefits

Families, and particularly women returning to the workforce, need predictable access to ECEC to be able to participate in the workforce. Removing the CCS24 and CCS36 categories would remove the significant barrier of high out-of-pocket cost for unsubsidised ECEC and would provide much needed predictability for families, especially women, to get back into the workforce.

Employers and the economy would also benefit from increased supply of a casual and part time workforce who will be more available to fill shortages through the flexibility and predictability that this measure will delivery.

Enhancing workforce participation and earnings also serves to support women’s safety and wellbeing over the long term, building economic security and increasing their capacity to make decisions if they find themselves in an unsafe domestic relationship.

### Red Tape Reduction

This measure can be implemented within the current functionality of the CCS system while significantly simplifying it. It removes a layer of red tape for government, for families and for early childhood service providers.

While an increase to the bottom step of the activity test, to 60 hours offers an alternative approach to improving equity – it does not make the CCS any less complicated. The removal of the two lowest steps creates a simplified solution that delivers the Government’s intended benefits, including improving equity of access for children and families, as well as delivering productivity gains for employers and the economy. It also represents a measured first step towards longer-term reforms to be progressed through the productivity commission reforms.

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This proposal has the support of leaders across the early childhood development and education sectors, including:



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